Chapter-IV

Diplomatic Management of Sino-U.S. Trade and Investment Relations
Overview

The relationship between the United States and the Peoples' Republic of China is arguably the most important facet of Washington as well as that of Beijing's foreign policy today. Over the years, the bilateral relationship has been buffeted by various events - the Tiananmen square incident, the human rights issue, the bombing of Chinese Embassy in Belgrade, the long and complex process of negotiations to reach the deal on China's accession to World Trade Organisation (WTO), renewal of the normal trade relations with China (NTR), allegations on Chinese spying at U.S. national laboratories, the long-standing Taiwan and Tibet issue and very recently the collision of Chinese fighter plane and EP-3E to name a few. It is showing signs of wear from the domestic politics in both countries, insufficient attention to long-term fundamental problems and inconsistent policy. It is in the greater national interest of both the countries to manage the complex relationship effectively in order to look forward to steadily increasing economic benefits from trade, reduced threat of nuclear weapons proliferation and regional security and stability in Asia.

The previous chapters of this thesis have analysed the Sino-U.S. bilateral trade and investment relations prior to the normalisation of their relationship in 1979 as well as after that. Simultaneously, this has made an analysis of the Chinese economic reforms and it's ramifications for the United States trade and business interests with China during the particular period. This has shown that gradually the commercial interests of the two countries have moved to the forefront and have become the basis of their diplomatic engagement. The surging bilateral trade and investment between the two countries have substantiated it further. U.S.-China trade rose rapidly after the two nations established diplomatic relations (January 1979), signed a bilateral trade agreement (July 1979), and
provided mutual MFN treatment beginning in 1980. Total trade (exports plus imports) between the two nations rose from $4.8 billion in 1980 to $116.4 billion in 2000 -- making China the 4th largest U.S. trading partner. The United States has also become the second largest overall investor in China, after Hong Kong. The present chapter would make an analysis of this important facet of their foreign policy and the carrying out of the measures of such foreign policies by the respective countries.

4.1 Intersection of Diplomacy and Trade and Business in the Foreign Policy

The practices of traditional diplomacy defined earlier in the thesis reflected the state system dominant in world politics for centuries. It made sense to treat international conflict and cooperation as occurring between nation states that acted in a unitary fashion on the basis of stable and discrete national interests rooted in geopolitics, natural resources, and other enduring features of countries. If, the behaviour of the states was dictated by such interests, it followed that conflict and cooperation between states reflected conflicting as well as harmonious interests. In the world of national interests the chief methods international relations management were the traditional diplomatic, military, and economic means of influence, up to and including the threat or use of force. In the present time also the states have been using these tools of power politics to engage in international conflict and cooperation.

The traditional diplomatic strategies of influence were refined and elaborated greatly during the Cold War period. They continue to be relevant in the

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1 Source: U.S. Department of Commerce.
post-cold war world, although their application is somewhat little different now. In the economic diplomacy aspect, there is one major development. It is that States and association of states are no longer the only actors that can use techniques of influence like those of traditional economic diplomacy. For example, in the late 1980s and in the 1990s, major U.S. transnational corporations have become major players in the Washington’s foreign policy making in relation to China. Similarly, there are other factors, which have given a new meaning and shape to the Sino-U.S. bilateral commercial relationship over these years.

4.1.1 Convergence of commercial and national interest

There have been in the history of East-West trade and business two different perceptions of and motivations for the linkage between economics and politics. While the East has promoted economic cooperation with the West with the goal of gaining economic benefits from closer ties, the West has tended to be more concerned with political goals. In a world of increasing interdependence, however, it may be too simple for one to make such a distinction “because political and economic considerations are often inextricably intertwined and no country could emphasize one factor to the exclusion of the other.” Nevertheless, the United States regarded economic interdependence as a means to an end and sought to use economic cooperation to obtain political advantages.

During the Nixon administration, the United States adopted the “strategy of linkages” in conducting foreign policy toward communist countries. As former Secretary of State Henry Kissinger explained, “We have...sought to move forward

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across a broad range of issues so that progress in one area would add momentum to the progress of other areas.”

The Carter administration basically followed the same strategy; while normalising diplomatic relations with China, the United States also sought to improve relations in other areas such as trade, culture, technology, and education. Both the United States and China hoped that improvements in the areas other than diplomatic relations would lead to institutionalisation of bilateral relations and thus enhance the overall relationship between the two countries. It is being pointed out that “trade and other economic links are at the cutting edge today in the development of U.S.-China relations and the success or failure of the two countries in their efforts to build lasting economic ties will have a major influence on long-term political and strategic relationship.”

The Carter administration, as an important foreign policy objective saw that an economically strengthened China would contribute to the stabilisation of Asian affairs as well as a balanced U.S. global strategic posture. As President Carter stated, “We have not entered this new relationship with China for any short term gains. We have a long term commitment to a world community of diverse and independent nations. We believe that a strong and secure China will play a cooperative part in developing that type of world community.” Moreover, economic interdependence between the United States and China would lead to cooperation in other areas and strengthen the overall relationship. President Carter made it explicit that developing economic relations with the PRC would “give

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6 As quoted by Holzman and Legvold in “The Economics and Politics of East-West Relations”, p.294
8 Quoted in Pacific Basin Quarterly, December 1979, p.4
further impetus to the progress we have made in our overall relationship” since normalisation. 9

After normalisation, leaders of both the countries became more concerned with the economic dimension of U.S.-China relations. A sound framework for economic relations remained to be established. Both governments realised that early removal of trade barriers and establishment of official trade relations would best serve the interests of both the countries. The then Vice President Walter Mondale related trade with bilateral national interests as follows:

“In trade, our interests are served by our expanding exports of natural resources and industrial products. And at the same time your interests are served by the purchases you can finance through these exports. As you industrialise, you provide a higher standard of living for your people. And at the same time our interests are served—for this will increase the flow of trade, narrow the wealth gap between the developed and developing world, and thus help alleviate a major source of global instability.”10

Building on the objectives and accomplishments of the Carter administration, the subsequent U.S. administrations encouraged the development of trade and business relations. The U.S.-China trade agreement signed in 1979 was the first bilateral trade agreement aimed at the promotion of trade between the two countries. The agreement was a pivotal document in normalising U.S.-China commercial relations. Specifically, it granted most-favoured-nation status to each country, protected mutual industrial interests, and facilitated business services as

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9 "Chinese trade pact is sent to Congress," New York Times, October 24, 1979, p.1
10 Walter Mondale’s speech at Beijing University, Department of State Bulletin 79, no. 2031 (October 1979), p.11
bilateral economic relations developed. The agreement represented an important transformation of U.S.-China trade and investment policy after normalisation of their relationship. According to F. Tan Qingshan, the 1979 bilateral trade agreement implied that the United States intended to strengthen the new Sino-U.S. relationship through economic linkage. Gordon Cheung has related to market forces to reinterpret the U.S.-China relationship during this period. Cheung in his book has attempted to reinterpret U.S. foreign policy toward China after World War II by looking at the externalisation of market forces. He has put forward the concept of augmented market liberalism (AML) as a theoretical guide to analyze their relations.

"Augmented Market Liberalism is defined as a process of assimilation and transformation of a country generated by the externalisation effects of the market force. In terms of Sino-American relations, the externalisation refer to the U.S. construction of a favourable environment to accomplish such change."

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13 In economics, there is a term called externalities. It refers to "the costs or benefits of a transaction that are incurred or received by members of the society but are not taken into account by the parties to the transaction." Richard G. Lipsey and Peter O. Steiner, Economics, 6th ed. (New York: Harper and Row Publishers, 1981): 424. The U.S. market-oriented policy toward China resembled a similar trajectory as in Gordon C.K. Cheung Market Liberalism: American Foreign Policy Toward China New Brunswick, USA: Transaction Publishers, 1998
As the major ingredient of U.S. foreign policy toward China, the pattern of market behaviour gave rise to the opportunity, enlargement of goals, growth through production and consumption and the manifest orientation that envisioned change. The market is a dynamic organ, which does not belong to any single country. Yet, it exists within and around countries that contained the ingredients of market forces.

The momentum of the market and the dynamic forces of liberalism energize the world toward growth in an unprecedented manner. Empirical studies and researchers have recently attributed the transformation of the global economy to the market impetus and the force that lies behind it\textsuperscript{15}. The post-cold war international economy has witnessed rapid changes in the economic structures of many formerly socialist countries. The demise of the former Soviet Union encouraged the transformation of many centrally planned economies into market-oriented economies. The introduction of private property rights and the vigorousness of market competition are given great attention by many international organisations\textsuperscript{16}.

The perpetuation of market forces, in fact, may reconcile Sino-American conflict and disagreement by reorienting their focus on gain through trade instead of through military confrontation. China's government, especially after 1978, gradually internalised the facilitating of market liberalism as an agent of reform.

Fortunately, the market as an agency of change, performs well in regulating the various transactions involved in Chinese society without excessively violating

\textsuperscript{15} Alfred D. Chandler, Jr., Scale and Scope: The Dynamics of Industrial Capitalism (Cambridge, MA: Harvard University Press, 1990)
the political ecology of China. As Susan L. Shirk put it, “the lesson of the Chinese case is that in some varieties of communism, it is possible to move from a command economy to market competition without changing the political rules of the game. Communist rule in and of itself is not an inseparable obstacle to economic transformation 17. The adaptation to the disciplinary guiding post of market force engendered a model for the change of policy orientation toward internal development as well as foreign investment. In particular, the need for capital and technology caused by China’s economic reform and development inevitably leads to further deregulation policy and relaxation. This change is clearly depicted in Margaret M. Peason’s study of foreign direct investment (FDI) in China. She strongly emphasised that:

"The growing belief that their (Chinese) economic modernisation programme required them to absorb foreign capital at even greater levels put them on a course whereby they had to pay attention to foreign concerns, and more generally to ways they might be able to improve the investment environment. Under these conditions, the reformers had little choice but to liberalise." 

With respect to U.S.-China relations, U.S. foreign policy assisted in fulfilling these forces. In addition, as China opened to the outside world in the early 1980s, the U.S. needed to implement a policy to incorporate the components of market force. Moreover, the market force, during the post-cold war era, allows the U.S. to maintain world leadership not in such a way as to “command troops

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and confront enemies” but “to bargain across many different issues and groups, build coalitions, and seize opportunities for agreement.”

4.1.2 Commercial engagement supports change and reform

Successive U.S. administration from Nixon to Clinton, supported by proponents of U.S. business and trade, have consistently pursued commercial engagement as a stabilising force in U.S.-China bilateral relations and as a liberalising force within the Chinese society. From the standpoint of U.S. national interests, this policy of engagement has helped secure Chinese cooperation in meeting vital regional and international security challenges, including those posed by the Gulf war, the Cambodian peace accords, and nuclear proliferation on the Korean Peninsula.

On the Bush administration’s China policy, former Secretary of state James Baker wrote, “Economic Reform, we believed, would in the long run lead to political liberalisation, the surest way to ensure human rights for all in China.” President Clinton went on to explicitly link economic and political liberalisation when he said, “American jobs and prosperity are reason enough for us to be working at mastering the essentials of the global economy. But far more is at stake. For the new fabric of commerce will also shape global prosperity... and with it, the prospects of people around the world for democracy, freedom and peace.”

21 Ibid. p.193
American business strongly agrees with this linkage. The chief executive officers of some of the Fortune 100 companies (AT&T, Boeing, The Chrysler Corporation, Digital, General Electric, Honeywell, Kodak, Motorola and TRW) wrote President Clinton in May 1994 arguing that U.S. trade and investment promote direct Chinese exposure to American companies, values and ideas and contribute to economic freedom and economic choices for the Chinese people. They spoke from experience:

"U.S. companies operating in China bring with them management, personnel, ethical, environmental, manufacturing, quality and much other traditional and innovative business “best practices”. These practices often have a profound and positive impact on the lives of Chinese employees and other Chinese with whom our companies interact. We believe...the benefits of the technology, practices and services which American companies bring to China continue to work to further open the Chinese society."

These executives made the case that U.S. Companies have been agents for positive change in China, greatly expanding the exposure of ordinary Chinese to Western influences. According to an industry paper, “Global Practices by U.S. Companies in China,”23 U.S. companies are changing the environment and condition of the Chinese people, as they

• Promote American ideas through (i) human resources policies and practices that base advancement and reward on merit, performance, and productivity; (ii) grievance systems that redress wrongs by petition; (iii) business practices that eschew illicit payments; and (iv) good corporate citizenship and corporate relations.

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22 Ibid.
- Advance a more open Chinese society through the technologies utilised internally by companies operating in China, as well as through the high-technology products and services that these companies sell to Chinese industries and consumers, exposing Chinese citizens to new information, ideas, values, behaviour and international standards.

- Accelerate Chinese exposure to the West. Through the technical and managerial training of employees and foreign travel by customers and government officials, Chinese visitors are exposed to market economies and to Western social and political processes.

- Provide and promote high standards in environmental, health, and safety practices through the example of company standards and practices as well as through technical assistance and the introduction of environmental technologies and industrial systems that minimize waste, control emissions and enhance safety.

- Train local employees and suppliers in Western management and technical skills by (i) establishing technology laboratories in Chinese universities; (ii) offering scholarships for Chinese students; and (iii) teaching participatory management, empowered work force, employee teaming, total quality management, and just-in-time systems.

- Provide better employment alternatives for the Chinese by offering wages that are the highest available in China, benefit packages that exceed local Chinese requirements, and general physical working conditions that are higher than local standards.

4.1.3 Commercial relations increase China’s stake in the Global Community

For over more than two and half decades the U.S. policy of engaging China and encouraging China to integrate itself into the global community has been largely successful. As the Chinese economy developed closer ties with the West in
general and with United States in particular, supporters of commercial engagement believed that China would further liberalize its economy, increasingly submit to the rule of law, allow the free flow of information, and become a more responsible global citizen. Although there may be some ups and downs, in the long run, as seen in some experiences in Asian countries, economic prosperity and the rise of a middle class would inexorably lead to a more pluralistic political system and eventually to a more favourable human rights environment and multiparty democracy.  

From the time of major reforms launched in 1978 until the events in Tiananmen Square in 1989, China put economics in command of politics. China explicitly modified its global political policies in return for economic benefits. It declared peace with its neighbours, such as India, Vietnam, and the Soviet Union. Evidence of China's pragmatism can also be seen in its membership in the Pacific Economic Cooperation Conference (PECC) and the Asia Pacific Economic Cooperation (APEC) Forum, organisations that also count Taiwan as member. Although China failed in its bid to join the World Trade Organisation (WTO) before the group's formal launch in January 1995 to replace the General Agreement on Tariffs and Trade (GATT), it has continued access negotiations to become a member.

Overall, Beijing's interest in keeping its commercial relationship with the United States on track provides an opportunity for America to find the convergence in the two nations' commercial and national interests to stabilize a critical bilateral relationship.  

24 Vogel, op.cit, no.20, p.194.  
25 Ibid.p.196
4.2 UNITED STATES INTEREST

4.2.1 Commercial Interests

Different public opinion surveys have found that a substantial majority of the American people believes that the United States has vital national interests in China. It's quite clear that the US currently has an enormous stake there. To the US, the most important commercial issue is how the US firms' commercial interests in China can be pursued.

(1) Constructive relations and increased trade with China directly affect US firms' business expansion in China

US firms' success in China is critical in order for them to maintain global competitiveness. China is the US's fourth largest trading partner. Since 1990, US exports to China have doubled, outpacing the growth of US exports to any other major export market. US manufactured goods, services, and farm exports to China totaled roughly $14 billion in 1999 and support close to 400,000 American jobs. As a large growing market, China can only provide great opportunities to US businesses on the basis of normal trade relations.

(2) Openness of the Chinese market and Chinese trade barriers affect US trade growth

China is one of the most important trading partners of the US, and it is going to play more crucial role in the global economy. Therefore, Chinese trade policies and practices have a substantive impact on the development of US trade.

(3) Only under the same market rule, US products can ensure its competitive advantages

The US has a strong commercial interest in ensuring that Chinese goods entering the US market are produced on the basis of market principles, since China is becoming one of the largest sources of imported goods. Otherwise, such a large amount of Chinese imported goods would distort the US domestic market system.
China's integration into the global economy involves four major policy challenges for the United States: (1) determining the terms for China's accession to the WTO; (2) granting permanent, unconditional MFN status to the PRC; (3) crafting effective economic sanctions that will persuade Beijing to curb arms proliferation and improve its human rights record; and (4) monitoring China's implementation of bilateral agreements to open its markets and protect intellectual property rights. To respond to these challenges, the United States has taken various measures from time to time. This has been discussed in the next chapter in detail under the negotiating trade and non-trade issues in Sino-u.s. diplomacy.

4.2.2 Substantial Policy Interests

(1) To develop better public support for establishing normal US-China trade relations.

Basic public misunderstanding has put pressure on government and Congress to restrict trade with China. The US government needs to do more to develop better public understanding of the situation in China to ease some of that pressure. The US also needs to revise the basis for calculating the US-China trade and then develop a new value-added balance.

Since the existing misunderstanding of the economic and trade developments in China has affected the public confidence in building normal trade relations with China, the first issue for the US government is to develop an effective strategy for increasing public understanding. US influences could push the Chinese government to further liberalize its trade policies more quickly. However, to wield US influence effectively requires sustained domestic support.

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26 Robert P. O'Quinn Beyond the MFN Debate: A Comprehensive Trade Strategy Toward China Asia Studies Center Backgrounder No. 148, May 16, 1997
The public must grow accustomed to the idea that China may well be America’s main foreign policy focus for the foreseeable future. As China grows stronger economically and militarily, the US government needs to conduct constructive US-China trade relations more sensitively.

(2) To improve China's trade policy reforms in order to create more opportunities for US industries.

The focus of this issue is how to manage China’s emergence as a major global power. This will profoundly impact the shape of the global order and the future prosperity of US industries. China has a huge growing market for advanced technologies, equipment and other production materials and certain commodities in which the American aircraft, sophisticated machinery, electronics, chemicals, grain, timber and fertilizer are taking a remarkable share. The Chinese market is now more important to US industries than at any period in history.

(3) To ensure that the Chinese government complies with commitments already made, and take practical steps to further open its markets.

According the U.S. further reform of China’s trade policies could provide enormous benefits not only to the US and China, but to the whole world. However, these needs to ensure that the Chinese government complies with commitments already made, and take practical steps to further open its markets.

4.3 CHINESE INTERESTS

4.3.1 Commercial Interests

To China, the most important issue is that the US market is its largest market and Chinese trade and economic development relies more on the US market. China, singularly imperceptive in reading American public opinion and
political processes, cannot afford to push U.S. businesses too hard over political tensions. Otherwise it risks alienating the companies who make up the most potent constituency for maintaining an U.S. policy of engagement with China. Corporate America is characteristically risk averse and can easily get cold feet in any high profile confrontation.

The loss of MFN status, according to a World Bank estimate, could have caused China’s exports to the United States to fall by at least 42 per cent and perhaps by as much as 96 per cent. No matter how hard China works to improve trade ties with Europe and Asia, The US absorbs at least one-third of China’s exports. Without the US, China would have an enormous current account deficit\textsuperscript{27}.

Under the loss of MFN, American exports to China would undoubtedly fall as well, as China would retaliate and buy elsewhere whenever possible. The United States would absorb the decrease much more easily, however, as its exports to China make up only 2 percent of total U.S. exports. The resulting downward spiral in commercial relations and the deterioration of overall relations would reduce the flow of the U.S. foreign direct investment into China. In retaliation, Chinese official might make it difficult for U.S. joint ventures projects to be approved. At the same time, U.S. companies that have the telecommunications, electronics, aviation and other technologies critical to China’s modernisation might decide that investment in China is not worth the risk, and shift capital to other emerging Asian markets such as Indonesia and India\textsuperscript{28}.

\textsuperscript{27} Lijuan Zhang, \textit{Addressing Concerns on The Growing US Trade Deficit with China} from www.commercialdiplomacy.org/ March 5,1999.

\textsuperscript{28} Ibid.
Over the long run, without MFN, American companies would lose out in getting their share of the rapidly growing China market. China would be hit much harder. Without the U.S. market, or U.S. technology and capital, Beijing would find it difficult, if not impossible, to reach its growth and infrastructure goals.

Indeed, a trade war with the US would devastate Hong Kong and the economies of the five coastal provinces that have most benefited from trade, particularly Guangdong and Fujian. Nearly half of all Chinese exports pass through Hong Kong. According to the Hong Kong government, its gross domestic product would be slashed by half if China lost its MFN status.

A stable trade and investment relationship is clearly in the interest of both China and the United States. It is also a precondition for strengthening regional trading ties and promoting broader economic cooperation within the region.

4.3.2 Substantial Policy Interests

(1) To take steps to solve the trade deficit issue and to improve the climate for foreigners doing business in China.

At present, the trade imbalance has become a crucial issue for US-China relations. Increasing concerns inside the US seriously affect public and policymakers' confidence on China trade policy. The Chinese government must be aware of the importance of providing a transparent and rule-based trade climate for foreigners doing business in China.

(2) To accelerate its domestic reforms and remain consistent with its long-term economic development objectives.

The Chinese government has correctly identified three linked objectives—the reform of the SOEs, the banking system and the social welfare system—as top
priorities. However, during the trade liberalisation process, the Chinese
government sometimes stopped just short of further reform in order to wait for
changes in international and domestic situations. China will not be able to build a
solid foundation for long-term economic growth without keeping domestic reform.
The Chinese government must be aware of the effectiveness and need of
continuous strategic reforms.

(3) To further liberalize and reform its domestic regulations in order to
provide a more transparent and predictable policy regime

It is important for China to reform its domestic regulations in order to take
advantage of the opportunities created by the new economic era. The most
immediate challenge is to establish transparency and predictability in its
regulations. Further more, China needs to move from a system of entry and
licensing controls to a regulatory system based on transparent, objective and
measurable performance criteria. Such a system will increasingly determine its
economic growth and prosperity.

4.4 Diplomatic Management of the Sino-U.S. Trade and Investment
Relations

At present, inside the US and China, almost every issue has a political as
well as an economic component. Political disputes heavily shape the US-China
trade relationship. It is important for both the countries to manage the respective
commercial as well as substantive policy interests in order to gain from the on
going bilateral trade and investment relations. These interests and the subsequent
issues have been the major areas of their bilateral diplomatic engagement. They
have used diplomacy as a technique\textsuperscript{29} of:

\textsuperscript{29} Lerche Jr., Charles O. and Abdul A. Said, \textit{Concepts of International Politics}, New Delhi:
• of coercion
• of persuasion
• of adjustment
• for reaching an agreement

4.4.1 Strategies in the Diplomatic Management of Bilateral Trade and Investment Relations

4.4.1.1 Domestic Strategy:

In light of the US-China trade and investment issues, the US government, industry and public are working together to build a broad national consensus on the US-China trade relation issue. The most important step for US policymakers has been to rebuild a bipartisan policy toward China. Doing so has required leadership from the White House and close cooperation with Congress. It has been persuading the Chinese government to take steps through official and industrial organisation channels to demonstrate their commitment to improve the United States trade deficit.

Similarly, the Chinese government is also working in this direction considering the relevance of the bilateral trade and investment to the growing Chinese economy.

4.4.1.2 Policy Strategy

United States Strategy

The United States has adopted a strategy that covers:

• Persuading the Chinese government to further open its markets and reform its import policies, such as lower tariffs and avoid using non-tariff measures.
• Treating China as a strategic partner rather than a backlash state.
• Providing export credits to American firms seeking to sell in China that are comparable to those provided to European and Japanese firms by their government
• Working for China’s early entry into the WTO, since it is not only in China’s interest, but very much in the US national interest
• Seeking to provide China permanent NTR status conditional upon evidence that China is in compliance with the protocol governing its participation in the WTO
• Continuing to expand US cabinet-level contacts with Chinese ministerial counterparts and enhance the role of formal; bilateral commissions such as the Joint Economic Commission and US-China Joint Commission on Commerce and Trade (JCCT)
• Exchanges between senior officials from various agencies have been regularised.
• Coordinating more effectively with other US trading partners that share analogous concerns about the Chinese market

**Chinese Strategy**

China has been adopting a strategy that aims at:
• Maintaining the stability of the Chinese currency
• Improving conditions for a civil society
• Expanding ongoing reform of SOEs, banking system, employment, and insurance system.
• Strengthening the competitive ability of domestic industry in order to create the basis for trade liberalisation
• Establishing a social welfare system in order to take the social burden from the SOEs and cut the extra product cost with the goal of setting up an efficient and competitive business system

• Embarking on an aggressive worker re-training program to help deal with layoffs of SOEs affected by increased global competition

4.4.1.3 Political Strategy

*United States Strategy*

The US political strategy has been to:

• Make efforts to develop a bipartisan China policy within the US.

• Request the Chinese government to consider the importance of the present trade deficit issue and build consensus with the Chinese government.

• Press the Chinese government to open markets through WTO accession negotiations.

• Press the US Congress to consider the importance of the US-China relation and the achievements of China’s open market practices on the annual NTR renewal issue.

• Deal with China as a more equal partner and maximize reliance on multilateral rather than unilateral sanctions where China’s trade practices fall short of internationally accepted norms.

• Abandon use of the bilateral trade imbalance as an indicator of the degree of openness of the Chinese economy or the state of Sino-US relations.

• Provide meaningful multilateral sanctions in the event of violations, and eliminate US unilateral sanctions.

*Chinese Strategy*

The Chinese political strategy also aiming at:
• Making efforts to develop a constructive policy towards the US.
• Building consensus on the benefits of the Chinese economy under a more open markets.
• Building consensus on the importance of continuing domestic economic and administrative reforms.
• Trying to persuade industries to improve their competitive ability towards the more open market system.
• Explaining to the public that further reform could cause new social problems, such as higher unemployment rate, but the government is trying to minimize the disruption of further reform and trade liberalisation.

4.4.1.4 Negotiating Strategies

Negotiation in the world of national interests meant balancing or trading competing interests of states against one another or finding common interests that could be the basis for agreement even in the face of other conflicting interests. Nevertheless, a search for common interests has been the characteristic of Sino-U.S. trade and business negotiations over these years. The prominent trade and non-trade negotiating issues in this bilateral relationship have been discussed separately in the next chapter.

When trade was the primary engine of Sino-U.S. bilateral economic engagement, negotiations were government to government. Each nation's objective was to open foreign markets to the exports of its own companies or to protect its own companies from foreign competition at home. Countries measured their success by the extent to which they were able to sell their goods and services within foreign nations and how much foreign market share their own
companies could command. But the new global economy renders obsolete these old forms of negotiating and keeping score. Foreign direct investment is supplanting merchandise trade as the major engine of the U.S.-China economic relations and the key to each nation’s wealth and well being. And negotiations between governments and multinational companies managers-are displacing the old government to government talks. In short, there is a growing importance of foreign direct investment on the Sino-U.S. bilateral trade and business negotiations. This change in the locus of economic activity—from trade to direct investment—implies a change in the nature of negotiations.

Another sort of negotiation is becoming far more important—one that occurs between a different set of parties. On one side of the bargaining table still sit the government representatives, but on the other side the Chief Executive Officers of the major companies of the United States. From the Chinese side, the government negotiators represent the citizens of the nation, while the United States side represents the citizens as well as the nation corporations. The Chinese government’s job is to induce these business managers to site certain activities in the nation and thus provide the nation’s citizens with good jobs. In return, the government negotiators offer a carrot—an assortment of tax breaks, financial inducements, and public investments. There is also a stick: government negotiators may threaten to close the national market to the company unless it makes the desired investments. All these aspects are quite apparent in the Sino-U.S. diplomacy in trade and investment relations.

The outcome of any negotiation is primarily determined by the relative resolve between the two sides to incur the cost of reduced cooperation. The side

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that has the most to offer and the least to lose is said to have the greater leverage in the negotiations. Ultimately, the distribution of the costs of cooperation will reflect this dynamic. This is also true of the U.S.-PRC negotiations over these years as of any other bilateral negotiations\(^{31}\). The negotiations between Washington and Beijing have reflected the dynamics of a particular subset of negotiations, in so far as China and the United States were strategic partners rather than adversaries. Inspite of facing the risk of escalated adversial relations, China and United States weighed the benefit of cooperation, expressed in terms of enhanced security, against the cost of cooperation, expressed in terms of compromise over conflictual issues, and the cost of reduced cooperation should negotiations fail. In this context, relative resolve was determined by the cost each would incur should negotiations fail and cooperations diminish. This distinct aspect of U.S.-PRC relations determined the factors affecting the leverage of each side in the negotiations\(^{32}\).

But an equally important factor shaping bilateral negotiations is each state’s assessment of its counterpart’s resolve, which enables each state to establish the relative resolve of the two parties, the ultimate determinant of bargaining power and negotiating positions. To establish a counterpart’s resolve, a state cannot rely only on its counterpart’s policy statements or even more subtle bilateral signals, for both are subject to manipulation in an effort to enhance the credibility of a bluff. Policy makers must therefore not only assess the security of their own state in order to determine its need for cooperation and its ability to endure conflict; they must also make an assessment of their security partner’s security to determine its resolve to endure reduced cooperation. Unlike signals, a state’s security


\(^{32}\) Ibid pp.429-40
situation is not subject to manipulation, which makes it a better indicator of resolve\textsuperscript{33}.

The negotiating strategies of both China and the US identifies the different parties, their interests and options surrounding the trade relations between the US and China. The negotiation strategy examines US and China preferred outcomes, options, the process and best alternatives to a negotiated agreement (BATNA).

A. Negotiation Process

The negotiation process is defined as a dynamic process in which two parties, each with its own objectives, confer to seek a mutually acceptable agreement on a matter of common interest\textsuperscript{34}. The negotiation process occurs within a definite time period, and involves not only to use of data and intuition, but also the willingness of the parties to understand each other's point of view. Without such willingness, it would be difficult, if not impossible, to arrive at a mutually satisfactory agreement. Language barriers and differences in cultural values, customs and lifestyles in crossnational settings further complicate such an arduous process.

Different researchers have viewed the Sino-U.S. bilateral trade and business negotiation process differently. According to Tung and Paik\textsuperscript{35}, the Sino-U.S. negotiation process is divided into three stages: the opening or pre-negotiation stage, the resolution stage and the final stage. The objectives and styles adopted at


each stage vary as two parties attempt to arrive at a mutually acceptable agreement.

Opening Stage:

At the opening stage, two parties try to learn more about each other’s positions and willingness of each party to deviate from same. The negotiators will also attempt to create favourable impressions of their own position and unfavourable ones of their counterparts. This stage is being characterised by the number of participants and preparation for actual negotiation. It is seen that, generally, the Chinese negotiating team is larger than the American team\(^\text{36}\). The American team is usually consists of one and only a few negotiators who have the necessary decision making authority. There are different reasons attributed to this structure of negotiating teams of respective countries. The cost efficiency, individualistic and combined approach and time factor comes into the picture.

Chinese teams are also sometimes characterised by large numbers, but their representation is more hierarchical in nature\(^\text{37}\). They usually have a senior member who functions as a team leader to coordinate the interest of the Chinese side. The other members of the team are experts in different negotiating areas under discussion. The Chinese also place heavy emphasis on the status of each member of the negotiating team. This stems from the Chinese respect for the hierarchy and authority.

In this pre-negotiation stage, Chinese negotiators always try to know the other side while the American counterparts are often anxious to complete the

\(^{36}\) Ibid.

predetermined agenda. This strenuous effort to gain as much from the background knowledge of one's opponent can be traced to the famous admonition of Sun Tzu, ancient Chinese military strategist, "Know yourself, know your opponent, one hundred battles, one hundred victories."  

Besides acquiring background information on their opponents, the Chinese place equal emphasis on building relationships between the parties. The Chinese stress friendly introductions as a way of establishing the relationship's dynamics and determining its character. Their rationale is pragmatic: in laying down general guidelines for all future dealings, they gain leverage that they can use later by calling the partner to task for not abiding by the principles. Americans think this process is only a warm up ritual. They believe that once hard bargaining begins, positive personal feelings should not intrude except to reinforce a basic level of trust.

Resolution Stage:
Once the relationship is established through formal and informal interactions, the negotiation progress to the next stage to explore the main issues at stake. This stage is characterised by several dimensions concerning the decision-making process such as difference in logic, length of time it takes to reach an agreement, group versus individual decision making, and reliance on hard data versus gut feeling, such as personal instinct or intuition. The emphasis at this stage is on bridging the gap between the parties to the point where a possible compromise (bargain) can be identified by linking and trading specific issues.

39 Ibid.
41 Ibid.
Both parties try to move sufficiently from their initial positions by making concessions.43

Americans usually engage in linear logic while the Chinese prefer spiral or non-linear logic.44 The Chinese subscribe to the Taoists belief that all events occur in cyclical patterns. As such, from an American's perspective, Chinese are very complex and inscrutable.45 The Chinese negotiators tend analyse issues in a more systemic, circular and interactive way as compared with American negotiators who often examine issues based on linear causality.

Since the Chinese negotiators adopt a holistic perspective as opposed to the sequential approach of the Americans, the former may switch from one stage to another without the later knowing when the negotiations have passed from the resolution stage to the final agreement. Conversely, the Chinese counterparts often think that Americans tend to gloss over areas of agreement and overemphasise the disagreements.46

In line with the perception of time as linear, Americans are used to dealing with a complex negotiation in sequence, solving one issue after another and moving from one phase to another. The Americans' penchant to focus on one issue at a time often forces a direct disagreement. Americans also tend to make initial offers that leave considerable latitude of movement in either direction. Such an approach is designed to help them make concessions when appropriate. Americans

44 Paik and Tung, opcit. No.33, p.107
think that this will show their good faith, but the Chinese perceive this as weakness, insincerity and indecisiveness. In contrast, the Chinese prefer to make concessions toward the middle or at the end of the negotiations. They feel that making concessions during the early stages of a negotiation indicates a sign of weakness and makes them vulnerable to additional concessions in subsequent meetings.  

**Final Stage:**

The emphasis at this stage, the bargain is made and finalised. The final stage involves mutually acceptable agreement to the parties involved, followed by summarising and recording. The agreement and minutes of the negotiations will form the basis of a contract. Failure to reach such an agreement paves the way for renegotiations on the issue.

From the American perspective, the final stage involves the signing of an agreement where there is no room for renegotiation. For the Chinese negotiators, however, the final stage represents the beginning of a long and productive relationship. Accordingly, Americans are often perceived by their Asian counterparts as being very inflexible since they are unwilling to make any change to the original agreement. For the Chinese, a long-term commitment is the *sine qua non* of every trade and business agreement. To them, the negotiation process is the framework in which they can develop a rich and intimate relationship with their counterparts. A signed contract merely marks the end of the first stage of business dealings, not the final agreement. Since problems will undoubtedly arise

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in the course of implementing the agreement, it is necessary for both sides to compromise to enhance the likelihood of a "win-win" outcome for both parties\textsuperscript{49}. Consequently, nothing should be considered final until it has actually been realised\textsuperscript{50}.

B. Negotiating Characteristics

American and Chinese negotiators have significantly different negotiation and problem solving characteristics, which must be considered before and during the formal negotiation process. The following chart provides a better understanding to the cultural background faced during the implementation of the negotiation and different strategies for the US and China.

\textbf{Figure 4.1}

\textbf{Negotiating Characteristics of the United States and China}

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>AMERICAN</th>
<th>CHINESE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultural Values</td>
<td>• Competition</td>
<td>• Cooperation</td>
</tr>
<tr>
<td></td>
<td>• Individual decision-making power</td>
<td>• Group decision-making power</td>
</tr>
<tr>
<td></td>
<td>• Horizontal business and government relations</td>
<td>• Vertical business and government relations</td>
</tr>
<tr>
<td></td>
<td>• Independence</td>
<td>• Interdependence</td>
</tr>
</tbody>
</table>

\textsuperscript{49} Chen, opcit, No.46, pp.147-159.
<table>
<thead>
<tr>
<th>Negotiation Skill</th>
<th>Opening Stage/ Pre-negotiation Stage</th>
<th>Resolution Stage/Negotiation process</th>
<th>Final Stage / Re-negotiation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Define preferred outcome</td>
<td>• Set guiding principles</td>
<td>• Change levels of the negotiator if necessary</td>
</tr>
<tr>
<td></td>
<td>• Prefer start formal negotiation directly</td>
<td>• Prefer exchange views before formal negotiation</td>
<td>• Change the negotiation location</td>
</tr>
<tr>
<td></td>
<td>• Be clear about the commercial objectives</td>
<td>• Be clear about commercial objectives and concern power and prestige</td>
<td>• Avoid non-negotiating item</td>
</tr>
</tbody>
</table>

|                   | • Start with a reasonable position and a clear-cut stand | • Haggling tradition and bureaucratic delay | • Raise a closed issue already agreed |
|                   | • Available information | • Step-by-step trade-offs | • Careless of coercion and censure |
|                   | • Take control and guide the process | • Anti-foreign attitudes | • Standing on fixed position and have very little room for maneuver |
|                   | • Hold the bottom line till the last minute | • Limited and hidden information | • Rarely change negotiator |
|                   | • Use time line to press on counterpart | • Pushing to find the bottom line | • Change negotiation location |
|                   | • No go-betweens | • Lack of time pressure | • Focus on non-negotiating items |
|                   | • Use coercion | • Used to making use of go-betweens | • Avoid non-negotiating item |
|                   | • Have decision-making power and some room for possible maneuver | • Careless of coercion and censure | • Do not like re-opening closed issues |

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Negotiations is a special communication task that takes place in order to reach agreement about how to handle both common and conflicting interests between two and more parties. As culture plays an important role in framing the priorities of the negotiator, negotiating skills are not value free and expectations for outcome differ at the negotiating table\textsuperscript{51}. Therefore, Sino-u.s. trade and business negotiations, which involve parties from two widely dissimilar cultures, are far from simplistic. Cultural differences account for some of the difficulties.

4.4.1.5 Media Strategy

Media can be a powerful tool to reach a broad audience.

**US Media Strategy**

The US media strategy provides a plan for using the media to:

- Building public consensus to push the US government to address the US-China deficit issue in a constructive way
- Organising a constructive debate about the US strategy on key US-China trade relation issues, such as the annual MFN renewal, and WTO accession
- International trade experts have been used at domestic press conferences, and newspapers to explain the reason and the benefits of the China trade strategy
- Advertising is used to highlight the need for a constructive China trade policy and to educate public and private sectors
- Newspaper editorials are analysing the importance of normal US-China trade relations
- Audiovisual programmes has been provided by different media channels to educate the public of the benefits of free trade and normal US-China trade relations

\textsuperscript{51} Yangsun Paik and Rosalie L Tung, opcit.no.33, p. 106.
**Chinese Media strategy:**

It has also become equally important for the Chinese government to implement a domestic and international media strategy that promotes China’s market economy and further reform. The government is using the domestic media to educate the public about the benefits of a more open market as well as the necessity of further domestic economic and administrative reform, and using international media strategy to convince the world about China's achievements in building a market economy and further steps towards a more open market.

4.4.1.6 Legislative Strategy

The United States legislative strategy has been designed to build Congressional support for bilateral trade and investment relations with China and properly resolving various trade and non-trade issues. For this purpose, different trade and business council working for the benefit of the bilateral trade and business relations is testifying before the House Subcommittee on Trade of the House Ways and Means Committee. The goals of the U.S. legislative strategy include:

- Educating the government, Congress and the public of the importance of normal trade relations with China
- Support for continued normal trade relations with China
- Minimize negative influences towards China trade policy
- Support extending annual and permanent Normal Trade Relations
- Support China’s WTO accession

4.4.2 Economic Sanctions as an important diplomatic technique of the United States

Economic sanctions as an important diplomatic technique has characterised the Sino-U.S. bilateral trade and investment relations over these years. The United
States in its policy of politicising the economic issues have used the economic sanctions as an important technique. U.S. policymakers have employed or have threatened to employ unilateral economic sanctions to push Beijing toward better human rights observance, to force changes in such Chinese trade practices as intellectual piracy, and to curb sales of nuclear and weapons technology. Although it is true that human rights must be an abiding concern and that a state that respects the freedoms of its own people is more likely to live at peace with its neighbors, it must be admitted that sanctions—however well they may have worked on specific trade issues—have not changed China’s human rights behavior. In general, sanctions have been unsuccessful in two out of every three cases in which a "sender" country used economic sanctions against a "target" country to achieve non-economic foreign policy objectives.\(^{52}\)

U.S. policymakers employ economic sanctions not only to redress trade and investment disputes, but also to achieve non-economic policy objectives.\(^{53}\) This has been especially true with respect to the PRC. Currently, the United States imposes the following economic sanctions on China:

- **Restrictions on export licenses.** The United States may deny export licenses for products that would make a direct and significant contribution to nuclear weapons and their delivery systems, electronic and submarine warfare, intelligence gathering, power projection, and air superiority (November 23, 1983).


\(^{53}\) Economic sanctions refer to all restrictions placed by the sender country on trade with and investment in a target country that are designed to force the government of the target country to change its non-economic policies. For purposes of this section, restrictions designed to settle an international trade or investment dispute are not considered economic sanctions.
• **Withholding of generalised system of preference status.** Section 502(b)(1) of the Trade Act of 1974 prevents the President from designating any developing country "dominated or controlled by international communism" as a beneficiary of tariff reductions under this program (January 1, 1976).

• **Suspension of nuclear trade and cooperation.** Section 902 of the Foreign Relations Authorisation Act for Fiscal Years 1990 and 1991 codified the suspension of nuclear trade and cooperation with China. This sanction may be lifted if the President determines that China is making political reforms in Tibet (February 16, 1990).

• **Suspension of arms trade and military exchanges.** President Bush suspended government-to-government and commercial arms sales to China (June 5, 1989).

• **Suspension of support for new multilateral development bank loans except to meet basic human needs.** President Bush directed the U.S. directors at the World Bank and the Asian Development Bank to seek postponement of new multilateral development bank loans to China (June 20, 1989), although the United States subsequently has supported extending many multilateral development bank loans to China because they help to meet basic human needs.

• **Suspension of Overseas Private Investment Corporation (OPIC) and Trade and Development Agency (TDA) activities.** Section 902 of the Foreign Relations Authorisation Act for FY 1990 and 1991 codified suspension of (1) the granting of OPIC insurance, reinsurance, financing, or guarantees to China and (2) the obligating of TDA funds for new projects in China. This sanction may be lifted if the President determines that China is making political reforms in Tibet (February 16, 1990).
- **Prohibition of the export of items on the Munitions Control List, and of U.S. satellites.** Section 902 of the Foreign Relations Authorisation Act for Fiscal Years 1990 and 1991 codified the suspension of exports to China of any defense article on the U.S. Munitions List, as well as any U.S. satellites. This sanction may be lifted if the President determines that China is making political reforms in Tibet (February 16, 1990).

- **Prohibition of export licenses for crime control and detection equipment.** Section 902 of the Foreign Relations Authorisation Act for Fiscal Years 1990 and 1991 codified a prohibition on the granting of export licenses for the sale of crime control and detection equipment to China. This sanction may be lifted if the President determines that China is making political reforms in Tibet (February 16, 1990).

- **Prohibition of certain imports produced by prison labour.** The Customs Bureau has enforced Section 307 of the Tariff Act of 1930, which forbids imports made by forced or prison labour (diesel engines manufactured by the Golden Horse Diesel Engine Factory, March 23, 1992; tea grown by the Red Star Tea Farm, July 13, 1992; sheepskin and leather processed by the Qinghai Hide and Garment Factory, July 13, 1992; iron pipe fittings manufactured by the Tianjin Malleable Iron Factory, April 29, 1996).

- **Prohibition of the importation of Chinese munitions and ammunition.** In conjunction with the 1994 annual renewal of China's MFN status, President Clinton prohibited the importing of arms and ammunition from the PRC (May 28, 1994).\(^5\)

Historically, the value of sanctions in forcing policy changes on another government is at best dubious. In South Africa, economic sanctions were in place
for three decades before any substantive political change occurred. Even then, change occurred because private banks and industrial corporations went well beyond government-imposed sanctions on new loans and decided to call existing loans and liquidate existing investments.[55]

Imposing sanctions unilaterally, without general cooperation from the international community, tends to isolate the country imposing the sanctions more than the target country. A comprehensive study of all economic sanctions imposed for non-economic purposes between 1914 and 1990[56] found that economic sanctions failed to achieve their stated objectives in 66 percent of the 116 cases studied. In the remaining cases in which sanctions could be classified as at least partially effective, a number of special circumstances were present. In successful or partially successful cases, the sender country was seeking a minor policy change in the target country rather than a major policy reversal such as military withdrawal, change in the head of government, or democratisation. The sender country had a historic relationship with the target country like that of a mother country to a colony. The sender country's economy was strong and did not depend on trade and investment with the target country, while the target country's economy was very weak and highly dependent on trade and investment with the sender country. Even when all these conditions were present, the sender country seldom achieved an all-out victory.

It is seen that unilaterally imposing economic sanctions on the China has not necessarily achieved the objectives sought by U.S. policymakers. China is not

[55] Robert Quinn, op.cit.no.26, p.14
[56] Hufbauer, Schott, and Elliott, opcit, no.33.
small, economically weak, or historically dependent upon the United States; it is a large, independent country with a vibrant economy. It therefore would be unrealistic for U.S. policymakers to expect that unilateral economic sanctions alone would persuade Beijing to democratize or observe human rights. At the same time, however, if they were imposed in conjunction with other countries, economic sanctions might persuade Beijing to temper its exports of missiles and nuclear technology to rogue states.

The U.S.-China trade and investment relations are too important to be left to the unpredictable fluctuations of case-by-case confrontations over various trade and non-trade issues such as trade imbalance, market access, human rights, nuclear nonproliferation, intellectual property rights, normal trading relations status and similar high-profile issues. The common interests between China and United States are far more numerous than their differences. Broadening commercial relations will unquestionably benefit the common interests of both countries. But all sorts of negotiating roadblocks have worked against successful agreements. Some are these differences in priorities; others are in cultural orientation. The above study also shows that while differences abound between the United States and China in their approach toward each stage of the negotiation process, it is possible to surmount them through better understanding of each other's perspectives. What is needed is a more coherent long-term diplomatic framework by both the countries to converge the common interests with their national interest and progress co-operatively for the overall growth of their bilateral relationship.