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United States, China, Taiwan: A Precarious Triangle

Murray Weidenbaum

A Keynote Address to the Conference
on the Greater China Economy
St. Louis, Missouri
March 25, 2000

Whether Napoleon really said it or not, the forecast often attributed to him is likely to be essentially correct: "China is a sleeping giant. When it wakes, it will move the world." China's 1.2 billion people combined with its record-breaking 20 years of rapid growth make it likely that the Middle Kingdom will become the second economic superpower sometime during the twenty-first century.

Nevertheless, an old Mandarin proverb states, "If you think you understand China, you don't really understand." That warning also sums up the challenges that face Americans in dealing with that fascinating national array of strengths and weaknesses. When viewed separately, each of the many aspects of policy involving China is difficult—economic, political, military, and environmental. However, when we consider the many interrelationships and then add the third part of the triangle—Taiwan—the policy challenges become increasingly complicated. Let us try to deal with this vital cluster of issues a step at a time.

Murray Weidenbaum is chairman of the Center for the Study of American Business and Mallinckrodt Distinguished University Professor at Washington University in St. Louis. His book, Business and Government in the Global Marketplace, is in its sixth edition.

Economic Relations

Let us begin with the economic relationships. Any way that we look at it, China is becoming an important economic power once again. Using a form of comparing national economies known as purchasing power parity, the Chinese economy is now more than half as large as that of the United States and larger than Japan's. More conventional measures show China in seventh place, but coming up rapidly.¹

China is now the ninth largest trading nation in the world. It is a major trading partner of the United States. More than \$70 billion of commerce flows each year between our two nations. But the term "partner," which President Clinton introduced into the public dialogue, is a misleading euphemism for a very uneven set of commercial flows. The United States imports from China more than five times the dollar amount of our exports to them. This relationship is far more out of balance than our trade with Japan.² Yet, unlike the case of Japan, most of the opposition to continuing normal trading relationships with China does not arise from those who believe they are hurt by the large excess of imports. Rather, it emanates from groups concerned primarily with non-economic factors, notably the harsh treatment of religious minorities, political dissidents, and Tibetans.

Aside from low-priced clothing, toys, and electronic parts, trade with China is not a significant portion of the American economy. However, the United States is the destination of almost one-third of China's exports. Our commerce is a key way in which that nation acquires technology. Our trade also generates a substantial part of China's large accumulation of foreign currencies. China maintained a rapid rate of

economic growth while financial problems were besetting East Asia in 1997 and 1998. However, serious signs of weakness are visible, notably sluggish exports, stagnant industrial production, and inefficient state industries.

Nevertheless, mainland China and Taiwan have been the two bright spots in an otherwise troubled East Asian economic scene. Despite the political difficulties, which I will cover in a moment, the economic relationships across the Taiwan straits have remained strong and substantial.

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It is one of the great ironies of our time that so many of the people who fled the mainland in 1949—or their descendents—have been returning to their ancestral home in a very special way. From Taiwan as well as elsewhere in the Chinese diaspora, they have brought with them much of the money and managerial skills that have been so essential to the economic success of China, especially in moving toward a modern capitalistic economy. Other indicators of the special nature of the cross-straits interrelationships are also impressive—the large numbers of tourists from Taiwan who visit the mainland, the rising number of telephone calls across the straits, as well as the numerous cultural and intellectual exchanges.³

Viewed from this side of the Pacific, the two sectors of Greater China seem extremely complementary, especially in an economic sense. The mainland possesses the land, the workforce, and increasingly a major market while Taiwan provides the entrepreneurial and business skills enhanced by very substantial financial flows (over \$40 billion to date). According to Li-Lu, a Tiananmen Square student leader now in the United States, "...business is the ultimate force for democratic change in China."⁴ Apparently, this is a compelling truth whose power frightens much of the traditional communist leadership in China. Two-way trade between Taiwan and the mainland is now running at about \$25 billion a year.

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In contrast, the complementarities between the American and the Chinese economies, although considerable, are not nearly so great. Of course, some Americans barely restrain their enthusiasm when they consider a market potential in excess of 1 billion customers. An example of this line of thinking was the late Ron Brown. When Secretary of Commerce, he declared, "China ... is the pot at the end of the rainbow."⁵ My own research leads me to a far more restrained conclusion. It is the rare U.S. company doing business in China that reports earning profits on its operations in that nation. Rather, they like to talk about their rosy forecasts of future sales.

A recent survey of 96 multinationals operating in China reported that 62 percent had overestimated the market potential and an almost equal number (61 percent) had experienced poorer profit performance than they had expected.⁶ Those percentages do leave room for some outstanding successes. Procter & Gamble dominates the market for soaps and shampoos. Coca-Cola far outsells Hainan coconut juice, and Ken-de-ji is well-known in the larger cities (that's Kentucky Fried Chicken to Westerners).

In contrast to the open U.S. market, numerous obstacles face American exporters to China, such as onerous licensing procedures. Compulsory registration applies to hundreds of products, typically electrical equipment and machinery. Moreover, U.S. producers of computer software, video tapes, compact discs, books, and motion pictures suffer because their products are frequently copied illegally in China. This intellectual piracy reduces potential U.S. exports to China and to the rest of the world by an estimated \$2 billion a year.⁷ It also is a growing source of economic and political friction. "Piracy," it should be noted, is more of a Western concept than an Asian one.

Political Relations

The political relationships between China and the United States are even more difficult to fathom than the economic. President Clinton described the state of Sino-U.S. ties as "a strategic partnership." Yet very few aspects of a true partnership are present. It is Japan that cooperates with us in a variety of important foreign policy activities, including financing a considerable portion of the Gulf War. The two nations also share a common outlook toward democracy, private enterprise, and personal freedom.

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

The limited amount of individual liberty available in China galls many Americans. Especially upsetting is the persecution of Christian groups and the jailing of political dissidents. It is difficult for the United States to accept the idea of a “partnership” with a nation that engages in such offensive practices.

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

U.S. corporations doing business in China serve to advance our human rights goals. They create safer workplaces, follow more progressive personnel practices, raise living standards, and bring in new ideas, attitudes, and ways of thinking. American companies, such as Mattel, have adopted codes of conduct requiring local subcontractors and suppliers to avoid child labor and other practices inconsistent with U.S. standards.⁸ More indirectly, commercial products and advertising carry a powerful implicit message of personal choice.

Substantial portions of China’s population recognize such American brand names as Coca-Cola, Jeep, Head and Shoulders, Marlboro, Mickey Mouse, and Kodak. Young women often wear miniskirts

and use Western-style makeup.

The role of Taiwan adds significant complication to the Sino-U.S. political relationship. Officially, the United States recognizes the People’s Republic and only maintains informal relations with Taipei. Our repeatedly stated national policy favors the voluntary unification of Taiwan into China, but also provides military support to the island in the event of force or the threat of force on the part of the PRC. To put it mildly, this is an unusual set of attitudes and commitments. Until recently, the U.S. position seemed to be reasonably workable and was consistent with the expansion of economic and cultural ties across the Taiwan straits.

U.S. corporations doing business in China serve to advance our human rights goals. They create safer workplaces, follow more progressive personnel practices, raise living standards, and bring in new ideas, attitudes, and ways of thinking.

The situation became murkier when important groups in Taiwan began to talk about independence and its governmental leader described relations between China and Taiwan as “state-to-state.” The concern is raised a notch when the PRC states that it is “under no obligation to commit itself to rule out the use of force” in securing the reunification of Taiwan and the mainland.⁹ The frank discussions I have had in both China and Taipei convince me that this is an extremely difficult and sen-

sitive situation calling for a maximum of restraint and patience on both sides. Surely, the continuing U.S. policy of engagement with China has also established an environment in which Taiwan has flourished.¹⁰

When I have had background discussions with Taipei leaders, I hear about their great success in achieving personal liberty and economic expansion for the island's citizens and the strong desire to keep those hard-won gains. My informal talks with mainland officials deal with other considerations, such as national pride and strategic matters. The two sets of representatives seem to be on different wavelengths. A meeting with the leaders of one large China city was especially memorable. Perhaps a bit naively, I stated with some enthusiasm that our national policy was to favor the attainment of a unified China—on a voluntary basis.

The leader of the Chinese delegation promptly responded, "Tell me, when the South seceded from the Union, did you use force?" My answer frankly did not satisfy the Chinese officials, "Yes, but they fired first." In the high-tech twenty-first century that we have entered, it is possible to conjure up a new-style attack. For example, the PRC could use its large foreign exchange holdings to shake the Taiwan currency and stock markets in order to destabilize the island's political economy.¹¹

Military Relations

The military area generates great uncertainty for American policymakers. China is in the midst of a major effort to upgrade its military capability. The acquisition from Russia of destroyers with supersonic missiles is a cogent example. Is China motivated by the desire for regional hegemony? Its imperious treatment of other nations

in some of the islands in the South China Sea is a source of considerable concern. The 1996 episode of China's missile testing in the Taiwan straits surely raised tensions in the region—as well as generating a strong and rapid American response.

China presents little direct military threat to the United States, although it could be a substantial destabilizing force in East Asia.

On the other hand, the current weapon procurement effort may be interpreted as defensive in nature. China's military capability is rudimentary compared to the United States. Its troops are poorly equipped by our standards, and their weapons, in the main, are considered to be obsolete. The Gulf War demonstrated that such large stockpiles of outdated equipment are of little use against a more advanced opponent. Moreover, China currently lacks the ability to project its power over water in any substantial way. It possesses a total of about 60 surface ships and fewer than 10 modern submarines.¹² Thus, China presents little direct military threat to the United States, although it could be a substantial destabilizing force in East Asia.

A less benign interpretation is also possible. China is procuring more sophisticated aircraft, ships, and missiles from the cash-strapped countries of the former Soviet Union. Over the past decade, it has acquired several hundred SU-27 and SU-30 fighter jets and Soveremenny-class destroy-

ers with Sunburn missiles.¹³ Ranked by explosive power, China's nuclear arsenal is reported to be the world's third largest, trailing only the United States and Russia. Chinese strategists may be working toward the day when their nuclear and missile forces can deter great power intervention in the Asia/Pacific theater and their conventional forces can cow regional rivals. Such a combination would allow, indeed define, local hegemony.

At present, there seems to be little potential for extensive military action outside of an unintentional blunder into armed conflict. Taiwan quickly comes to mind in this connection, especially given the prospect of a competitive presidential election campaign. China already focuses more of its military resources on Taiwan than on any other single area. In democracies, elections can be the occasion for a barrage of wild charges and promises, which could further exacerbate tensions across the Taiwan straits. On the other hand, China's desire for a strong military establishment may be understandable when viewed in the light of its long history of defeat and exploitation by foreign aggressors. Yet, over the centuries it has played that role itself in Southeast Asia. China's rising military capability does enable it to apply pressure on the rest of the region, thus perhaps affecting the military balance between China and its neighbors.¹⁴

Environmental Issues

Environmental issues are a relatively new aspect of international relations, and one in which American and Chinese interests could readily collide.¹⁵ The December 1997 meeting in Kyoto on global climate change yielded a proposed treaty that would commit the United States and other

developed nations to major reductions in emissions of carbon dioxide (CO₂), which are generated primarily by using fossil fuels. The treaty, which requires Senate approval, would effectively exempt China and other developing countries from its tough restrictions. That basic difference in national treatment generates serious political difficulties in the United States. The Senate has pledged to defeat any climate change treaty that does not include the developing nations. Reconciling the Senate position with the Kyoto agreement will focus heavily on the role of China, a prime emitter of CO₂.

Even though air pollution is a visibly serious problem (coal generates 75 percent of its energy), China considers use of scarce resources for ecological purposes as a rich country's luxury.

Poor countries like China believe that they cannot afford to sacrifice current income to avoid the uncertain costs of environmental damage 50 or 100 years from now. Even though air pollution is a visibly serious problem (coal generates 75 percent of its energy), China considers use of scarce resources for ecological purposes as a rich country's luxury. Thus, trying to convince that nation to limit its energy consumption while the major Western countries use 5 to 10 times as much per person will probably prove futile—unless wealthier countries such as the United States pay the global costs of reducing fossil fuel usage.

Nevertheless, air pollution is a growing

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

Reconciling Divergent Interests

When asked the meaning of the French Revolution, Zhou Enlai was supposed to have replied, "It is too soon to tell."¹⁶ In this vein, it is with some reluctance that I will try to pull together the various strands of Sino-U.S. connections. Policymakers in both the United States and China face fundamental challenges in attempting to deal simultaneously with a host of contentious economic, political, social, religious, military, and environmental issues.¹⁷ Not all of these serious matters can be solved soon. It would be sensible to focus on the highest priorities.

A useful starting point is to note that China's isolation is ending. Today it is more open to the influences of Western culture and business practices than ever before. Its senior officials say they want their country to be a full participant in the world economy. They acknowledge that this requires China to move to a market economy and to modernize its society. Yet China is not now a member of key international organizations, formal and informal, such as the WTO and the annual economic summits.

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

Not all American interests will benefit from China's entry into the WTO. Some investors will lose the preferential treatment now accorded to foreigners. China's pledges to open its markets to foreign distribution channels are less than firm guarantees. On the other hand, China's membership in WTO may open the way to Taiwan's membership as a separate customs territory.¹⁸

In the broadest sense, China and the United States are complementary in terms of their basic economic needs and resources.

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

China's huge development and infrastructure needs can provide enormous

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

However, China's distance from the West is greater than a glance at the globe suggests. Surely, the bombing of the Chinese offices in Belgrade, although presumably unintentional on our part, was at least a temporary setback in Sino-U.S. relations and we should be candid in acknowledging the consequences. Above and beyond such current events, central differences exist in historical experience, cultural orientation, and political and social institutions. To state the matter candidly, the rule of law as westerners view the notion is still essentially a foreign concept in China, a special import that it seems to welcome with minimum enthusiasm. Viewed in this light, let us see how we can deal with the main issues that will either separate our two powerful nations or bring them closer.

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

Instead, we should simply but clearly note that, in terms of our vital interests, the expansion of China's armed strength provides a compelling justification for the maintenance of a substantial U.S. military presence in East Asia. The United States maintains security alliances with Japan,

South Korea, the Philippines, Thailand, and Australia. Yet a China that is secure from foreign threat and can protect its legitimate sovereignty is desirable for both Asian and American vital interests. On the other hand, coercive pressure by China against its neighbors in the South China Sea or against Taiwan only serves to escalate tensions in East Asia. Alleviation of tensions requires restraint on the part of many parties. One expert in international law, for example, has urged Taiwan to "look like a state, act like a state...but not formally declare its independence."¹⁹

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

In the area of economic policy, the United States remains the main bulwark

of free flows of commerce and capital across the globe. Nevertheless, because we are a democracy, we respond to the concerns of our citizens as expressed in the political process. Thus, when Chinese officials dismiss these concerns as "just domestic politics," they demonstrate that they do not yet understand how a democracy works.

In developing closer relations with China, tradeoffs are inevitable. ... Our government must balance concern for human rights against other important interests which also have significant moral aspects—such as peace, national security, and prosperity of our citizens.

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

Nevertheless, it is counterproductive for us to try to tell China what to do under those circumstances. It is most appropriate for the United States to clearly explain our position, motivation, and actions. We can sincerely hope that China continues to open up its economy—including the general use of the internet—and to achieve

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

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

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

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

Notes

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