Chapter-II

Sino-U.S. Trade and Economic Relationship
(1949-1978)
Overview

In recent years the Sino-American relationship has commanded increasing attention from the worldwide researchers. It is apparent that China has reached a new level of influence in regional as well as world affairs. In attaining enhanced power in the world affairs, China has also exerted increased influence beyond East Asia, for a stronger China has affected substantially the interests and mutual relations of the United States, erstwhile USSR and other states.

United States’ President Carter’s recognition of the People’s Republic of China in 1979 was a many sided act. It could be seen as a logical step on the road to U.S.-PRC rapprochement begun nearly a decade ago, after a long period of unremitting hostility. A closer relationship between the world’s great industrial democratic state and the world’s most populous Communist country suggested the grand sweep of an historical change in the balance of power.\(^1\)

Strategic, global political and economic factors were undoubtedly the key considerations in the establishment of full diplomatic relations between China and the United States as of January 1, 1979. This was both the culmination of a lengthy process as well as the beginning of a new chapter in the Sino-U.S. relations.\(^2\) Although the primary foreign policy goal of Beijing’s leaders was to counter the threat that they perceived Moscow was posing to China for most part of the past half century Mao and his successor were preoccupied by their conflict with the United States. From the outbreak of Korean War in 1950 until 1971, Sino-American confrontation was, in fact, the dominant factor shaping inter-national relationships in the Far East. The

\(^1\) William R. Kinter and John F. Copper *A matter of Two Chinas: The China - Taiwan*, Pennsylvania: The Foreign Policy Research Institute 1979, p.5
Shanghai Communique of 1972 marked the end of that confrontation and symbolised a major shift in the world balance.

Like the signing of Sino-Soviet alliance in 1950 and the development of the Peking-Moscow split in the 1960s the Shanghai Communique had far reaching international repercussions. During that period both Beijing and Washington stressed their commitment to move, step by step, toward full normalisation of relations. The two countries forged new links that were significant but still fairly fragile. Difficult problems continue to block the constructive bilateral ties. Moreover, Beijing and Washington are still divided by deep ideological, cultural and political differences, very different world perspectives and basic disagreement on a large number of global issues.

2.1 Evolution of Sino-U.S. Bilateral Relations

Sino-U.S. relations have been shaped by a complex mixture of ideological, cultural, political and economic as well as geopolitical and military-security influences. To understand how they have evolved, it is essential to analyse the factors affecting the attitudes and policies of both countries and interaction between them.

The history of Sino-American relations, the complexity of the foreign policy goals of each country has been shaped and varied by different factors. In a general sense, the basic objective of both American and Chinese policies was formulated in terms of their universalised conception of the international system. Both countries have a strong sense of the superiority of their own culture. The Chinese view of their country as the middle kingdom, hardly


4 Ibid.p.154

unreasonable given their unique historical record and achievements, was matched by the American view of their own society as unique - as “a chosen country” or as ‘the last, best hope on earth’.

At the same time, the United States in contrast to China had a missionary outlook. As Stanley Karnow commented a few years ago on shifting American views of China:

“In large measure, I think both the media and the Public have swung from extreme hostility to extreme affection - and could swing back again - because they share a peculiarly American passion about China. That feeling has been described as a “love-hate” syndrome but I would describe it as a sense of responsibility toward China while other western nations have accepted the Chinese as they were, we tried to be friend them and mold there into our own shape.”

2.2 United States Foreign Policy Options

Historically, the United States has always pursued a friendly, even paternalistic policy towards the Chinese people and their government. The U.S. Secretary of State Dean Acheson also stated in transmitting the U.S. White Paper on China to the President Truman in 1949 that the “historic policy of the United States” toward China has been one of “friendship and aid toward the people of China”. This view has highlighted American backing for administrative and territorial integrity of China against threats of foreign


domination, and the U.S. desire to support “stable government and progress along democratic lines in China. 10

Experts in the field of Sino-U.S. bilateral relations differ regarding the American perceptions of China centuries before the communist takeover of 1949 and after that. To state Warren I. Cohen, “for most of the years after American independence, the prevailing United States attitude toward China was indifference and disinterest - with a veneer that varied from contempt to sympathy and more recently to fear”. 11 Until World War II, Americans interest in world affairs focused largely on Europe. Culturally, most Americans were a part of western civilisation. Their roots, the origins of their ideas, were European. Economically and strategically, Europe was the centre of power. China was a distant world for them.

But indifference and ignorance do not prevent a people from having images of other people. Without ignoring constant undercurrents of indifference and contempt, a rough periodisation of American attitudes, reflecting changing perceptions, can be constructed 12

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Description</th>
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<tr>
<td>1784-1841</td>
<td>Era of Deference</td>
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<td>1841-1900</td>
<td>Era of Contempt</td>
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<td>1900-1950</td>
<td>Era of Paternalism</td>
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<td>1950-1971</td>
<td>Era of Fear</td>
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<tr>
<td>1971-</td>
<td>Era of Respect</td>
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10 Barnett, op. cit., no.3, p.154
12 Ibid. p.55
This periodisation is meant to be suggestive. Attitudes selected to define one era will also be found in others. Eras overlap and indeed recent history indicates that Americans have inherited a wide array of attitudes toward China and are capable of rapid shifts in outlook.

2.3 China’s Foreign Policy Options

The Chinese approach to Sino-American relations is quite often influenced by the changing Chinese perceptions of “the international situation”. Historically, the Chinese have always been acutely conscious of their position in the world. This is natural of any people, but the case of Chinese is unique because of their strong historical consciousness and because their Marxist-Leninist - Maoist view of the modern world, which presupposes a certain role for China in the unfolding drama of international politics. Even they act on specific issues between them and another country, they have generally been concerned with defining those issues not only as bilateral questions of diplomacy but as evidence that world history has reached a certain stage. Thus their approach to Sino-American relations is coupled in the languages of historical development and of trends in the world arena.13

On the above line, one may consider several stages in recent Chinese perceptions of the world through a working chronology that subdivides the years since the 1900s into six periods14:

1900-1945 : The War Years
1945-1949 : The Change of Regimes in China
1949-55 : Cold War Period


14 Ibid,p.15
These periods, of course, were preceded by nearly two centuries of contact between two countries, a tradition that constitutes one part of American and Chinese consciousness today. Sino-American relations until the nineteenth century was essentially indirect and marginal:¹⁵ indirect in the sense that individual roles and personal encounters between Chinese and Americans were far more important than official diplomacy, and their role in pushing up the bilateral relations was marginal. Both China and the United States tended to relate to one another in the larger context of Asian international relations and particularly within the tripartite relationship of Japan, China and the United States. The context was defined by the Chinese as imperialist diplomacy on the part of the industrial countries, which appeared united in their determination to preserve their vested interests in underdeveloped regions of the world.

2.4 Economic Dimension of the Sino-U.S. Relations

As the geopolitical foundations of U.S.-China relations slowly weakened, many observers, Chinese and American alike, predicted that commercial ties would provide a new and more stable basis for the relationship between the two countries.¹⁶ Trade and economic relations between United States and China are now showing its relatively rapid growth since it was

revived in the 1970. Even though the U.S. remains behind Japan and Western Europe in the China trade, U.S.-China relations have rapidly acquired a new economic dimension that should grow and not only help to shape the character of bilateral relations but also influence the general nature of regional relationships.

This economic dimension is strikingly new. Economics had little to do with the hostility and conflict that developed between the two countries in the 1950s and the 1960s or with the initial decisions to reestablish contacts in the early 1970s. Sino-American relations were determined mainly by political, ideological and strategic considerations.

The expansion of U.S.-China economic relations and the parallel development of scientific, technical, educational and intellectual links are beginning to create a pattern of relationships that could in time, create deeper and stronger ties between the two countries. In many respects, trade and other economic links are at the cutting edge today in the development of U.S.-China relations. These success or failure of the two countries in their efforts to build lasting economic ties will have a major influence or long-term political and strategic relationships.17

However, economic relations between the two pacific giants are also overshadowed by painful recollections of the past on both sides. The historical legacy combines with Beijing’s uncertain economic development policies and limited foreign trade and as well as United States as being viewed as an imperialist and exploitative by Beijing only to place strong constraints on Sino-American commercial relations. Sino-U.S. economic relations are subject to the

change of political atmosphere surrounding international as well as bilateral relations. Over the last centuries, American business has desired increased trade with the world's one of this emerging market. However, it still remains elusive. During the 1970s, China has made modest compromises with its policy of economic self-reliance. It is continuing till today - exporting some consumer goods and agricultural products in return for imports of food grains, capital goods and high-technology items has boosted the bilateral trade to some extent. The Chinese-American trade since the revival of their bilateral relationship in 1972 when the total trade was $95.5 million has reached to $360.6 billion by the end of 1999.

The future of Sino-American trade will be determined by a combination of economic circumstances with more important political factors and cultural values. The influence of those forces in the past must be understood before we analyse the current conditions and future prospects.

2.4.1 Historical Background: 1784-1949

America's historical interest in China has been primarily in trade and commerce rather than in the welfare of the Chinese people. Ever since a New York Privateer, renamed the "Empress of China", first carried the United States flag to Canton in 1784, the potentialities of the China market exercised a magnetic attraction irresistibly drawing American merchants across the Pacific.

The first treaty between the United States and China was signed in 1844. This agreement - the Wangsha - reflected the equality of opportunity in trade that, from the beginning, marked the nature of U.S.-Chinese economic relations. Unlike many other countries, which sought wealth from China, the

Americans did not demand extra-territoriality or partition of the middle kingdom. Other trade agreements in the nineteenth century, the treaty of Tientsin in 1858 and the Burlingame Treaty of 1868, contained the most-favoured nation clauses.19

The first American Minister to the empire of China was Ansan Burlingame, appointed by President Abraham Lincoln in 1861. He negotiated China's first bilateral agreement with a Western power, thus making America the first occidental nation to recognise China as an equal - an important precedent in international law.20 Burlingame also protested the lucrative “spheres of influence” which had ruthlessly carved out by the European powers. His influence on America’s China policy left its mark thirty years later when secretary of state John Hay enunciated the Open Door Policy in September 1899 in an attempt to keep European States - particularly Great Britain and Japan from a final dismemberment of the crumbling Ch'ing dynasty.

2.4.1.1 Open Door Policy: 1899

The Secretary of State, John Hay, architect of the Open Door Policy of 1899, had injected a certain element of systematisation and coherence into American perception and policies. The new policy was based on the principle that their interests, economic as well as strategic, were best served by making the other powers already installed in China (a) to agree to an equality of commercial opportunity for all nations, and (b) to respect China’s territorial and administrative integrity.21 These two principles became the linchpin of

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20 ibid., p.126
Washington's policy. With only minor variations and emphasis they were thereafter consistently followed by Presidents and secretaries of state for almost next four decades.

Whenever any of these principles were violated, the US government did not fail to launch a protest. For example, Washington opposed Russian expansionism in Manchuria in 1902-1903, appealed for the respect of China's neutrality and integrity during the Russo-Japanese war in 1904-1905, proposed the neutralisation of Manchurian Railways in 1908 to prevent foreign domination, and condemned Japan's attempts to control China through the Twenty-One Demands in May 1919. In 1922, the United States attempted to codify the "open door" principles at the Washington conference. After Japan invaded Manchuria in 1931, Secretary of State Henry L. Stimpson, through his famous non-recognition doctrine clearly informed Japan that United States "does not intend to recognise any situation, treaty or agreement" which would impair her treaty rights in China.22

United States was highly critical of Japanese expansionist designs and repeatedly protested against it. It was reflected in President Roosevelt's "quarantine speech" of 5 October 1937 warning against the "epidemic of world lawlessness";23 the economic measures taken against Tokyo in 1939.

If the Americans perceived their role in China to be essentially benevolent and altruistic, it was not viewed as such by the Chinese. For many of them, the United States record was equally expansionist. It was considered to be part and parcel of general western imperialist offensives, which had decimated the Qing dynasty, undermined Chinese sovereignty and obstructed the development of Chinese nationalism.

23 F.D. Roosevelt, Public Papers and Addresses (London: Macmillan, 1941), Vol.VI.
The open door policy helped to salve the national conscience. Deeply involved in her own imperialistic ventures in the Philippines, which found the United States fighting its first Asian war to suppress a nationalistic drive for freedom, this brave stand against European imperialism helped to cover over what she was doing to control the Pacific colony. However, the Open Door Policy was vigorously sustained in theory, in practice, United States persistently backed away from doing anything about it. As George Kenan has critically written, "we were not prepared to admit that our intervention in the affairs of the far Eastern actually involved any responsibility for maintaining Chinese sovereignty nor were willing to use force to compel compliance with the principles underlying our policy."

2.4.1.2 World War II

World War II had major impact on the Sino-U.S. bilateral relations. The United States, along with Japan, became the dominant elements in China to the exclusion of other powers. The original American "Open Door Policy" lost much of its relevance since most of the traditional imperialist nations to which it was designed to apply, had withdrawn from China either due to the erosion of power or due to heavy involvement in the European sector of war. During the course of World War II when Japan attacked Pearl Harbour, United States provided military assistance and political support to China.

Since the fundamental American goal was to win the war, the whole weight of American Policy in China was directed at (a) encouraging the Kuomintang and the Chinese Communist Party, the two major forces in the country, to jointly mobilise their efforts against Japanese imperialism and (b) persuading the Soviet Union to enter the conflict in the Far East.

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24 Dulles, op.cit; no.18, p.9
25 Ibid.
26 Kapur op.cit; no.21, p.67
The prime objective of winning the war had apparently pushed the United States to make the effort even if it seemed unrealistic. United States policy was not only ambivalent; it was also contradictory. While, on the one hand, the American decision makers were ideologically favouring the Chiang regime, they were on the other, implicitly undermining it by continuing to work on the unrealistic task of forging a coalition government between two irreconcilable and mutually contentious forces. While they viewed the establishment of democracy as a legitimate goal, they favoured the incursion of the Chinese Communist Party (CCP) into a government, which was not even remotely committed to the setting up of a democratic society as conceived by the United States.27

The ongoing process had further destabilised the country and also had generated considerable ill will among each other. The US administration was becoming even more dismayed by the corruption and inefficiency of the Chiang regime, but it was reluctant to back the CCP in Yenan. Chiang-Kai-Shen was becoming deeply resentful of what he regarded as a distorted evaluation of the Chinese situation and an unjustified intervention in Chinese affairs; and the Chinese Communists were frustrated by American ambivalence and irritated by American hesitation in giving them arms aid. Despite the establishment of harmonious relations with the American Military observer Group established in Yenan in July 1944,28 they began to wonder whether the United States

27 ibid,p.68
government had the capacity necessary to force Chiang to establish a coalition government.29

Furthermore, the Soviet entry into the Far Eastern conflict and the subsequent occupation of Manchuria and North China rendered the Chinese situation more complicated. The political balance within the country had tilted and the American task in China became even more difficult. The US attempted another major diplomatic initiative in December 1945 by sending General George Marshall to China.30 His task was to try to avert a Chinese civil war by encouraging the formation of a broad-based government. However, this effort by US after some initial success proved abortive. United States mediatory missions and extensive negotiations in order to seek Nationalist Communist compromise held no good during the course of war. The civil war intensified after the Japanese defeat, and by 1949 the CCP occupied most of the country. On October 1, Mao Zedong, Chairman of Chinese Communist Party, proclaimed the People's Republic of China (PRC). Chiang-Kai-Shek fled with his government to Taiwan, establishing Taipei as the capital of the Republic of China (ROC).

Before 1949 the United States was involved in China trade principally as a buyer of raw materials or semi finished goods, especially wood, oil, sheep wool, skins, furs, raw silk bristles and tea and as a major supplier of tobacco, oil, kerosene and timber. US firms had also begun to sell small amounts of sophisticated manufactured products. At no time, however, was China trade of real economic consequence to the United States. Nor did foreign trade possess great importance even for China before 1949. China's total foreign trade "never

29 Ambassador Hurley had worked out with the CCP a Five-Point Plan for its participation in the coalition government in November and December 1944; Chiang Kai-Shen rejected the plan.

exceeded 1½ percent of the total value of world trade. In per capita terms, it remained negligible."\textsuperscript{31}

So, during this period U.S. wanted to expand the commerce, while Chinese wanted to limit the trade to maintain economic self-reliance and achieve a favourable balance of payments system. As for Chinese resentments about the past they persist and should be viewed in light of John K. Fairbanks's assessment: "The west expanded into China, not China into the west. The foreigners even in their best moments were in this sense aggressive; they were agents of change and the destruction of the world order."\textsuperscript{32}

2.4.2 Cold War and Sino-American Hostility: 1950-72

Like the history of Sino-U.S. trade relations before 1949, the two decades of trade from 1950-71 was also a crucial phase between the two nations.

After Communist takeover of China in 1949 coinciding with the Soviet entry into the China affairs, the United States influence in China had started eroding. The Chinese Communist Party (CCP) fell in line with the Soviet bipolar perception of the international system. The first most dramatic manifestation was the conclusion of a series of Sino-Soviet agreements in February 1950.\textsuperscript{33} Nothing substantial was left of a century of bilateral relations between two countries - only harsh mutual recriminations and the hope of seeing each other weakened.\textsuperscript{34}

The deep antagonism between Washington and Peking that began in the fifties had been intensified by a series of military and political conflicts and


\textsuperscript{33} Kapur, op.cit; no.21, p.71
crises on China’s periphery. Not only were the two countries divided by an enormous ideological, political, economic and cultural chasm, the bitterness resulting from the Korean war seemed to ensure continuing conflicts of American and Chinese interests whenever these came in contact in East Asia from Korea to Taiwan to Southeast Asia.\textsuperscript{35}

\textbf{2.4.2.1 Korean War}

The outbreak of the Korean War in June 1950, however, set the framework for U.S.-China confrontation throughout the 1950’s and 1960’s. Washington’s decision to intervene in Korean War had alarmed Beijing since it involved major US action in areas not too far away from the Chinese borders.\textsuperscript{36} One of the consequences of the war was the re-intervening in the Chinese civil war. Washington had largely disengaged its interests in the ongoing civil war in the later 1949 and early 1950. The US Secretary of State Dean Acheson had issued a ‘White Paper’ stating Washington’s position in relation to their engagement in the civil war.\textsuperscript{37}

In renewing their support for the Chinese Nationalist regime in Taiwan, Washington challenged Beijing’s claim to Taiwan by declaring that her future would have to “await the restoration of security in the Pacific or settlement with Japan or consideration by the United States.”\textsuperscript{38} The U.S. decision of re-intervention in the civil war had enraged the Chinese. Zhou Enlai gave vent to

\textsuperscript{34} Ibid.p.71


this rage in his statement of 28 June 1950. He declared that it constituted, "... aggression against the territory of China and a total violation of the United Nations Charter. This violent predatory action by the United States government comes as no surprise to the Chinese people, but only increases their wrath because the Chinese people have, over a long period, constantly exposed all the conspiratorial schemes of the American imperialists for aggression against China and grabbing Asia by force."³⁹

As a result of the conflict in Korea, whatever chance there might have existed for two countries to normalise relations disappeared; it was replaced by an escalating pattern of mutual hostility, the most virulent manifestation of which was the rapid growth of McCarthyism in the US and intensification of the "hate-American campaign"⁴⁰ in China.

After the war, America pursued a policy designed to contain, isolate, and exert pressure on Communist China to try to weaken it, while Beijing relentlessly attacked and attempted to undermine the U.S. position throughout East Asia.⁴¹ Washington blocked, for example, her admission to the United Nations, pressed American allies not to recognise Beijing, cut off all commercial and cultural relations. It expanded under the Eisenhower administration, alliance structures uniting South Korea, Pakistan and Thailand. And the most dangerous and considered most provocative by China was America’s decision to establish close relations with Taiwan, including a mutual defence treaty concluded in 1954.⁴² So, mutual hostility against each other by

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³⁹ New China News Agency, 29 June 1960 cited in Kapur, op.cit;no.21 ,p.73
⁴⁰ Ibid, 73.
⁴¹ Barnett, op.cit; no.35, p.2
these avowedly anti policies in both countries persisted without any change during the 1950s.

In the 1950s, due to the mutual confrontation there was virtually no Sino-American trade. During this period, American actions convinced the Chinese communists that the US used aid and trade as weapons against the Chinese. The United States organised and led a multilateral system aimed at carrying on economic warfare by denying communist countries, including China, strategic goods. In 1950, the US was instrumental in bringing about the creation of the Coordinating Committee (COCOM), composed of representatives of the NATO countries and Japan, to supervise the embargo of certain items and to monitor the sale of others. Until 1957, the level of control over trade by COCOM member nations with China was even more severe than that applied to the European communist countries\(^\text{(43)}\). The United States had also maintained its own extensive controls over exports of U.S. goods and technology to communist countries. It maintained a total embargo on sales to China and a near total prohibition on purchases of Chinese-origin goods. Under the Export Administration Act,\(^\text{(44)}\) China was put under the same export control restrictions as sales to the erstwhile Soviet Union.

The Chinese regarded these U.S. policies as part of a strategy intended to undercut Chinese economic development and perceived embargo and other anti-Chinese policies were sort of strategies of economic warfare.

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\(^\text{(44)}\) Under the *Export Administration Act*, the President has unlimited authority to limit exportation of any commodity to any country. US policy has been stricter than COCOM; a Commodity Control List considerably longer than the COCOM list enumerates commodity categories, which require validated export licenses. These are granted by the Department of Commerce only after other agencies, particularly the Defense Department, have approved the proposed transaction.
2.4.2.2 Sino-Soviet Split

Gradually and subtly, however, the perceptions of both American and Chinese leaders of the international situation in general and of each other’s threat in particular began to change, in the 1960s. The most important factor in this change was the steady widening of the Sino-Soviet split that had begun in the 1950s. The conflict between Beijing and Moscow escalated greatly in the 1960s, and was transformed from an essentially political dispute into an open military confrontation in the face of the Russia’s major military build up around China’s borders from 1965 on. ⁴⁵

Meanwhile, as US leader came to grasp more fully the reality of the Sino-soviet Split and its far-reaching international significance, the “China threat” was gradually downgraded. Washington began to realise also that Beijing was generally more prudent in its international actions than its ideological rhetoric implied, and that China’s domestic preoccupations, especially during the Cultural Revolution in 1966-68, as well as its limited military capabilities, imposed severe constraints on its foreign policy. ⁴⁶ Since then, both Washington and Beijing began to undertake basic foreign policy appraisals, which led them to establish a less hostile relationship. Moreover, as the passions aroused by the Korean War cooled, American public opinion toward China slowly moderated. All of these factors induced the US government to move with more flexible postures towards China, although it still did little to change its concrete policies.

Conflict by proxy continued as Washington and Beijing gave strong support to opposite sides in the bitter struggle in Vietnam, and the danger of direct clashes between them rose again after the US intervened on a large scale in the South, with its own forces, in 1964-65. But despite the escalation of

⁴⁵ Barnett, *op.cit*; no.35, p.3
⁴⁶ Ibid:3
fighting, both governments acted to prevent another US-China conflict such as had occurred in Korea, and their mutual restraint limited the dangers inherent in the situation.

2.4.2.3 Detente and Normalisation:

The first steps toward active exploration of the possibility of a U.S.-China opening for the first time since 1949, took place in the late 1960s, at a time when Sino-Soviet relations had reached an all time low and when the united States made its first moves toward eventual military disengagement from Vietnam. The Chinese side initiated the process in November 1968 when it proposed the reopening of the Warsaw talks to conclude an agreement based "on the five principles of peaceful co-existence".47

Beijing’s leaders and in particular Chairman Mao Tse-Tung, concluded that the Soviet Union had replaced the US as the main military threat to China and therefore had become China’s “principal enemy”.48 In light of the Soviet buildup around China, Moscow’s invasion of Czechoslovakia in 1968 aroused intense apprehension in Beijing about possible Soviet intervention in China. The Sino-Soviet border clashes in 1969 brought the two countries close to war. Despite some internal opposition, Mao and premier Zhou En-Lai concluded that they should explore the possibility of links to the United States, which might treat a new counterweight to restrain Moscow, even if this required certain compromises that Beijing had previously been unwilling to consider.

On the U.S. side, President Lyndon Johnson had made a first move in 1968 toward the withdrawal of U.S. Military forces from Vietnam, and following the elections that year, President Nixon and his principal foreign policy advisor Henry Kissinger recognised that American public opinion

48 Barnett, op.cit;n.35,p.4
compelled them to move further down that road. The Nixon Doctrine of 1969 proposed broader reduction in the U.S. military presence in Asia\textsuperscript{49}.

Equally important was, Nixon and Kissinger hoped to achieve greater coverage in dealing with Moscow. By placing the US in an advantageous position in the U.S.-PRC-Soviet triangular relationship, Nixon’s opening complemented U.S. efforts to reach arms control and other agreements with the USSR. In particular, it prompted the Soviet Union to be more forthcoming in negotiating compromise and detente with the United States, for fear that to do otherwise would be to risk the establishment of a Sino-American partnership against the USSR.\textsuperscript{50}

On the Chinese side, two elements proved decisive in tilting the internal balance in favour of opening up relations to the US. The first was the series of violent skirmishes on the Sino-Soviet border. The Chinese apparently became very concerned with the risks of a conflict with the Soviet Union. With the US still involved in Vietnam, a two front battle was perceived as highly dangerous. Secondly, the new Nixon administration, having taken the major decision to explore the possibilities of rapprochement with the Chinese had begun to send out signals to this effect.\textsuperscript{51} To risk a generalisation, it could be suggested that these signals were simultaneously declarative, operative and discreet, the objective of which was to put across unambiguously to the Chinese that Washington was interested in a rapprochement.

The declarative aspect of American diplomacy appeared to be well concerted. Secretary of State Roger in August 1969 announced that US


government recognised the reality of Mainland China and was “therefore seeking to open channels.”\textsuperscript{52} The Under-Secretary of State, Elliot Richardson, in a declaration to the New York convention of the American Political Science Association on 5th September 1969, stated that (a) improving relations with China was in American interest, and (b) the escalation of Sino-Soviet dispute concerned the United States.\textsuperscript{53}

The most serious and perhaps the most unambiguous public signal was the reference made by Nixon to China in his first foreign policy report in February 1970. He declared.

\begin{quote}
"The Chinese are a great and vital people who should not remain isolated from the international community... The principles underlying our relations with communist China are similar to those governing our policy toward the USSR. United States policy is not likely soon to have much impact on China’s behaviour, let alone its ideological outlook. But it is certainly in our interest, and in the interest of peace and stability in Asia and the world, that we take what steps we can towards improved practical relations with Beijing."\textsuperscript{54}
\end{quote}

Simultaneously, the Nixon administration made a number of administrative and political decisions to de-escalate the Sino-American tension. In July and December 1969, trade and travel restrictions concerning China were unilaterally relaxed. Even more important was that on 7 November the US stopped active patrolling in the Taiwan straits.

Parallel to these formal declaration and decisions, the US attempted to assure the Chinese through Rumanian and Pakistani diplomatic channels that (a) the US had no intentions of joining hands with the Russians against the Chinese; (b) the administration was opposed to Soviet attempts to create an

\textsuperscript{53} Ibid., 1578 (1969) cited in Kapur, op.cit,no.21

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Asian security system, and (c) they did not wish China to remain isolated any longer.55

This three-pronged initiative had the appropriate effect. The Chinese response was favourable. The reconciliatory process then moved towards exploring possibilities of direct talks between both countries through emissaries. In 1971, China, in addition to informing Washington through Pakistani channels of their accord to meet an American emissary in China, they suddenly and unexpectedly invited, the American table tennis team that was participating in the World championship competition in Tokyo, and Zhou Enlai personally met the team and hailed the visit as a “new page” in Sino-American relations.56 Keeping with the rapid pace of positive response from Chinese side, Kissinger set out on his secret visit to China in July 1971 to seek the normalisation of relations between the two countries and to prepare the way for Nixon’s summit meetings with Chairman Mao and Premier Zhou-En-Lai in February 1972.57 These produced the Shanghai communique, which defined a very new framework for US-China relations.

In sum, the first two decades after the founding of People’s Republic of China saw very little trade between these two countries. During this phase, the United States started using its economic means as US Foreign Policy toward China. At the outbreak of the Korean War in 1950, President Truman invoked the Trading with Enemy Act of 1917 against China. This trade policy was further reinforced by the U.S. “containment” policy toward Chinese communism in the 1950s. China was excluded from a reappraisal of U.S. policy

57 Nixon, op.cit; no.54, p. 544.
on communist trade in the early 1960s when the Kennedy administration began to encourage a “detente” with the Soviet Union.58

In the mid 1960s the United States relaxed restrictions on scholars traveling to China, a policy that the China specialists at the China Desk under the Far East Bureau had sought for several years.59

With the change in the international environment, the Nixon administration actively pursued a policy of improving US relations with China in the late 1960s. At the same time the US started changing its economic policy toward China. In July 1964, President Nixon began to ease regulation of travel of US citizens to and trade restrictions with China. In June 1971, he dismantled the two-decade trade embargo against China. The US removed blocks on exports of a wide variety of non-strategic goods to China and on commercial imports from the mainland.

2.5 Trade Relations in 1970s: 1972-1978

The early 1970s was a very crucial phase of US-China relations. The Kissinger and Nixon visits of 1971 and 1972 constituted the important breakthrough transforming the US-China relationship from confrontation to collaboration and reestablishing high-level official contacts for the first time since 1949.

2.5.1 Shanghai Communique

The Shanghai Communique signed on 28 February 1972 by President Nixon and Premier Zhou Enlai was an important landmark in the development of the bilateral relations. The communiqué declared the accord of the two

countries to develop relations of "such fields as science, technology, culture, sports and journalism, in which people-to-people contacts and exchanges would be mutually beneficial. Each side undertakes to facilitate the progressive development of trade relations between their two countries. Another major step toward developing the bilateral relations, however, was the accord of the two governments to establish "liaison offices" in each other's capitals in February 1973. A senior diplomat headed each mission: David Bruce represented the United States; Huang Zhen, Central Committee Member of the CCP, represented China. Since the PRC had so far consistently refused to establish diplomatic mission in countries, which recognised Taiwan, this was clearly a major concession.

The common belief was that the trade between the two countries would increase at a gradual rate and in relatively small volume, Sino-American trade experienced rapid growth, from $5 million in 1971 to $933.8 million in 1974, an eighteen-fold increase. Similarly, US exports increased from (see Table 2.1) none in 1971 to total exports of $819.1 million in 1974. Meanwhile, Chinese exports to the United States grew steadily from $5 million in 1971 to $11.7 million in 1974.

Two major reasons appeared to account for the rapid growth in the bilateral trade: 1. The PRC in the past had redirected trade for political reasons and appeared to be using purchases of US goods to accelerate the process of normalisation of US-PRC political relations.

60 For the text of the communique, see Department of State Bulletin, March 20, 1972, pp. 432-38.
62 Kapur, op.cit;no.21 p.82
63 U.S. Department of Commerce.
64 Sutter,op.cit,no.49,p.129
2. Because of poor harvests and a tight global grain market, China and little alternative but to turn to the US as a supplier for large amounts of needed grain.

At the same time, China’s exports to the United States grew slowly, and the balance was overwhelmingly in the United States favour.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total U.S.-China Trade (Million of US dollars)</th>
<th>U.S. exports</th>
<th>U.S. imports</th>
<th>Trade Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>5.0</td>
<td>...</td>
<td>5.0</td>
<td>-5.0</td>
</tr>
<tr>
<td>1972</td>
<td>95.9</td>
<td>63.5</td>
<td>32.4</td>
<td>31.1</td>
</tr>
<tr>
<td>1973</td>
<td>805.1</td>
<td>740.2</td>
<td>64.9</td>
<td>+675.1</td>
</tr>
<tr>
<td>1974</td>
<td>933.8</td>
<td>819.1</td>
<td>114.7</td>
<td>+704.4</td>
</tr>
</tbody>
</table>


Figure 2.1: US - China Trade 1971-1974
United States exports to China from zero in 1971 rose to $63.5 million in 1972, and then increased to $740.2 million in 1973 and $819.1 million in 1974. Agricultural commodities were by far the largest portions. In 1972 grain alone accounted, for 95 percent of the total. In 1973, agricultural commodities constituted 81.7 percent and in 1974 they made up 79.9 percent.

United States imports from China started to rise, but compared with exports they remained small. From $5.0 million in 1971 they rose to $114.7 million in 1974 (see Table 2.1).

The rise in trade encouraged considerable optimism in the United States about further growth in U.S. development of the China market, but in 1975 the PRC cut of most US grain purchase and total trade declined by more than half. Several factors led to Beijing's actions.

- an improvement in Chinese domestic grain production;
- Chinese complaints about the quality of US grain shipped to China;
- a growing concern among PRC leaders about their country's rising trade deficits and shortage of hard currency to pay for the grain.
- a slowdown in the process of normalisation of U.S.-PRC political relations following the resignation of President Nixon; and
- Political debate in the PRC over the wisdom of using foreign purchases to assist Chinese economic development.


As a result, total U.S. export to China fell precipitously, to $303.6 million, in 1975. At the same time, US imports from China increased to $158.3 million; two-way trade was cut by over half, dropping to US$462.0 million.

Table 2.2
US - China Trade 1974-1978
(Millions of US Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total US-China Trade</th>
<th>U.S. Exports</th>
<th>U.S. Imports</th>
<th>Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>933.8</td>
<td>819.1</td>
<td>114.7</td>
<td>+704.4</td>
</tr>
<tr>
<td>1975</td>
<td>462.0</td>
<td>303.6</td>
<td>158.3</td>
<td>+145.3</td>
</tr>
<tr>
<td>1976</td>
<td>337.3</td>
<td>135.4</td>
<td>201.9</td>
<td>-66.5</td>
</tr>
<tr>
<td>1977</td>
<td>374.5</td>
<td>171.5</td>
<td>203.0</td>
<td>-31.5</td>
</tr>
<tr>
<td>1978</td>
<td>1145.1</td>
<td>821.0</td>
<td>324.1</td>
<td>+496.9</td>
</tr>
</tbody>
</table>


Figure 2.2: U.S.-China Trade (1974-1978)
After stagnating for two years at the 1975 level, the bilateral trade started rising only in 1978, which reached, to a significant level of $1,145.1 million. Simultaneously, United States exports to China also started rising giving herself a favourable trade balance (see Table 2.2) Chinese exports to the US during this period consisted largely of textiles and apparel, antiques and art crafts, bristles and feathers, fire works and nonferrous metals. US export to China included aluminum and equipment for oil drilling and exploration, in addition to grain and cotton. China also bought ten Boeing aircraft and eight ammonia plants.67

The above analysis shows that Sino-U.S. bilateral trade grew between the opening of U.S. - China contacts in 1971-72 and the full normalisation of relations in 1978-79; but it fluctuated erratically for a variety of reasons, both economic and political. The limiting factors in Sino-American trade had been two: the market for China’s products in the United States and China’s capacity to sustain a large and continuing deficit in its trade with United States. China’s ability to sell in the United States was in turn constrained by the country’s total export level but more importantly, by the limited and competitive market for its products in the US.68

2.6 Unresolved Policy Issues in the Sino-US Trade Relations (1949-1978)

The Sino-US bilateral trade opened surprisingly only from 1972 after two decades of the PRC coming into existence. During those two decades, the relations between the two countries had been totally cut. The American

businessmen were dealing with China on the same basis as with the former Soviet Union and most other communist countries. However, the legal and institutional framework for trade with China remained inadequate even after the U.S. embargo on China trade was ended. Because of unresolved questions concerning U.S. claims against China for American property taken over by the Beijing regime in its early days and Chinese assets, which were frozen in the US, normal economic ties were still impossible. Any Chinese property brought to the US was subject to legal attachment by any American claimant against the Chinese. Moreover, there were no intergovernmental agreements covering a wide range of matters relating to trade.

2.6.1 The Jackson-Vanik amendment of the Trade Act of 1974

One of the hindrances to the growth of Sino-American trade revolved around barriers to financing the bilateral trade. The Jackson-Vanik amendment of the Trade Act of 1974 banned the extension of government or government-backed credits to countries that limit emigration, and those provisions seemed to apply to China along with former Soviet Union. It authorised the President to negotiate three-year bilateral trade agreements with socialist countries. It also delegated to the President greater discretion in negotiating trade with socialist countries. Although the Jackson-Vanik amendment prohibited the U.S. government from entering Most Favoured Nation (MFN) relations with communist countries that did not allow free emigration, it empowered the President to waive such emigration requirements if he found that the country would “substantially” promote freedom of emigration and if he had received


70 Barnett, op.cit;no.17,p.514

“assurances” that the country’s practices would “henceforth lead substantially to freedom of emigration”.72

In spite of all obstacles, however, both the Chinese and Americans took steps gradually to broader economic contacts and promote trade relations. The establishment of liaison offices in Beijing and Washington in 1973 permitted the exchange of commercial experts qualified to explore trade possibilities, and they began to engage in trade promotion. In the U.S. a group of leading private businessmen organised with government encouragement the National Council on US-China Trade (NCUSCT) in 1973, and it established direct ties with Peking's China Council for the promotion of International Trade (CCPIT) and began efforts to promote trade.73

Thus, the Sino-U.S. bilateral trade relations at the end of the decades of their overall relations starting from 1949 onward showed sharp rise and fall in their trade. However, this trade relations viewed correctly, was an important measure of the degree to which both countries were serious about their desire to develop their overall relationship. Economic relationships, moreover, constitute an area in which ideological and other political obstacles are relatively easy to deal with. In this area also inter-societal contact, however limited, can gradually grow, and over time help to increase mutual understanding and promote cooperation.

There was a series of problems involved in the process of ongoing bilateral economic relations. There was the need for the institutionalising U.S. - China economic relations. Exports were made in this direction as on the basis of short and long terms perspective to achieve the result. Experts on Sino-American economic relations, such as economist Alexander Eckstein concluded that for Sino-American trade to be restored to its peak 1974 level or to develop

72 Qingshan, op.cit,no.67,p.59-60
73 Barnett, op.cit,no.17,p.515
beyond that point would require either ‘a supreme political leap’ leading to the establishment of full diplomatic relations or a “step-by-step approach” gradually removing the technical, institutional and economic barriers standing in the way of free U.S.-PRC commerce.\textsuperscript{74}

These efforts were succeeded finally with the normalisation of the bilateral diplomatic relations from January 1, 1979. The institutionalisation and expansion of trade gradually developed interlocking interests that contributed significantly to a strengthening of overall U.S.-China relations in the long run.