

United States, China, Taiwan: A Precarious Triangle

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Whether Napoleon really said it or not, the forecast often attributed to him is likely to be essentially correct: “China is a sleeping giant. When it wakes, it will move the world.” China’s 1.2 billion people combined with its record-breaking twenty years of rapid growth make it likely that the Middle Kingdom will become the second economic superpower sometime during the twenty-first century.

Nevertheless, an old Mandarin proverb states, “If you think you understand China, you don’t really understand.” That warning also sums up the challenges that face Americans in dealing with that fascinating national array of strengths and weaknesses. When viewed separately, each of the many aspects of policy involving China is difficult—economic, political, military, and environmental. However, when we consider the many interrelationships and then add the third part of the triangle—Taiwan—the policy challenges become increasingly complicated.

Economic Relations

Let us begin with the economic relationships. Any way that we look at it, China is becoming an important economic power, once again. Using a form of comparing national economies known as purchasing power parity, the Chinese economy is now more than half as large as that of the United States and larger than Japan’s. More conventional measures show China in seventh place, but coming up rapidly.

China is now the ninth largest trading nation in the world and a major trading partner of the United States. More than \$70 billion of commerce flows each year between our two nations. But President Clinton’s term “partner” is a misleading euphemism for a very uneven set of commercial flows. The United States imports from China more than five times the dollar amount of our exports to them.

Aside from low-priced clothing, toys, and electronic parts, trade with China is not a significant portion of the American economy. However, the United States is the destination of almost one-third of China’s exports. Our commerce is a key way in which China acquires technology. Our trade also generates a substantial part of their large accumulation of foreign currencies. China maintained a rapid rate of economic growth while financial problems were besetting East Asia in 1997 and 1998.

Mainland China and Taiwan have been the two bright spots in an otherwise troubled East Asian economic scene. Despite the political difficulties, the economic relationships across the Taiwan straits have remained strong and substantial.

It is one of the great ironies of our time that so many of the people who fled the mainland in 1949 (or their descendents) have been returning to their ancestral home in a very special way. From Taiwan as well as elsewhere in the Chinese diaspora, they have brought with them much of the money and managerial skills that have been so essential to the success of China in moving toward a modern capitalistic economy.

The two sectors of Greater China seem extremely complementary. The mainland possesses the land, the workforce, and increasingly a major market while Taiwan provides the entrepreneurial and business skills enhanced by very substantial financial flows.

In contrast, the complementing factors between the American and the Chinese economies, although considerable, are not nearly so great. Of course, some Americans barely restrain their enthusiasm when they consider a market potential in excess of one billion customers. A proponent of this line of thinking was the late Ron Brown. When Secretary of Commerce, he declared, "China . . . is the pot at the end of the rainbow." My own research leads me to a far more restrained conclusion. U.S. companies doing business in China rarely report earning profits on their operations in that nation. Rather, they like to talk about their rosy forecasts of future sales.

In contrast to the open U.S. market, numerous obstacles face American exporters to China, such as onerous licensing procedures. U.S. high-tech producers suffer because their products are frequently illegally copied in China. This intellectual piracy reduces potential U.S. exports to China and to the rest of the world by an estimated \$2 billion a year.

Political Relations

The political relationships between China and the United States are more difficult to fathom than the economic. Few aspects of a true partnership are present. It is Japan that cooperates with us in a variety of important foreign policy activities, and we share a common outlook toward democracy, private enterprise, and personal freedom.

On the other hand, there is no direct basis for confrontation between China and the United States. We do not share a common border nor do we hold competing claims for territory. However, significant differences in fundamental values are clearly visible in terms of the treatment of citizens by the government, especially in regard to personal freedoms—political, economic, and religious.

On the positive side, China has been relaxing the rules governing everyday life for its citizens. A substantial decentralization of power has taken place and greater latitude has been provided to private enterprise. The impacts of Western culture and commerce have been pervasive, especially in the larger cities.

U.S. corporations doing business in China serve to advance our human rights goals. They create safer workplaces, follow more progressive personnel practices,

raise living standards, and bring in new ideas, attitudes, and ways of thinking. Substantial portions of China's population recognize such American brand names as Coca Cola, Jeep, Head and Shoulders, Marlboro, and Mickey Mouse.

The role of Taiwan adds significant complication to the Sino-U.S. political relationship. Officially, we recognize the People's Republic and only maintain informal relations with Taipei. Our national policy favors the voluntary unification of Taiwan into China, but also provides military support to the island in the event of the threat of force on the part of the PRC. To put it mildly, this is an unusual set of attitudes and commitments.

The situation became murkier when important groups in Taiwan began to talk about independence and its governmental leader described relations between China and Taiwan as "state-to-state." The concern is raised a notch when the PRC states that it is "under no obligation to commit itself to rule out the use of force" in securing reunification. The frank discussions I have had in China and Taipei convince me that this is an extremely difficult and sensitive situation calling for a maximum of restraint and patience on both sides. Surely, our policy of engagement with China has established an environment in which Taiwan has flourished.

The two sets of representatives seem to be on different wavelengths. At a meeting with the leaders of one large China city, I stated that our national policy was to favor the attainment of a unified China—on a voluntary basis. The Chinese responded, "When the South seceded from the Union, did you use force?" My answer did not satisfy the Chinese, "Yes, but they fired first."

Military Relations

The military area generates great uncertainty for American policymakers. China is in the midst of a major effort to upgrade its military capability. Is China motivated by the desire for regional hegemony? Or is the weapon procurement effort defensive in nature? China's military capability is rudimentary compared to the United States and it lacks the ability to project its power over water in any substantial way. China presents little direct military threat to the United States, but it could be a substantial destabilizing force in East Asia.

China is procuring sophisticated aircraft, ships, and missiles from the cash-strapped countries of the former Soviet Union. Ranked by explosive power, China's nuclear arsenal is the world's third largest, trailing only the United States and Russia.

At present, there seems to be little potential for extensive military action outside of an unintentional blunder into armed conflict. Taiwan quickly comes to mind in this connection. On the other hand, China's desire for a strong military establishment may be understandable when viewed in the light of its long history of defeat and exploitation by foreign aggressors. Yet, over the centuries it has played that role itself in Southeast Asia.

Environmental Issues

Environmental issues are a relatively new aspect of international relations, and one in which American and Chinese interests could readily collide. The

December 1997 meeting in Kyoto on global climate change yielded a proposed treaty that would commit the United States and other developed nations to major reductions in emissions of carbon dioxide (CO₂), which are generated primarily by using fossil fuels. The treaty exempts China and other developing countries from its tough restrictions and the Senate has pledged to defeat any climate change treaty that excludes the developing nations.

Poor countries like China believe they cannot afford to sacrifice current income to avoid the uncertain costs of environmental damage 50 or 100 years from now. Trying to convince that nation to limit its energy consumption while the major Western countries use 5 to 10 times as much per capita will probably prove futile—unless wealthier countries such as the United States pay the global costs of reducing fossil fuel usage.

Nevertheless, air pollution is a growing problem in the major Chinese cities. China's extreme dependence on its domestic coal supply also could generate other serious problems if it turns to less-polluting sources of energy. The oil and gas reserves of the South China Sea are an important potential alternate energy source. Overlapping portions of that strategic area are also claimed by Vietnam, Malaysia, Brunei, the Philippines, and Taiwan. Furthermore, all ocean shipping among those six countries, as well as the transport of oil from the Persian Gulf to Japan, takes place across the South China Sea.

Reconciling Divergent Interests

When asked the meaning of the French Revolution, Zhou Enlai was supposed to have replied, "It is too soon to tell." In this vein, it is with reluctance that I try to pull together the various strands of Sino-U.S. connections. Policymakers in both the United States and China face fundamental challenges in attempting to deal simultaneously with a host of contentious economic, political, social, religious, military, and environmental issues.

A useful starting point is to note that China's isolation is ending. Today it is more open to the influences of Western culture and business practices than ever before. Its senior officials say they want their country to be a full participant in the world economy. They acknowledge that this requires China to move to a market economy and to modernize its society.

The United States is in a special position to aid China in its entry into the "club" of developed nations. Compared to the major European countries, the United States is one of the newer members of that club. We also have a major stake in China's success in its effort to move out of its isolationist setting. As a key Pacific power, it is to our benefit to encourage the rise of a China that interacts regularly with and is at peace with its neighbors.

In the broadest sense, China and the United States are complementary in terms of their basic economic needs and resources. We are China's leading export market as well as the most logical partner to help upgrade its technology through investment and joint venturing. In turn, China is the most promising new market for American business and agriculture.

China's huge development and infrastructure needs can provide enormous

export and investment opportunities for U.S. companies seeking geographic diversification. In the important area of higher education, U.S. colleges and universities are a popular place for wealthier Chinese to send their children, especially for graduate education. This has the added potential of generating personal and intellectual bridges between the two nations.

However, China's distance from the West is greater than a glance at the globe suggests. The bombing of the Chinese offices in Belgrade, albeit unintentional, set back Sino-U.S. relations. Beyond such current events, central differences exist in historical experience, cultural orientation, and political and social institutions.

It may be surprising for an economist to start with military rather than economic issues, but matters of war and peace are fundamental. The continued expansion of China's military power is potentially destabilizing. However, the sensible response is not to try to talk Beijing out of what it thinks is a reasonable position.

Instead, we should note that the expansion of China's armed strength provides a compelling justification for maintaining a substantial U.S. military presence in East Asia. Yet a China that is secure from foreign threat and can protect its legitimate sovereignty is desirable for both Asian and American vital interests. But coercive pressure by China against its neighbors in the South China Sea or against Taiwan escalates tensions. Alleviation of tensions requires restraint on the part of many parties. One expert in international law, for example, has urged Taiwan to "look like a state, act like a state . . . but not formally declare its independence."

Anyone who follows domestic political trends in the United States knows that strong pressure exists for devoting an increasing share of the federal budget to domestic matters such as strengthening Social Security and Medicare. Our willingness to assign a significant amount of our military resources to East Asia reflects the high priority that we give to stable conditions in that region. At the same time, better relations with China may allow the United States eventually to resume limited sales of defensive weapons to China. No action would do more to alleviate Beijing's fear of a policy of containment on our part.

In the area of economic policy, the United States remains the main bulwark of free flows of commerce and capital across the globe. Nevertheless, we are a democracy, responding to the concerns of our citizens as expressed in the political process. Thus, when Chinese officials dismiss these concerns as "just domestic politics," they demonstrate that they do not understand how a democracy works.

It is extremely optimistic for China to expect that we can maintain a fully open market to their products in the face of so many adverse factors: (1) a host of Chinese barriers to U.S. exports, (2) severe restraints on the operations of U.S. firms in China, (3) lack of a functioning legal system that provides local citizens as well as foreigners with essential protection of individual liberty and property, and (4) overt discrimination against and persecution of people that many Americans identify with.

Nevertheless, it is counterproductive for us to try to tell China what to do under those circumstances. It is most appropriate for the United States to clearly explain

our position. We can hope that China continues to open up its economy and to achieve more of the freedoms to which the citizens of other advanced societies have grown accustomed. The United States should support China's entry into the World Trade Organization—but without any special preferences. Judged strictly from the viewpoint of American interests, the likelihood is that China will be a more responsible world citizen operating on the inside rather than the outside, but there are no firm assurances in such matters.

However, if China chooses not to take more enlightened positions, it will postpone the time when it gains full membership in the family of modern societies. Clearly our preference is to welcome China into that desirable relationship sooner rather than later.

In developing closer relations with China, tradeoffs are inevitable. While private organizations emphasizing single issues are free to take absolutist positions, it is foolish for governments to do so. Our government must balance concern for human rights against other important interests which also have significant moral aspects—such as peace, national security, and prosperity of our citizens.

The United States maintains peaceful and friendly relations with many nations that do not share our fundamental beliefs. But those relationships are not nearly as strong or as enduring. A virtuous circle is possible. Closer economic and individual ties in turn can lead to improved mutual understanding—and vice versa. Thus, we should welcome the development of improved relations with China. But we should be prepared for more pragmatic relationships and less happy outcomes. Ω

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