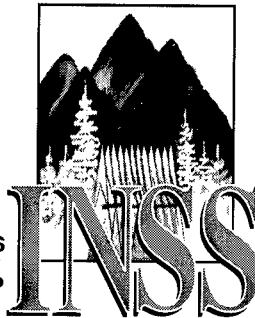

INSS OCCASIONAL PAPER 5

**Economic Power in the Sino-U.S.
Relationship**

Kevin F. Donovan
December 1995

INSTITUTE FOR NATIONAL SECURITY STUDIES
U.S. Air Force Academy, Colorado



DISTRIBUTION STATEMENT A
Approved for Public Release
Distribution Unlimited

**ECONOMIC POWER IN THE
SINO-U.S. RELATIONSHIP**

Kevin F. Donovan

INSS Occasional Paper 5

Regional Series

December 1995

USAF Institute for National Security Studies
US Air Force Academy, Colorado

19990708 006

The views expressed in this report are those of the author and do not necessarily reflect the official policy or position of the Department of the Air Force, the Department of Defense, or the US Government. This report is approved for public release by SAF/PAS; distribution is unlimited.

ABOUT THE AUTHOR: Lt Col Kevin F. Donovan is a graduate from the US Air Force Academy, and holds Masters degrees in National Security and Strategic Studies, International Relations, Logistics Management, and Business Management. He is currently a PhD Candidate in International Relations at Queen's University, Kingston, Ontario. Col Donovan has had two works published recently--"Going Ballistic" in Forum, Summer 1993, and "The United States Response to European Nationalism", a chapter in NATO's Eastern Dilemmas, Center for International Relations, Queen's University, (Boulder, CO: Westview Press, 1994). He is a winner of the B. Franklin Reinauer II Defense Economic Prize, Naval War College, 1989, for his essay entitled "Post-Cold War Strategy: From Containment to Sustainment." Lt Col Donovan has been a professor on the National Security and Decision Making Staff of the Naval War College, and is currently a student at the Air War College, Maxwell AFB, AL.

This paper is the result of research sponsored by the USAF Institute for National Security Studies during the summer and fall of 1994.

Comments pertaining to this report are invited and should be forwarded to: Director, Institute for National Security Studies, HQ USAFA/DFE, 2354 Fairchild Drive, Suite 5D33, US Air Force Academy, CO, 80840, (719) 472-2717, DSN 259-2717.

TABLE OF CONTENTS

Foreword	vii
Executive Summary	ix
Introduction	1
The Nature of Power in the Post-Cold War Era	3
The Economic Dimensions of Power	4
Economics and Interdependence	10
Economic Dependence	13
Trade and Interdependence	15
US-China Case Studies	17
Post-Cold War National Interests: United States	17
Post Cold War National Interests: PRC	18
Case I: The Most-Favored Nation (MFN) Decision	23
<i>Background</i>	23
<i>Economic Brinkmanship</i>	28
<i>Lessons Learned</i>	31
Case II: Proliferation	36
<i>Chinese Proliferation of Ballistic Missiles</i>	36
<i>Chinese Proliferation of Nuclear Technology</i>	38
<i>Analysis: The US Response</i>	41
Case III: North Korea	49
<i>The Level of Chinese Support for Pyongyang</i>	52
Conclusion	55
Endnotes	59

FOREWORD

We are pleased to publish this fifth volume in the *Occasional Paper* series of the US Air Force Institute for National Security Studies (INSS). This monograph represents the results of research conducted during the summer and fall of 1994 under the sponsorship of a grant from INSS.

INSS is co-sponsored by the National Security Negotiations Division, Plans and Operations Directorate, Headquarters US Air Force (USAF/XOXI) and the Dean of the Faculty, US Air Force Academy. The primary purpose of the Institute is to promote research done within the DOD community in the fields of arms control, national security, regional studies, the revolution in military affairs, information warfare, and environmental security. INSS coordinates and focuses outside thinking in various disciplines and across services to develop new ideas for USAF policy making. The Institute develops topics, selects researchers from within the military academic community, and administers sponsored research. We also host conferences and workshops which facilitate the dissemination of information to a wide range of private and government organizations. INSS is in its fourth year of providing valuable, cost-effective research to meet the needs of the Air Staff and our other sponsors.

In this paper Lt Col Kevin Donovan makes a solid academic case for the importance of economic issues in a state's perception of its national security. "Economism," he argues, has to a large extent supplanted military concerns in the increasingly interdependent post-Cold War world. His focus is on the

relationship between the United States and Asia's emerging regional power, the People's Republic of China. His case studies explore the possibility that, where both countries in a bilateral relationship consider economic strength as their most important national interest, power through asymmetrical economic interdependence shapes outcomes not only within the economic arena but in other issue areas as well. Specifically, this study examines the use of economic power to affect outcomes in US-China trade negotiations (including the 1994 most-favored nation debate), and security concerns (such as Chinese weapons proliferation and North Korea's nuclear program).

It is fitting that we publish this piece during a year in which all the US military war colleges have agreed to stress studies of China and the Pacific Rim in their research programs.

We appreciate your interest in INSS and its research products. We hope we are meeting a need for this type of analysis and reflection, and we look forward to publishing these papers on a regular basis.



JEFFREY A. LARSEN, Lt Colonel, USAF
Director, Institute for National Security Studies

EXECUTIVE SUMMARY

This paper explores the shift in the nature of power in the post-Cold War international system, arguing that military strength has become inconsequential in the pursuit of our, or any industrialized nation's, most vital interests. Alternatively, states would do well to focus on the possibilities for exploitation of power through economic strength and economic interdependence. This research reviews the theoretical approaches to power and interdependence and applies these concepts to the bilateral relationship between the United States and the People's Republic of China. This case study is used to suggest that: 1) the post-Cold War national interests of these two disparate countries typify the international shift to economics-based power, and 2) under carefully qualified circumstances, power can arise from asymmetries in economic interdependence--directly in issues related to trade, and indirectly with regard to security areas.

Until 1990 the debate over national interests in China and the United States was shaped, and more often consumed, by the ideological confrontation of the Cold War. Realism, bi-polarity, and zero-sum games dominated regional politics, national budgets, and bilateral relationships. In the US, many charge that domestic economic health was sacrificed for the sake of "containment", even to the extent of financing the smothering of initiative and ascendance by our European allies in foreign affairs.

The fall of communism has swept away the organizing principle of containment as the preeminent driver of US national interest. Although "engagement" has failed to capture the strategic imagination of its predecessor, President Clinton undoubtedly sees

his election as rooted in national economic rejuvenation, not grand security strategies. The political capital expended on NAFTA approval, the determination to achieve a GATT agreement, and the willingness to endure the political risks of lifting the trade embargo on Vietnam provides evidence that the US President perceives a strong link between domestic economic recovery and international economic trade.

Evidence that the same kind of assessment has been made in China is abundant. "Socialism with Chinese characteristics" is the Party's new euphemism for Chinese capitalism. Clear signals exist that demonstrate the Chinese leadership's dedication to economic growth as the nation's number one priority. New career paths have emerged for clever revisionists who can accommodate Maoist Marxism to Western capitalism.

Economic Power in the Sino-US Relationship

Introduction

Until 1990, the debate over national interests in China and the United States was at least shaped, and more often consumed, by the ideological confrontation of the Cold War. Realism, bipolarity, and zero-sum games dominated regional politics, national budgets, and bilateral relationships. In the US, many charged that domestic economic health was sacrificed for the sake of "containment", even to the extent of financing the "smothering" of initiative and ascendance by our European allies in foreign affairs.¹

The fall of communism has swept away the organizing principle of containment as the preeminent driver of US national interest. Although "engagement" has failed to capture the strategic imagination of its "containment" predecessor, President Clinton saw his 1992 election as rooted in national economic rejuvenation, not grand security strategies. The political capital expended on NAFTA approval, the determination to achieve a GATT agreement, and the willingness to endure the political risks of lifting the trade embargo on Vietnam provides evidence that the US President perceives a strong link between domestic economic recovery and international economic trade.

Evidence that the same kind of assessment has been made in China is abundant. "Socialism with Chinese characteristics" is the Party's new euphemism for Chinese capitalism. Clear signals exist that demonstrate the Chinese leadership's dedication to

economic growth as the nation's number one priority. New career paths have emerged for clever revisionists who can accommodate Maoist Marxism to Western capitalism.

In both countries, new government structures and initiatives have arisen that demonstrate the importance placed by the state on economic issues. For example, the Clinton Administration has established the National Economic Council as a counterpart to the National Security Council and appointed an Assistant Secretary of Defense for Economic Security. These structures represent a fundamentally new approach to the conduct of international economic affairs in an attempt to establish mechanisms for more unified policy coordination.

This paper will explore the shift in the nature of power in the post-Cold War international system, arguing that military strength has become inconsequential in the pursuit of our, or any industrialized nation's, most vital interests. Alternatively, states would do well to focus on the possibilities for exploitation of power through economic strength and economic interdependence. This research reviews the theoretical approaches to power and interdependence and applies these concepts to the bilateral relationship between the United States and the People's Republic of China. This case study suggests that: 1) the post-Cold War national interests of these two disparate countries typify the international shift to economics-based power, and 2) under carefully qualified circumstances, power can arise from asymmetries in economic interdependence--directly in issues related to trade, and indirectly with regard to security areas.

The Nature of Power in the Post-Cold War Era

National security during the Cold War was conceived almost entirely in terms of military capabilities and preparedness. At the height of the Cold War, the U.S. was dedicating 6.5% of its GNP to defense and military spending.² Power was understood in terms of the "high politics" of military might versus the "low politics" of economic affairs and other non-military issues. Despite an anemic national economy, the USSR was perceived as a superpower whose military strength, client states, and seemingly expansionist foreign policy demanded an appropriate Western military response.

The collapse of the Soviet Empire has produced a sea change in international relations. The dramatic changes in Eastern Europe from 1989-91 have moved competition *among great powers* away from the military sphere and into the economic arena. The 1991 Gulf War hardly dispels this notion in that all the major industrialized powers (with newfound tacit support from the Commonwealth of Independent States) cooperated in reversing the designs of a Third World dictator whose attempt to dominate Mideast oil supplies threatened their economic well-being. Nations now rush to downsize their military sector in order to free up money to position themselves more favorably in the pursuit of domestic and international goals. While military strength will continue to dominate outcomes in relationships regarding rogue states with underdeveloped economies (Iraq, Iran, North Korea), the use of military instruments for resolving disputes among industrialized countries has been all but banished in contemporary international politics.

The Economic Dimensions of Power

Increasingly, national power is conceived in terms of market share of the global economies, trade balances, debt postures, and technological prowess. Robert Keohane and Joseph Nye developed an alternative model to aide international relations theory's dominant paradigm, realism. Their alternative model, "complex interdependence", contains three features.

First, in an increasingly interdependent world, it is possible to conceive of an environment where physical security is not *the* overriding concern of the system's major actors. While survival remains the fundamental requirement for any state, for most major industrialized countries, the "perceived margin of safety has widened: fears of attack in general have declined and fears of attacks *by one another* are virtually nonexistent."³ Military force is thus relegated to a less dominant position with respect to power resources among industrialized states.

Secondly, multiple channels of communication exist, including not only formal state-to-state contacts, but transnational and transgovernmental actors as well. States remain important actors, but analysis that focuses exclusively on state interactions will miss important quantitative and qualitative activities affecting the international community. An example often mentioned in this regard is the relative autonomy of the international financial system.

Finally, where security concerns are not paramount, the hierarchy of issues breaks down. The interconnectedness of international society, emphasized by scholars writing from the "global village" perspective, creates a myriad of issues that demand

the attention of the world's leaders. The four P's--population, proliferation, pollution, and poverty--must all be simultaneously addressed if human existence on this planet is to be maintained, let alone improved.

Writing in 1989, Keohane and Nye were careful to point out that their "complex interdependence" model represented an ideal type, not their interpretation of their contemporary environment.⁴ Still, if realism and complex interdependence represent opposite ends of a theoretical spectrum, the events of 1990-91 have certainly, if perhaps temporarily, moved the pointer much closer to the complex interdependence end. The fall of communism and the incremental integration of former Warsaw Pact members into the Western Alliance have further demoted the importance of the military instrument among industrialized nations. Those who would point to the Gulf War as evidence of the specious nature of this argument miss the key point that such action against Third World aggressors hardly qualifies as a system-threatening conflict among industrialized countries. On the contrary, the remarkable coalition built and maintained under U.S. leadership demonstrates the solidarity and commitment of the industrialized world to the preservation of the international order.

Multiple channels of interaction continue to proliferate. Transition to market economies in the former Soviet bloc have generated large outpours of venture capital to those countries as well as to the transformational communist regimes in Vietnam and China, adding new economic dimensions to recently established diplomatic relationships. Since the fall of the Berlin Wall, regional trade blocs have sprung up in Central Asia (the Economic Cooperation Organization which now includes the Muslim-

dominated, former Soviet Republics) and North America (North American Free Trade Agreement, NAFTA) to compete with the European Union. The nucleus of a Pacific trade bloc has formed under the auspices of Asia-Pacific Economic Cooperation (APEC). A variety of multinational security arrangements have been proposed or employed, most notably the Partnership for Peace that associates former Warsaw Pact members with NATO. The West has encouraged the expansion of communication channels in order to integrate its Cold War antagonists into the liberal democratic capitalist system.

On the other hand, the assertion that the current post-Cold War environment resembles complex interdependence with regards to the absence of a hierarchy of issues is challengable. While physical security concerns among industrialized nations appear to have diminished, one should not conclude that all issues of importance to the international community are now on equal footing. It will be argued here that a hierarchy of issue structures continues to exist, albeit different than the Cold War version. Economic strength has replaced military prowess as the currency of power. Establishing the validity of this proposition is critical to this study in determining whether power in one aspect of a bilateral relationship is applicable across issue structures. More will be said about this topic later.

Finally, it is important to acknowledge the transitory nature of the current international environment. In Waltz's estimation, the world has witnessed only one systemic change - from the multipolar, pre-WWII era to the bi-polarity of the Cold War.⁵ It may be too soon to suggest that Waltz's tote sheet be updated. The events that furthered the deemphasis of force as a

tool for dispute resolution cannot be considered permanent, as irredentist forces continue their assault on the democratically elected leadership of Russia. Even so, just as recovery from a gunshot wound, instantaneously delivered, becomes agonizingly protracted, a Russian return to the military capabilities of 1989 would require vast sums of money over an extended period of time, a scenario that lacks plausibility given the current state of Russian society.

Just as complex interdependence can be criticized as inappropriate for the 1990's with regards to its dismissal of issue hierarchy, so too is realism's focus on physical security less relevant in contemporary international relations. Francis Fukiyama's notion of the end of history is not totally off the mark -- no "systems changing" events appear on the horizon. With the defeat of communism, and so long as Gramscian hegemony of capitalism continues to be accepted by the most economically powerful states, there is little threat to the current system. While military power may occasionally be necessary for discipline *within* the system (e.g., Iraq, North Korea), no state appears ready to challenge the ideological consensus of capitalism as the basis for world order. This point is reinforced by Rufus Yerxa, Deputy US Trade Representative, who claims simply "Economic relations will define international relations."⁶

Thus, somewhere between realism and complex interdependence lies "economism": competition among nations is as keen as ever, multiple channels exist to express that competition, and economics has replaced military strength at the top of the issue hierarchy. The requirement for states to maintain and concern themselves with relative power is as appropriate as ever, but the

resort to warfare among the industrialized nations to resolve their competition seems inconceivable.

Some would take issue that "economism" is substantially different than realism. Helge Hveem argues that criticisms of the realist school that focus on national security defined strictly in terms of physical security miss the point that economic security has always been an important aspect of a state's foreign policy. He believes the post-Cold War focus on economics can be accounted for within the framework of structural realism: "It is the context and dynamics of international systemic change that determine the relative weight of the two (and possibly other) aspects of security."⁷ Implicit in Hveem's argument is that a change at the international systems level may once again subordinate economic security to physical security. While disputing this contention would seem rash, "economism" seems to distinguish the essence of the *contemporary* international environment from scholars who write in the classical realist tradition of power politics, war, and military strength as the foundation for international competition.

Even so, the notion that powerful *states* can consciously exploit economic power is suspect. It is becoming increasingly apparent that global economic markets drive national governments, not vice versa. With the collapse of a unifying security threat that distracted attention away from other problems and made economic sacrifices more palatable, governments are now held hostage to national economic performance. Yet, increasingly, their ability to control that performance has diminished.⁸ For example, global currency markets trade about a trillion dollars per day. When the world's 17 largest central banks attempted to prop up the US dollar

in June of 1994, they collected about \$5 billion to prop up the price of the dollar. Small wonder they had little effect.

Not only has the revolution in telecommunications and data transmission capabilities shaped this development, a consensus has formed among governments that markets do a better job anyway. Paul Krugman argues that "basically, governments have consented to a regime that allows markets to boss them around because the conventional wisdom, fed by experience, says that to throw up barriers to these market forces is to invite economic stagnation, if not disaster."⁹ As Thomas Friedman suggests, the role of national governments is to act as a broker for attracting their portion of this capital flow--sometimes directly, as in the case of the Boeing/McDonnell Douglas \$6 billion airline deal with Saudi Arabia, or indirectly by following sound fiscal policies and by helping to assure currency stability.¹⁰

Because the global market dominates national governments, politicians worry about accountability and sovereignty. The pace of regulation of the international market is far behind the speed of integration. Where supra-national organizations like GATT and the World Trade Organization are set up to deal with the problem, powerful nations like the United States concern themselves with the impact these organizations will have on their unilateral flexibility.¹¹

Arguably, they have little choice but to participate. In 1920, the US opted out of the League of Nations because of concern over sovereignty and freedom of action. Similarly, the US could have vetoed the completion of the Uruguay Round of GATT talks, but to do so would have undermined its own long-standing

principles of trade liberalization. It would have also denied the US highly beneficial, if less than perfect, outcomes the negotiations produced. Unlike security regimes, the new high politics of the global market and interdependence leave national governments with little discretion over involvement.

Economics and Interdependence

Interdependence as a construct for the examination of international relations has a long pedigree. Platitudes about the "ever shrinking world" of international society can be traced back to the turn of this century, as scholars began to hypothesize about the virtuous effects such interdependencies would bring for the global community. The mobility of people, knowledge, goods, and ideas would create bonds of need and community among the world's disparate nations, heightening cooperation and reducing conflict. In one of the Industrial Age's earliest and least prescient prognostications regarding the impact of international interdependence, an international organization blithely predicted in 1913 that:

The peaceful settlement of international disputes . . . is being furthered by the recognition that is rapidly permeating the minds of the Western peoples that the world is a unit. The wits of diplomats are being sharpened by the discovery that war does not pay. The century . . . [has] produced an economic interweaving and interdependence of the nations that is without parallel in history.¹²

Although some statistics suggest that contemporary "interconnectedness" is nothing new, Robert J. Art¹³ argues that

several factors produce a unique kind of interdependence that raises the stakes that industrialized countries have in one another.

First, international participation in free trade regimes (as typified by GATT) is much more widespread than in the previous century where, despite proclamations of the "era of free trade", tariffs remained relatively high. Second, citing Rosecrance, foreign investment has moved from the liquidity of stock portfolios to direct investment of domestic capital in foreign ventures.¹⁴ In this regard, the investor nation has a much greater stake in the welfare of his foreign partner. Finally, the flow of capital, largely uncontrolled by the state, absolutely dwarfs the amount of trade in goods (by a factor of at least 25, according to Peter Drucker¹⁵).

Obviously, this "interconnectedness" means that countries experience a "structural linkage of fates"¹⁶ wherein policy preferences are shaped and sometimes constrained by the desires of its global partners. Accordingly, states are necessarily sensitive to the policies and preferences of others; indeed, much of the literature defines interdependence in terms of this "sensitivity" dimension.¹⁷ Unfortunately, interdependence as "interconnectedness" is not very useful in understanding international power and influence: "the framework remains unchanged . . . a set of policies remains constant."¹⁸ Measures like sensitivity interdependence and interconnectedness are not unlike scorekeeping at athletic events -- results are tabulated but the game goes on. The analyst is usually more interested in how observed results are changing the game in progress or perhaps how the game will be played in the future.

While most observers believe global interdependence has increased since World War II, other theorists have suggested the opposite. In an influential Cold War formulation, Kenneth Waltz rejected interdependence as an empirical reality at the international systems level. This counterintuitive conclusion is readily understood when properly situated in Waltz's brand of structural realism: in the Cold War bi-polar world, the superpowers' spheres of influence were essentially closed to each other; interactions did not take place, therefore interconnectedness did not exist. Interdependence as "sensitivity" to external economic pressures made little sense when discussing East-West economic interaction. Like many others, Waltz believed interdependence is properly understood as "mutual vulnerability" and "mutual dependence" between parties. Interdependence as "interconnectedness" and "sensitivity" has no impact on the structure of the international system and is therefore of little concern in explaining international political behavior.¹⁹

Like Waltz, many theorists have moved beyond analysis of interdependence as empirical interconnectivity, speculating on the *consequences* of this phenomenon with regards to the *political* effects of costs and benefits associated with close connectivity. These consequences divide many scholars into two camps: those that see interdependence as leading to ever increasing levels of cooperation, and those that forecast conflict as the result of interdependence.²⁰

Economic Dependence.

While the foregoing has discussed interdependence in terms of international interconnectedness, of most importance to the analyst are the circumstances under which politicians can *exploit* interconnectivity to achieve foreign policy ends. An important consideration in this regard is the often implicit assumption that interconnectedness is symmetrical; that is, all states are equally affected by the economic web that binds them together. Clearly, this is not the case.

The idea that economic relationships are asymmetrical with respect to the flow of capital, goods, and services introduces the concept of dependence. David Baldwin²¹, following Raymond Duvall²², argues convincingly that "dependence" in international relations literature has most often referred to the *costs* associated with severing a bilateral relationship and, as such, equates to what Adam Smith, Albert Hirschman, and Kenneth Waltz have termed "vulnerability interdependence." This understanding is in contrast to dependence as covariance of international effects, i.e., the mere "interconnectedness" embodied by sensitivity interdependence. Thus, where the costs of a relationship are unequally distributed, a source of potential power arises.²³

In terms of definitional acuity, where does this leave us? This treatise seeks to determine whether power (control over international outcomes) springs from, or has a basis in, international economic interdependence. To fully frame the problem, the broader conception of interdependence shall be understood and defined here as containing two dimensions: scope and domain.

Scope refers to the number of actors involved within the issue to be examined. "Asymmetrical interdependence", "dependence", and "vulnerability interdependence" refer to *bilateral* relationships. The literature associated with "interconnectedness" and "sensitivity interdependence" generally refers to *multilateral* environments, where relationships are often depicted as cobwebs that binds countries together. Certainly, many other configurations are conceivable, such as *trilateral* relationships.

Domain refers to the issue area under consideration. Interdependencies can occur in international trade relationships, financial markets, security alliances, environmental control regimes, and so on. While interdependencies are intuitively applicable *within* an issue area, no *a priori* assumptions are made about the appropriateness of interdependencies *between* issue areas. Inter-issue area linkage is a specific area of inquiry for this research.

Domain can thus be viewed along two axes -- the vertical aspect of control over outcomes within bilateral, economic issue-areas (e.g., most-favored nation (MFN) and textile negotiations between the US and China), and the horizontal, inter-issue area dimension. The latter suggests that post-Cold War economic power, unlike military power, is much more fungible across issue areas. The resulting asymmetries in economic dependence may produce a power base that can be exploited to shape desired outcomes in non-economic concerns (for example, military, pollution, ocean rights, etc.).

The scope and domain dimensions allow us to differentiate between a diverse collection of interdependency issues such as the bilateral trade negotiations between the US and China (MFN),

multilateral trade issues (GATT, NAFTA), bilateral security arrangements (NORAD), and multilateral environmental issues (Law of the Seas negotiations). Any explanation of a relationship one wishes to characterize as "interdependent" must explicitly describe these two dimensions. How are the payoffs to China and the United States different between the recently signed bilateral textile agreement and GATT? If the relationship between the US and China can be described as interdependent with regards to trade, can that label automatically be applied to the security domain?

The case studies that follow seek to explore the possibility that, where both countries in a bilateral relationship consider economic strength as their most important national interest, power through asymmetrical economic interdependence shapes outcomes not only within the economic arena but in other issue areas as well. Specifically, this study will examine the use of economic power to affect outcomes in US-China trade negotiations (vertical) and security concerns (horizontal).²⁴

Trade and Interdependence

The foundation for this study is the trade relationship between the United States and the People's Republic of China. The issue of Most Favored Nation status for Chinese goods imported into the US has been the centerpiece of not only US-China economic relations but also as an indicator for the direction of all future US-Chinese strategic interactions. The importance of this trade relationship has not been underestimated by either side. As such, the US-China case study provides a classic opportunity to

examine the interdependencies associated with international trade in the Post-Cold War world.

While Keohane and Nye's treatment of power and interdependence has garnered a majority of scholarly attention in recent years, many observers continue to view Albert Hirschman's *National Power and the Structure of Foreign Trade* (1945) as the seminal study of the nature of trade interdependencies.²⁵

Hirschman distinguished two aspects of a policy designed to increase one country's power over another. The supply effect of foreign trade relates to the advantages in war-making potential derived from trade in armaments and strategic resources. Of more concern to us is what Hirschman labeled the influence effect of foreign trade -- the ability of one country to exploit another's dependency on the gains from trade derived by trading with the first. For Hirschman, Country A's power and influence over Country B can be increased through expansion of Country B's gains from trading with Country A.

The June 1994 US decision to continue Most Favored Nation status for the PRC presents a daunting challenge to this theory. The US attempt to "cash-in" on the alleged discrepancy in gains from trade (35% of Chinese exports go to the US vs. 1.9% of the US export market to China) clearly backfired.

While the explanation for the breakdown in Hirschman's theory will be explored intensively below, some preliminary observations are relevant here. Harrison Wagner identified a critical deficiency in Hirschman's analysis: towards what end, in what ways, can a country exploit the power and influence it derives from an asymmetrical trade relationship? In effectively dismissing this question, Hirschman suggests that all things are possible: "We

are here concerned only with the methods and conditions leading to this power, not with its possible uses which may be the reaping of advantages of any kind -- military and political, as well as economic."²⁶ On the contrary, Wagner argues that the ability to exploit an advantage in trade for non-economic ends is extremely contingent, never absolute. As we shall see below, Wagner's dictum is highly relevant to the MFN outcome.

US-China Case Studies

Post-Cold War National Interests: The United States

The Democratic victory in the 1992 Presidential election was widely interpreted as a mandate for a fundamental shift in the focus of the executive branch: from the foreign policy bias of George Bush to the domestic economic rejuvenation promised by Bill Clinton. The new President did not disappoint those expectations. Mr. Clinton's economic agenda was full, and his early accomplishments were impressive: meaningful deficit reduction legislation, major export enhancement programs, aggressive bilateral trade agreements, and important regional and global trade accords. The attention to domestic concerns, which many believe came at the expense of coherent foreign policy, prompted an anonymous commentator to suggest that "Bill Clinton thinks he has been elected Governor of the United States."²⁷

The prevalence of US economic rejuvenation found its way into the Clinton Administration's 1994 National Security Strategy (NSS). The NSS envisioned three components: military forces for defense and power projection, promotion of domestic economic prosperity, and support for democratic movements worldwide.

According to one officer familiar with the development of the 1994 NSS, inclusion of this economic pillar caused consternation for military strategists who have had difficulty adapting economics into more comfortable Cold War definitions of security.²⁸

Economic growth and development as a formal component of US national security is a novel, but theoretically unsurprising, development. As the first post-Cold War president, Mr. Clinton felt that his primary constitutional requirement to "provide for the common defense" needed much less attention than does his concurrent obligation to "promote the general welfare" of the American people. Yet, the NSS went on to suggest that one of the first goals in promoting economic growth is federal deficit reduction.²⁹ Considering that more than half of what has been called the "discretionary" portion of the federal budget is dedicated to defense, one might wonder about the temptation of robbing Peter (military forces) to pay Paul (roads, civilian research, etc.).

The primacy of economics in the Clinton Administration's definition of the national interest has been well established. Less well known is the centrality that economic development holds in the Chinese Communist Party's definition of their own national interests.

Post-Cold War National Interests: The People's Republic of China.

The images of Elvis, Jerry Lee Lewis, Chuck Berry and Mao Tse-tung seem, to say the least, incongruous, as they stare down at the mere mortals from the fresco overlooking the customers at Beijing's Hard Rock Cafe. To the Western analyst,

brought up on Cold War images of millions of dour Chinese communists in colorless, non-descript Mao jackets, Beijing in 1994 required a new appreciation of the changes that drive contemporary international relations. Shopping malls, Mercedes, discos, and five-star hotels now mix with dirty, dimly-lit specialty shops and the struggling street vendors that line Beijing's crowded boulevards. Along Beijing's renowned 'Silk Alley', entrepreneurs in hundreds of closet-sized shops, jammed one against another in the city's Embassy section, hawk their famous Chinese silk apparel to an international clientele in a splash of color and capitalist zeal that rivals anything in the West. Construction is everywhere as new hotels, apartment buildings, and convention centers add new skyscrapers to the city's already impressive skyline. While friendliness abounds, Chinese authorities struggle to manage the social upheaval that necessarily accompanies the economic revolution which is transforming the PRC's urban landscape.

Probably no less significant than Mao Zedong's Long March of the 1930's, the latest revolution in Chinese society can be traced to the Third Plenary Session of the Communist Party's 11th Central Committee which met in 1978. At this historic session, the Chinese Communist leaders abandoned the endless and divisive debate regarding the progress of the "class struggle"³⁰ as the central focus of the Party's efforts. In its place, a strategic decision was made to pursue economic construction as the Party's central task. While the traditional Marxist distinctions between "productive forces" and the "relations of production" were still relevant, the latter was to take back seat to the former as the Party's leadership attempted to revive the backward Chinese economy.

As a result of its latest "opening" in 1979, China now boasts the fastest growing economy in the world.³¹ Its annual growth rate has averaged 9% since the reforms took hold and have reached 12.8% and 13.4% in 1992 and 1993. The World Bank estimates that at present rates, by 2002, Greater China (PRC, Taiwan, Hong Kong) will have a nominal GDP of \$2.5 trillion, which equates to a purchasing power of \$9.8 trillion³², making it the largest in the world, slightly ahead of the US at \$9.7 trillion. The PRC's real GDP per capita has grown at 7.5% annually while exports have increased by 10% per year, both rates nearly triple that of the rest of the world.³³ The annual report of the Pacific Economic Cooperation Council, which has consistently been within half a percentage point of regional economic growth predictions since 1989, estimates that the Chinese economy will grow by 10% in 1994 and 8.2% in 1995 (compared to less than 4% in OECD countries).³⁴

International trade is a key ingredient in the PRC's economic boom. The decade of the 90's has witnessed a steady increase in both the United States' and China's total import and export volume (see Figure 1). In the PRC, trade now accounts for about one third of its gross national product.³⁵

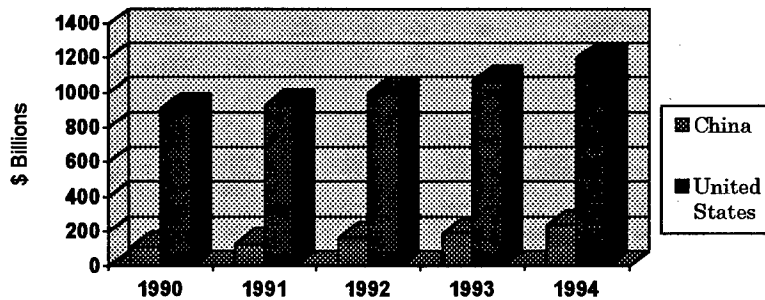


Figure 1. Total Exports Plus Imports³⁶

China's trade potential has not eluded US corporations. Motorola estimates that by 1997, China alone will account for half of the world demand for electronic pagers. Carrier has tripled its sales of air conditioners to Asia since 1986 to about \$1 billion and now thinks that by 2000, Asia may account for half its sales, up from 5% in 1970.³⁷

Possibilities abound in other commercial areas as well. In the telecommunications field, China will be adding as many lines between 1992 and 1997 as the US (18 million). China's potential to the aviation industry is huge: the PRC was expected to account for a sixth of all world purchases of passenger aircraft in 1993 and is currently Boeing's biggest customer. China's immense population and growing economy will require enormous amounts of power generation capacity. Already the world's fourth biggest generator of electricity, China plans to add 15,000 megawatts of capacity every year for a decade.³⁸

The commitment to market economics has, to put it mildly, created tension in Chinese political, social, and educational sectors with regard to its communist ideological heritage. Founded on the

back of Marxist-Leninism and carried forth by the legendary revolutionary Mao Zedong, the PRC is led by a new generation of moderates who struggle to reconcile today's state-sanctioned capitalism with yesterday's anti-bourgeois dogmatism. The result has been a plethora of *ad hoc* theorizing.³⁹

Perhaps most remarkable is the idea that "there is no basic contradiction between socialism and a market economy." Indeed, markets are to be used to unleash the inherently superior productive forces of socialist society.⁴⁰ These theoretical innovations laid a new foundation for establishing the merits of economic policy. The three "provided" are now the standards against which the people can judge the efficacy of all kinds of work:

- "Provided that a thing helps develop socialist social productive forces"
- "Provided that it strengthens the combined national strength of socialist states"
- "Provided that it raises people's living standards"⁴¹

Few political economists in the West would have a fundamental quarrel with such criteria.

Along with the challenge of managing a booming economy, Chinese officials also must overcome the spread of social problems which accompany this growth, particularly the millions of migrant workers whose displacement, low wages, and constant search for work create pockets of social unrest. Still, these problems have not deterred the Communist Party from staying the course when it

comes to economic reform. The absolute centrality of sustained economic growth to the Party leadership is an unrequited theme:

There is one center for all the work for the party and state, namely, economic construction, and this is a center from which we must not deviate. And we must not create other centers. Under normal circumstances, we must adhere to this center, and even under abnormal circumstances -- unless in cases like a massive enemy invasion -- we must also revolve closely around it.⁴²

Neutral economic observers concur that the Chinese leadership is deadly serious about the economy's place in the PRC's policy hierarchy: "China's great strength is its deep and pervasive commitment to economic growth as the supreme aim of national policy."⁴³ In this regard, national interests as perceived by both the Communist Party and the Clinton Administration seem close indeed; "there is one center" has the ring of "it's the economy, stupid!"

Case I: Most-Favored Nation (MFN) Decision

Background. The preceding analysis suggests that both the PRC and the US place economic growth and development at the pinnacle of their national interests. The theories of Hirschman, *et al*, predict that when such strong mutual economic interests intersect, the ability to sway outcomes should gravitate in the direction of the actor who is less dependent upon the other. Based

on the bilateral trade statistics described earlier, it would appear that the US enjoys substantial advantages over the PRC, at least in regards to trade matters.

The events surrounding the Clinton Administration's decision regarding Most Favored Nation status for China seem to support the theory. In January 1994, China acquiesced to US demands regarding trans-shipments of textiles exported to the US by China.⁴⁴ In July and August of 1994, in a dispute over intellectual property rights (IPR), the US succeeded in pressuring the Chinese government to close down several compact disc factories involved in the illegal production of pirated material.⁴⁵ In both instances, threats of economic sanctions and retaliations were successfully employed: reduction in import quotas in the textile case, withholding of US support for China's readmittance to GATT in the IPR dispute.

Although the US-China experience in the textile and IPR cases give credence to the argument that power arises from asymmetrical interdependence, in the theory's biggest test--renewal of China's Most-Favored Nation status--the US was unsuccessful in exploiting its apparent advantage in trade dependency. Far from influencing outcomes, the Clinton Administration's MFN policy resulted in a humiliating foreign policy defeat. Since the Sino-US MFN case constitutes the theory's most significant challenge, a critical analysis of the essential components of this case is necessary to test the efficacy of the Hirschman/Keohane and Nye theory. In this regard, a brief review of the stakes and events behind the case is required.

It is not difficult to understand the rationale behind Senator Max Baucus' warning that failure to renew China's MFN status would be "the trade equivalent of dropping a nuclear bomb."

If trade statistics told the only story, it would seem that the US had a nuclear monopoly. In 1993, the US reported to the International Monetary Fund that China exported \$32.4 billion of goods to America, representing 35% of China's total export market.

Compared with \$8.77 billion of US exports to China (1.9% of its export total). The resulting Chinese trade surplus *vis-à-vis* the United States ranged from \$18 billion (in the President's MFN renewal announcement) to \$24 billion, depending on the trade figures used.⁴⁶ The Economic Policy Institute in Washington notes that the US's import/export ratio with China shows a wider imbalance than the much more high-profile Japanese trade problem.⁴⁷ It would thus appear that the Chinese had much more to lose than the US.

These numbers have been the subject of fierce speculation and conflicting analysis,⁴⁸ particularly by PRC officials, who dispute them. China complains that the US statistics wrongfully include Chinese exports to Hong Kong that are transshipped to the US for additional profit. US trade officials counter that the Hong Kong dealers are mere fronts for Chinese exporters. The picture becomes more muddled with the realization that none of these figures (nor world trade statistics in general) reflect money made by national enterprises operating in foreign markets.⁴⁹

Regardless of which figures were correct, no one denied that the loss of China's trade with the US would be devastating to

the PRC economy, a fact highlighted by the International Monetary Funds' statistics in Table 1

	Total Exports/ % of World Total	Total Imports/ % of World Total	Exports to Trade Partner	% of Nation's Export Total
United States	\$666 Billion/ 15.9%	\$553 Billion/ 12.8%	To China: \$9.29 B	1.4%
China	\$121Billion/ 2.9%	\$191 Billion/ 4.4%	To U.S.: \$41.36 B	34.0%

Total world exports: \$4.185 trillion

Total world imports: \$4.312 trillion

US imports from China 7.48% of its total imports

China imports from US 4.86% of its total imports

Table 1. 1994 U.S.-China Trade Statistics⁵⁰

The World Bank claimed that revocation of MFN status would raise tariffs on Chinese goods by five to ten times, resulting in a decrease of Chinese exports to the US anywhere from 42 to 96 percent.⁵¹ Obviously Beijing would retaliate, but the impact would clearly be far less on US exports and the US economy as a whole. Analysis also suggested that the enormous drop in Chinese exports would cost the regime over 1 million jobs.⁵²

Of course, trade statistics do not tell the entire story. Key segments of the American economy are tightly integrated with the Chinese market and would have been seriously impacted by a trade cut-off. Certainly, many of these industries also had the high-powered cover of influential lobbyists and interest groups. They included the Footwear Distributors and Retailers of America, who pushed the fact that 55% of the shoes sold in America are imported from China. The Toy Manufacturers of America noted that 44% of

the toys exported to the US, a figure approaching \$3.7 billion, came from China.⁵³ The US-China Business Council estimated that, in the next five years, the market for telecommunications in China would approach \$30 billion; in the next three years, the market for auto parts will total \$29 billion.⁵⁴ Fifteen percent of all textiles shipped to the US come from China, as do 6% of all clothes sold in America.⁵⁵ Retailers such as the Gap, Sears, J.C. Penny, Kmart, and Walmart faced sharp price increases if China's MFN status was eliminated. They actively promoted MFN renewal through their interest group representatives. At risk for Boeing was a \$5 billion contract to supply aircraft and services to the PRC.⁵⁶

Retail sales levels and billion dollar contracts translate into domestic jobs. In the high technology field alone, Secretary of State Christopher estimated that 170,000 US jobs depended on trade with China.⁵⁷ Other estimates range from 150,000 to 200,000.⁵⁸ For an Administration that campaigned and politically sustained itself on job creation figures, the magnitude of these numbers was impossible to ignore.

While President Clinton was threatening the Chinese with severing economic ties, the international competition lobbied intensively to expand their influence in the PRC. In a move reminiscent of Mr. Clinton's Oval Office joint announcement of a \$6 billion aviation deal with Saudi Arabia, Chancellor Helmut Kohl visited Beijing in November 1993 with 40 German businessmen and came away with \$4 billion in contracts and letters of intent.⁵⁹ Kohl also lobbied hard for construction of a \$1 billion Mercedes-Benz minivan plant in China while the main competition, Chrysler, awaited the MFN decision.⁶⁰

In addition to severely handicapping US domestic retail sales, corporate profits, and the Chinese export market, failure to renew MFN status threatened bilateral benefits derived from foreign direct investment (FDI). The World Bank reported that China was the largest recipient of external finance in 1993: \$15 billion of the \$27 billion total external finance flows to China was FDI.⁶¹ By the end of June 1994, China had approved a total of 199,678 foreign investment projects. More than \$266 billion had been pledged, while \$76.6 billion was actually invested.⁶² Foreign ventures accounted for a third of China's foreign trade volume in first half of 1994.⁶³ Certainly, the US was a major player in the growth of FDI -- more than 550 US companies have offices in Beijing, and US firms invested nearly \$3 billion there in 1993 alone.⁶⁴

With the stakes so high on both sides, it seems surprising that the two powers would have engaged in such reckless economic brinkmanship. The events leading up to the June 1994 decision point are instructive in assessing foreign policy development in the post-Cold War era of "economism."

Economic Brinkmanship. In the early months of 1994, the Clinton Administration continued to transmit mixed signals regarding the Administration's stance on MFN renewal. Within days of each other, two separate Administration officials visiting Beijing conveyed opposing messages regarding US policy on human rights and bilateral trade.⁶⁵

The unraveling of the Administration's obtuse MFN strategy culminated in the disastrous visit of Secretary of State Warren Christopher the week of 11 March 1994. Mr. Christopher

had advertised the purpose of his trip as "inform[ing] China's leaders of the urgent need to make further progress on human rights."⁶⁶ Various lambasted by American commentators as "a humiliation"⁶⁷, "a kick in the teeth"⁶⁸, and "a diplomatic calamity"⁶⁹, Mr. Christopher's visit was preceded by continued dissident arrests⁷⁰ and a general deterioration of the political atmosphere.⁷¹ Arriving amidst Beijing's flaunting disregard for US human rights concerns, Mr. Christopher was next subjected to a lunchtime gathering of the American Chamber of Commerce, Beijing, who exhorted the Secretary to push for MFN renewal. Representing the Chamber's 300 member companies, senior officials from AT&T and General Electric extolled the virtues of the free market system's impact on China's human rights progress: "The important part is that the [human rights] trend-line is moving in the right direction. It is going and it is continuing, and what is driving it is economics." They warned of the dire consequences for American economic prosperity should MFN not be renewed: "Choices for American companies . . . are stark. Either we establish a major presence in the China market, or we forget about being a global player."⁷²

Against this twin barrage from both Chinese and American quarters, Secretary Christopher felt compelled to defend his trip and his human rights message in a series of press conferences in Beijing and soon after his return to the US. On three different occasions during a Beijing press conference on 13 March, Mr. Christopher claimed the Administration's China policy enjoyed support from "both houses of Congress." He repeatedly made reference to a letter he received on the eve of his departure signed

by 275 members of the House of Representatives supporting the link between human rights and MFN. The need to continually invoke this mandate from the Legislative Branch belied the defensiveness felt by the Administration in the wake of the visit's disappointing results. Although some progress in the US human rights demands was cited, Secretary Christopher admitted that more progress was needed, particularly with regard to the release of political prisoners.⁷³

The response to Mr. Christopher's trip produced consternation at the highest levels in the Administration. President Clinton reportedly erupted in frustration: "What the hell is Chris doing there now?"⁷⁴ He later told reporters he was "disappointed" with the trip and made no public effort to back his Secretary of State's actions.⁷⁵ Confronted by 17 "rattled" finance ministers from around the Pacific Rim at a Hawaiian meeting following the Christopher trip, Secretary of the Treasury Bentsen urged that a compromise be found such that MFN status could be renewed.⁷⁶

The Chinese were similarly unimpressed with the Christopher visit. With the US clearly on the ropes, Foreign Minister Qian Qichen suggested that the importance of China's trade with the US had been exaggerated: "For 23 years before President Nixon opened the door of relations between China and the United States there was no trade whatsoever between China and the United States. I think you lived quite well. And so did we."⁷⁷

On May 26th, President Clinton announced that although "the Chinese did not achieve overall significant progress in all the

areas outlined in the executive order relating to human rights . . . I have decided that the United States should renew most-favored-nation trading status toward China."⁷⁸ Citing his continued commitment to human rights in China, Mr. Clinton reemphasized his commitment to a policy of engagement with the PRC as the best course of action for achieving his human rights agenda in China. Following the recommendations of his senior policy advisors, most notably Secretary Bentsen, President Clinton elected to de-link MFN status from human rights, arguing that "we have reached the end of the usefulness of that policy."⁷⁹ His decision did, however, contain several fairly inconsequential sanctions, including a ban on the import of Chinese munitions, and the maintenance of the post-Tiananmen Square sanctions.⁸⁰

To many in the West, Beijing's behavior prior to Christopher's visit could hardly be considered deft diplomatic maneuvering. With the stakes so high, the harsh treatment of the US Secretary of State, given the much more practical alternatives, seemed baffling. Some suggest a Clinton-esque lack of cohesion on the part of the Chinese government, wherein a hard-line faction, headed by the Public Security Bureau bent on maintaining public order, battled the more conciliatory State Council, favoring *rapprochement* with the US on the MFN issue.⁸¹ Others discerned a more purposeful and unified approach in the government's actions, hypothesizing that a show of strength towards the US was necessary to buy-off hard-liners, an opportunity that was more tangible given the weakness of the US position.⁸²

Lessons Learned. While some commentators suggested that US leverage over China was extremely limited⁸³, others argued

"America has a lot more leverage over China than it ever exercised in the years of George Bush's Presidency."⁸⁴ What does the Sino-US bilateral trade relationship teach us about power and economic interdependence? How does one explain success in producing favorable outcomes in some bilateral economic issues (textiles, intellectual property rights) while failing in the most important test (MFN)?

One answer lies in restating a fundamental difference between the US and China: the American state is beholden to and responsible to those whom elected it. In the post-Cold War era, elected governments must assume responsibility for economic growth and well-being. As George Bush now understands, if economic welfare is not provided for, governments are removed. Thus, the management of foreign trade and its impact on economic factors (usually translated into domestic jobs) is critical for the continuance in power of the elected government. In authoritarian China, where power is held by the unelected Party, poor economic performance does not translate into removal from office. Thus, China, despite the fact that trade with the US is an essential component of their economic well-being, can resist without fear of loss of control over political power. In such a case, we may be comparing apples and oranges. The policies that would likely be pursued between two elected governments may not apply between different forms of government.

A second insight is provided by what Harsanyi describes as the Blackmailer's Fallacy.⁸⁵ A blackmailer, who could cause \$1000 of damage to a wealthy man, assumes he can extort \$999 from his would-be victim since this sum represents the marginal break point

at which the rich man derives some "benefit" from complying with the blackmailer's demands. However, as Harsanyi points out, the victim could just as well argue that the blackmailer would prefer getting \$1 in ransom rather than carrying out his threat and receiving nothing. The actual payoff from this confrontation, assuming away complicating external factors such as police involvement, is somewhere *between* \$1 and \$999, and the presumed ultimatum is actually a bargaining game.

In the case of the US-China trade relationship, the "ultimatum" that a political concession (progress in human rights) must be surrendered for continued trade advantages was exposed by the Chinese as a delusory fallacy. This sort of ultimatum assumes that imposition of trade penalties on China has no impact on the US; the loss of a \$24 billion bilateral trade surplus for China results in no corresponding cost to the US in carrying out its threat. While a decision to revoke MFN would have an undeniable impact, the Chinese can afford to reject the terms offered and presume the US would be willing to accept the minimal payoff (perhaps vague intentions to examine US human rights concerns) rather than carry out its threat. The US "blackmailer" failed to understand what the Chinese "victim" knew: this ultimatum was really a bargaining game whose outcome was likely to fall somewhere between the two extremes depending on each party's willingness to accept risk.

Certainly, Chinese attitudes toward risk may be fundamentally different than those of the United States. To the Chinese Communist Party, loss of political legitimacy and control is not worth a \$24 billion trade surplus or even a figure much higher. Further complicating the issue was the desire to conduct the game

in an atmosphere of high profile international attention, a circumstance that may have turned what should have been a negotiating session into a game of international "chicken."

Finally, we should return to the analysis of Harrison Wagner regarding bargaining theory. Wagner wants us to focus more on the evaluation of the relative importance of the political concession demanded and less on an evaluation of the trade relationship:

If governments are bargaining over some political concession that one government has demanded of another, their evaluations of their trading relationship tell us nothing about their evaluations of the political concession that is at stake in their negotiations . . . in fact, the commonsense ideas underlying Hirschman's analysis . . . are useless in telling us when one government can use the threat of interrupting trade to extract political concessions from another.

The concessions demanded in the textile and IPR negotiations were confined to technical matters regarding trade, whereas the concession demanded by the US in the MFN decision was perceived as a US incursion on the Chinese leadership's sense of political legitimacy and sovereignty. While 35% of the PRC export market represents a huge payoff "controlled" by the US, the political, social, or economic costs to the PRC of accepting the US terms are left unaddressed. Moreover, as the Kohl trip to Beijing points out, the alleged dependence of the PRC on the US as an export market fails to address alternative sources for maintenance of that payoff, especially viable in an international system characterized by the "interconnectedness" version of interdependence.

The MFN case suggests that, for conflict confined to a case of "vertical" interdependence (i.e., within the economic issue-area), a state might not get much out of linking trade with issues that strike at the heart of its partner's internal political power and control. On the other hand, leverage seems possible for "vertical" issues that have few internal political overtones. Whether this analysis applies to areas of "horizontal" interdependence, particularly the relationship between economic and security issues, remains to be seen.

Finally, as a postscript to the MFN story, it is interesting to speculate on the future of US human rights policy. If, as one of my professors once remarked, Wilsonian liberalism has always been the "touchstone" of American foreign policy, President Clinton's MFN decision may have been its death knell. Just as "only Nixon could do China", so too would it take someone with the Camelot-ian idealist credentials of Bill Clinton, to expunge as a key foreign policy theme, the struggle for human rights and self-determination, in favor of more pragmatic domestic economic concerns. Ever since Tiananmen Square, the US has clung reluctantly to the preeminence of human rights over potentially grander themes in the Sino-US relationship (security collaboration, economic cooperation). With the 1994 permanent delinking of human rights from US-Chinese trade relationships, Mr. Clinton succumbed to the imperatives of post-Cold War "economism."

We have seen that under appropriate circumstances, asymmetries in bilateral trade relationships can translate into sources of power within economic structures of international relations. We are next interested in whether, and to what degree, a country's economic power is useful in obtaining desirable outcomes

in the area of military security. This study examines two security issues of importance to the US and China, proliferation and the North Korean nuclear weapons program.

Case II: Proliferation

In addition to the steady build-up of PRC military capabilities⁸⁶, Sino-U.S. relations have been strained over the ongoing dispute regarding Chinese weapons proliferation to other Third World countries, particularly those that the U.S. regards as rogue nations. The Clinton Administration's 1993 Bottom-Up Review and 1994 National Security Strategy cited proliferation of weapons of mass destruction as one of the top threats to national security.

During the Cold War, use of the China card in the US-Soviet poker match was considered more important than the relatively lower-level concerns of Chinese proliferation. The watershed events at the turn of the decade, however--the collapse of the Soviet Union, Tiananmen Square, and the Persian Gulf War--elevated Chinese proliferation on the US security agenda, as the strategic importance of the PRC as a counterbalance to the USSR disappeared. Likewise, the Allied victory in the Gulf War revealed the scope of the Iraqi nuclear weapons development program and alerted the West to the dangers of indiscriminate third-party transfer of technology for weapons of mass destruction. Western concerns regarding China's weapons proliferation activities revolve around two main issues -- ballistic missile and nuclear technology transfers.

Chinese Proliferation of Ballistic Missiles. Since the early 1980's, China has been linked to the sale and transfer of ballistic

missiles and/or ballistic missile technology to Saudi Arabia, Syria, Iran, and Pakistan.

China secretly sold 36 DF-3 (Dong Feng) Intermediate Range Ballistic Missiles (IRBM) to Saudi Arabia during the Iran-Iraq War, a transaction reportedly worth more than \$3 billion. The Saudi's approached the Chinese after the US Congress rejected the Reagan Administration's attempts to sell more F-15 fighters to Riyadh than the previously imposed limit of 60. The Saudi's claimed they needed the missiles as a deterrent to Iranian missile attacks. Although the DF-3 was designed by the Chinese to carry nuclear warheads, the Saudi's (and later the Chinese) assured the US that the missiles they received had been modified to carry only conventional munitions. While the profit potential from the sale was certainly a motivation for Beijing, some have suggested that Beijing was also interested in cutting into the Saudi relationship with Taiwan (one of the few remaining countries still maintaining diplomatic relations with Taipei). In fact, within two years of the missile sale, Saudi Arabia dropped its recognition of Taiwan in favor of the PRC.

China has also actively marketed the shorter-range M-9 SRBM to Middle East countries (reportedly Syria and Iran), and the M-11, primarily to Pakistan. Export of both of these solid-fuel, mobile missiles violate Missile Technology Control Regime (MTCR)⁸⁷ guidelines. However, in November of 1991, China agreed to abide by the MTCR as part of a deal that would have Washington lift the first set of sanctions imposed on China in June 1991 for the transfer of missile technology to Pakistan. This was done in March 1992. Still, Beijing's commitment to the MTCR remained questionable. In August of 1993, the US determined that

China had transferred M-11 missile-related components to Pakistan during 1992, which, by law, required the imposition of sanctions once again on both Chinese and Pakistani firms. The largest impact of these sanctions was on the export of four US satellites built by Hughes and Martin Marietta scheduled for launch by the PRC (satellite components are in the MTCR annex of prohibited items if they are destined for export to those countries found to be in violation of the terms of the regime).⁸⁸

Once again, Washington seemed less than enthusiastic about following through with the sanctions it had imposed. The *Washington Post* reported that the Clinton Administration had officially proposed waiving the sanctions in November 1993 (just prior to the President's Asia-Pacific Economic Cooperation (APEC) meetings with Chinese President Jiang Zemin in Seattle), presumably in exchange for a more formal Chinese commitment to the MTCR. Although this initiative failed to produce an agreement in time for the APEC meeting, the offer was subsequently accepted in October of 1994 in a highly publicized agreement signed by Secretary of State Christopher and Foreign Minister Qian Qichen in Washington.⁸⁹ In that accord, the PRC agreed to abide by nearly all the provisions of the MTCR without formally becoming a member. The US, in turn, lifted the ban on satellite technology transfer, clearing the way for sales totaling several hundred million dollars. It is important to note that this post-MFN agreement on missile technology proliferation was essentially identical to the one rejected by the Chinese prior to renewal of their MFN status.

Chinese Proliferation of Nuclear Technology. Equally troubling for Western democracies is China's cavalier attitude

regarding recipients of its nuclear technology. Although a member of the Nuclear Nonproliferation Treaty since 1992, China has been linked with nuclear technology transfers to Pakistan, Algeria, Syria, Iraq, and Iran.

China has reportedly supplied Pakistan (not a signatory to the NPT) with weapons grade uranium⁹⁰, tritium (used to achieve fusion in hydrogen bombs)⁹¹, and even a design for a 25 kiloton implosion device.⁹² China has also signed a contract to build a 300 megawatt nuclear power reactor for Pakistan even though Japan, Germany, and France have reportedly denied provision of nuclear supporting systems for this reactor in accordance with Nuclear Suppliers Group policy. Despite this lack of Western support, China believes the reactor can be complete by the year 2000. China's past problems with nuclear-capable India are reflected in the cozy nuclear relationship with Pakistan, a partnership that is foreboding given continued India-Pakistani animosity.

To date, Chinese nuclear technology support to Iran has fallen generally within the framework of the NPT, to which Iran is a signatory. Despite US protests, two 300 megawatt nuclear reactors had been planned for export to Iran. However, in further evidence of the prominence of "economism", the Chinese canceled the deal in September of 1995, due in part, at least, to the fear that the US would withhold advanced nuclear energy technology needed for China's own future energy requirements.⁹³

IAEA teams have also investigated Iranian sites in pre-announced inspections and found no NPT violations. Still, the US and others fear the transfer of dual-use technology to this Islamic fundamentalist state, whose ambitions in the region are suspect

and whose nuclear motivations are easily discernible in light of the nuclear postures and aspirations of Israel, Iraq, and others in the Mideast. As Iraq demonstrated, a covert nuclear weapons program is possible even where a country is a member of the NPT, and IAEA safeguards are in place. Moreover, many observers question the Iranian need for nuclear power in a country that is energy-rich. The Iranians are also involved in a \$2 billion-a-year military buildup and have attempted to import nuclear components that are inconsistent with a peaceful nuclear power program.⁹⁴

CIA Director James Woolsey has testified that China's nuclear relationship with Iran, Syria, and Algeria all appear to be NPT-compliant, although the Pakistani-PRC connection is "of greater concern."⁹⁵ China does not require IAEA safeguards on *all* nuclear materials transferred and it is not a member of the Nuclear Suppliers Group. Continued Chinese secrecy in ballistic missile and nuclear-related material transfers remain a concern for Western countries.

However, some analysts have argued that rather than deriving a grand geostrategic design, Chinese weapons proliferation results from fragmented, autonomous, and uncooperative decision-making cells within the PRC defense establishment. Complex, family-connected networks operate across military organizations, government ministries, and nominal civilian corporations. These networks can be unresponsive to central direction from the Ministry of Foreign Affairs, who must deal with the protests of foreign governments. Because arms sales continue to provide much-needed hard currency to their organizations (and powerful individuals as well), these autonomous networks have

little incentive to bend to international, or even internal, pressure. In an examination of the Chinese sale of DF-3 missiles to Saudi Arabia (negotiated by Poly Technologies, an ostensibly civilian corporation run by the PLA), researchers report that when the Foreign Ministry objected to the sale, the issue was presented to Deng Xiaoping. When told that the sale had produced a profit of two billion dollars, Deng replied, 'bu shao' (not little). The matter was thereby closed, and the ministry lost the argument.⁹⁶

Analysis: The US Response. The troublesome nature of the Chinese military build-up, nuclear technology transfers, and arms export programs once again leads us back to an examination of power, interdependence, and control over outcomes. Can the US prevent, or otherwise limit, PRC behavior in the security realm that it finds unacceptable? To what extent are (or could) the available options (be) tied to economic interdependence?

If proliferation is the top new danger to US security interests, then the irresolute US response to Chinese proliferation activities demonstrates that at least this Administration has substituted the "low politics" of economics for the "high politics" of military security. During the Cold War, the problem was conceptualized in terms of geostrategic politics straight from the Realist school; in the post-Cold War era, the imperatives of economism and the attendant repercussions for domestic politics make economic confrontation unpalatable for a politician interested in keeping his job. As Congressional Research Service analyst Shirley Kan has suggested⁹⁷, US willingness to invoke its substantial economic leverage as part of a strategy to change Chinese proliferation behavior has never been seriously pursued.

Because of the autonomous nature of the Chinese arms export operation, others suggest any committed effort to invoke sanctions would prove futile anyway.⁹⁸

Certainly, half-hearted unilateral attempts have been made to punish Chinese proliferation through economic means. Sanctions have been imposed on targeted industries and companies in the PRC by both Republican and Democratic administrations. However, as we have seen with the MTCR-related sanctions on satellite and high-speed computer equipment, any Administration that attempts to punish China through economic means is immediately confronted by a phalanx of opposing interest groups ranging from powerful industry representatives, who are quick to mobilize "jobs" and "competitiveness" arguments, to Pentagon officials who wish to avoid alienating China in acknowledgment of Beijing's influence over regional security issues (most recently, North Korea). Even within the Administration, officials from the State and Commerce Departments often find themselves at odds when sanctions loom.

Similarly, members of Congress find themselves less enthusiastic in the degree to which they are willing to legislate punishment of the PRC. Immediately after Tiananmen Square, strong support was generated for linking broad-based conditionalities to China's MFN renewal, including expansive non-proliferation requirements. That enthusiasm has waned as Tiananmen fades from memory. Since the end of the Cold War, neither the Bush nor Clinton Administrations favored explicit ties between MFN and proliferation issues, both seeking to handle these two issues in separate forums.

Still, the legislative tool has not been forsworn as a unilateral measure; both the Arms Export Control Act and Export Administration Act remain in effect and have been supplemented by the Iran-Iraq Nonproliferation Act, enacted as part of the FY 1993 Defense bill. This new law requires sanctions on any country transferring goods or technology (including dual-use items, training, and/or information) that could be used in the development of weapons of mass destruction. Sanctions include suspension of economic and military assistance. In the summer of 1993, bills were introduced that would expand the level of sanctions on countries dealing with Iran and Iraq to include financial assistance and co-production/development programs.⁹⁹ As past experience has shown, US willingness to apply such sanctions to China as a result of this meant-for-public-consumption legislation remains dubious.

For the Clinton Administration, export control hardly seems the issue. So far, the pace of US export deregulation has far outstripped that of unilateral export control measures. Following his economic security theme, President Clinton has institutionalized a new General License (GLX) that extensively decontrols export of telecommunications equipment and computers (raising the threshold at which export licenses are required to 1 billion theoretical operations per second, a four-fold increase).

Not surprisingly, American business applauds the rapid pace of decontrol. AT&T estimates that the new regulations could have a \$100 million per year impact on its overseas business. Dick Iverson, President of American Electronics Association, cites billions of dollars of additional exports for America's high tech companies." One commentator notes gleefully that the "national security nerds in the Defense Department and the intelligence

community, worshippers of Richard Perle's mid-1980's arguments that the Soviets would use PCs to target their ICBMs, are now running for cover, having been flushed from their impregnable fortifications that date back to the 12 years of Reagan-Bush export control ideology.¹⁰⁰

Whereas US unilateral approaches appear ambiguous, bilateral initiatives regarding proliferation have been confined to an increase in informal, high-level military-to-military contacts. Beginning in November 1993, military contacts between Washington and Beijing were resumed following their prolonged freeze in the aftermath of Tiananmen Square. Assistant Secretary of Defense Freeman's visit to Beijing resulted in the establishment of the Defense Conversion Commission, a bilateral initiative designed to explore ways to convert outmoded Chinese defense industries into money-making domestic plants. Several site-survey visits to China were planned by Pentagon officials in the wake of the Assistant Secretary's visit.¹⁰¹ While not particularly significant in strictly military terms, the Defense Conversion Commission is best characterized as a confidence-building measure and a stepping-stone to more concrete military cooperation.

In the policy debate leading up to the 1994 MFN decision, influential offices in the Pentagon expressed concern for the future health of this emerging military relationship. The DoD position was that long-term, strategic interests should drive US policy towards China and that termination of MFN status would jeopardize on-going initiatives and the maintenance of smooth relations. Key offices in the Pentagon believed the DoD position was significant in the decision to renew China's MFN status.¹⁰²

Similarly, had MFN status not been renewed, the Air Attaché in Beijing was convinced that "we would have had very little to do."¹⁰³

Recent evidence suggests that bilateral approaches are not confined to security matters. In the months leading up to the May 1994 MFN renewal decision, the Chinese had repeatedly told American officials that for reasons of domestic politics, Beijing could respond better to the issue of human rights if the US quit threatening them with trade punishments. In announcing the President's decision to Ambassador Li Daoyu, Assistant Secretary of State for Asian Affairs Winston Lord reportedly told the Ambassador that "You said this way was going to be more productive. Now prove it."¹⁰⁴ The Chinese may be doing just that. On 30 August 1994, during Secretary Brown's post-MFN trip to Beijing, China, apparently without provocation, announced it was willing to reopen the dialogue with Washington over human rights. Most observers see the move as a reward to the US for severing the MFN link between trade and human rights. If this gesture proves sincere, a new era of bilateral approaches to Sino-US problem-solving may be unfolding -- including new hope for a reduction in the spread of weapons of mass destruction.

The US may wish to rely on multilateral approaches to the problem of Chinese weapons proliferation. Both President Clinton and Secretary of State Christopher have recommended a resumption of the Five Power Talks, in particular urging Chinese participation. Of course, the West would most like to see formal Chinese accession to the MTCR and more transparency in its commitment to the NPT. Chinese support in the UN Security Council for tougher IAEA enforcement powers would go a long way

in demonstrating Beijing's anti-proliferation resolve. Similarly, the nuclear powers and China's neighbors will likely seek China's commitment to the Nuclear Suppliers Group and the Australia Group (for chemical and biological weapons). Also, many of the non-nuclear countries tie their support of non-proliferation programs to the nuclear powers' conclusion of a Comprehensive Test Ban Treaty. Recent Chinese nuclear weapons tests, conducted despite international pressure to desist, indicates that a CTB may prove elusive. Still, many commentators predict Chinese acquiescence to formal membership in these multilateral regimes since they provide the great-power prestige long sought by Beijing.

One final multilateral forum for reduction of Chinese proliferation activities centers around the follow-on regime to the now defunct COCOM (Coordinating Committee on Multilateral Export Controls). Originally a 17-country institution whose purpose was to deny high technology to the Soviet bloc, COCOM has outlived its usefulness in the post-Cold War era. Although COCOM's target has disappeared, the underlying premise remains the same -- stopping the proliferation of weapons and weapons technology to countries deemed a threat to COCOM member nations.¹⁰⁵

Many of the battles COCOM members fought were not directed at the Soviet bear, but at each other. Member countries often resisted US leadership regarding the extent of the items to be banned from export to the Warsaw Pact. The fractious nature of this loose coalition was most clearly evident over the uproar concerning the Reagan Administration's 1982 sanctions on European firms working with the USSR on the trans-Siberian natural gas pipeline, and the 1988 debacle regarding the Toshiba-

Kongsberg transfer to the Soviet Union of precision milling equipment, useful in the manufacture of stealthy submarine propellers.¹⁰⁶

The history of COCOM provides no comfort for those hoping for more cohesive non-proliferation regimes in the post-Cold War era. Yet efforts are underway to craft a 21st century replacement, which would target a new set of threats. The source of those threats is no surprise -- mainly Middle Eastern "rogue" nations such as Iran, Iraq, and Syria. While the US Congress continues its unilateral efforts to pass new legislation that updates the Export Administration Act of 1979, negotiations have been completed regarding COCOM's successor, tentatively being referred to as "The New Forum."¹⁰⁷ Membership in the new regime includes NATO members as well as Japan, Austria, Finland, Switzerland, Sweden, Luxembourg, Australia, the Czech Republic, Slovak Republic, Hungary, Poland, New Zealand, and, most noteworthy, Russia.

Noticeably absent from this line-up is, of course, the People's Republic of China. As Dr. Chris Szymanski has noted, "excluding China from the MTCR was the big mistake of the 80's; leaving them out of a post-COCOM regime will be the big mistake of the 90's."¹⁰⁸ As Dr. Szymanski and others point out, failing to enlist the PRC's support as a founding member of The New Forum abandons an opportunity to further American interests. Moreover, stroking the Chinese regarding the US perception of the stature of the Chinese contribution will likely pay dividends in future bilateral security issues.

A still bolder approach is possible. At a recent ASEAN Regional Forum in Bangkok, Foreign Minister and Vice Premier Qian Qichen stated that China adheres to the principle that armaments should only be used for defensive purposes and that an arms race should be averted at all costs.¹⁰⁹ The US could test this resolution through a combination of both bilateral and multilateral approaches: US-made, high technology defensive weapons systems for formal Chinese accession to the MTCR and New Forum membership. One possible option would be the sale of F-16 Air Defense Fighters, a modified version of the F-16 that has no air-to-ground capabilities.¹¹⁰ A breakthrough arrangement such as this has the potential for solidifying the Sino-US security relationship through increased defense industry ties, shared regional and global security goals, and a partnership based on participation rather than rhetoric. The downside does not appear steep -- even a revisionist approach by a hard-line, post-Deng regime would cost the US little in terms of military balance-of-power calculations.

What does the foregoing tell us about power linkage across issue areas ("horizontal" interdependence)? In total, the evidence above suggests that, unlike "vertical" interdependence, asymmetries in economic interdependence do not translate directly into security areas. Threats of economic penalties for non-compliance with proliferation demands are subject to some of the same constraints witnessed in the MFN case, namely: targeting the interests of powerful political elites with personal agendas not necessarily related to the general welfare of Chinese people; and the disinclination of Congress to commit to blunt economic

instruments in the face of domestically-unacceptable Chinese economic retaliation.

On the other hand, it is increasingly clear that the Sino-US economic relationship drives the security relationship. To the extent that the US can strengthen economic ties with the PRC, the possibility for cooperation, if not leverage, in the area of weapons proliferation is greatly enhanced.

Case III: North Korea

During the first half of 1994, a series of events related to North Korea's attempts to develop a nuclear weapons capability brought the region to the brink of war. Seemingly at the last minute, the crisis was defused when former President Jimmy Carter's eleventh hour diplomatic mission produced a surprising breakthrough that led to the announcement of a series of summit meetings between North and South Korea. The death of Kim Il-Sung in July of 1994 appeared not to derail follow-up progress on the Carter initiative as an agreement was announced in August wherein the US guaranteed Pyongyang \$4 billion worth of modern nuclear reactors to replace its current equipment, in exchange for a promise by the North to forego further production of plutonium. The US and North Korea formally agreed to this deal in October 1994.¹¹¹

Our interest here is the critical role played by the People's Republic of China regarding their willingness to influence their long-time friend and ally, North Korea, on the basis of the Sino-US economic relationship.

Throughout the North Korean nuclear crisis, the US led the effort to garner international support for a firm response to the

North's nuclear provocation. As an alternative to military action, the US sought an international coalition for imposition of economic sanctions through the auspices of the United Nations Security Council. Key to success in this effort was the role of North Korea's long-time ally, the People's Republic of China. The PRC's Security Council veto power assured that, without Beijing's acquiescence, US-led efforts to punish North Korea via the United Nations was a lost cause. The concurrent development of the North Korean nuclear crisis and the US-PRC most-favored-nation decision provides an interesting laboratory for examining the degree to which horizontal economic interdependence affects the pursuit of national interests.

The most obvious avenue of inquiry is to examine Chinese attitudes regarding the North Korean issue before and after the MFN decision. One could hypothesize that the improved Sino-US bilateral atmosphere resulting from the decision to delink trade and human rights might translate into increased cooperation from the PRC regarding support in the Security Council for economic sanctions against North Korea. The evidence to support such a contention, however, is mixed.

As a matter of principle, the PRC has never supported the use of economic sanctions through the United Nations. Beijing has abstained on every UN Security Council sanctions vote since 1945, regardless of the country involved.¹¹² In the run-up to the Carter mission in mid-June 1994, the Clinton Administration actively sought Security Council support for a sanctions resolution. Although the Carter mission effectively terminated further discussion of Security Council sanctions, China had given clear

indications it would not support the US position.¹¹³ Instead, Beijing continued to stress the need to "open dialogue, mitigate contradictions, and seek a way of settling the problem step by step."¹¹⁴ The PRC leadership continued to stress that sanctions would be interpreted by the North as further provocation.

Undoubtedly, the US would have welcomed another Chinese abstention had the matter come to a vote. The duplicity of continued abstentions allowed the PRC to claim the mantle of defender of national sovereignty, while at the same time effectively acceding to the desires of the international community. Because the little remaining North Korean international trade was conducted primarily with the PRC (for example, China supplies 75% of North Korea's petroleum requirements, 72% of its grain imports, and 88% of its coal shipments¹¹⁵), the larger question became, "would Beijing do anything to enforce sanctions approved by the Security Council?" As a practical matter, it can be argued that the matter was not too pressing, in that few would expect the North to suddenly cave in to international economic pressure after resisting decades of similar measures. Still, perceptions of the level of PRC support for internationally approved actions cannot be dismissed by a country intent on becoming a responsible regional and global leader.

Even though Beijing's position in the June 1994 UN sanctions deliberations was ambiguous, the Chinese appear to have been supportive in other ways. Several sources report that the Chinese leadership met with elements of the North Korean General Staff in early June (after the MFN decision) to press for restraint and patience on the part of the North Korean Army. While publicly

professing the solidarity of a relationship rooted in "blood-bound friendship", indications are that Beijing told the North to expect no Chinese support for an attack initiated by Pyongyang.¹¹⁶

Throughout the West, Chinese ties with and influence over the North Koreans were seen as the key for conflict resolution. The British *Times* suggested that "resolution of the (North Korean) crisis lies not in New York, nor Washington, nor Tokyo, but in Beijing." Berlin's *Der Tagesspiegel* agreed: "The key to resolve the nuclear problem lies in China." An editorial in Belgium's Catholic *Gazet van Antwerpen* went so far as to suggest that China had reneged on the debt it owed Washington for the MFN decision: "During the debates on the prolongation of China's MFN status, it was said in Washington that its extension would make China help the United States in the question of North Korean nuclear weapons. Obviously, nothing is less true now. On the contrary, China is stiffening its standpoint."¹¹⁷

The Level of Chinese Support for Pyongyang. Despite international assumptions, determining the extent of China's influence over North Korea is problematic.¹¹⁸ Far from a close working relationship, one Chinese government source claimed that a high degree of mistrust characterizes the PRC-DPRK bilateral relationship. On the North Korean side, Pyongyang still smarts from Beijing's decision to establish relations with South Korea. When military and economic support is needed, the North Korean regime unfailingly runs to China for support while insisting on maintaining autonomy for their own actions in these fields and others. Communist hard-liners in Pyongyang frequently criticized the economic reform movement in China as "revisionist". Similarly,

Chinese government officials are often "frustrated and exasperated" at unilateral North Korean actions. Beijing was apparently as surprised as the rest of the international community by North Korea's decision to withdraw from cooperation with the IAEA. The death of Kim Il Sung will likely estrange the two communist neighbors even further--Kim Jong Il is held in much lower esteem by the old guard Chinese than was his revolutionary father.¹¹⁹

In general, US Embassy officials and influential Beijing think-tanks tended to downplay the extent of Beijing's influence over North Korea. They worried that unrealistic expectations on the part of US government officials regarding MFN "debt-collecting" was potentially damaging for the burgeoning Sino-US relationship. These sources believed that contrary to the accepted orthodoxy, the crisis was not going to be resolved in Beijing.

Beyond the question of influence, caution is required before associating Beijing's positive efforts in the North Korean crisis with the MFN decision for at least two additional reasons. First, the general tact of Beijing's foreign policy regarding North Korea prior to the MFN decision was not significantly different than after President Clinton's May 1994 MFN decision. Late in 1993, China, along with eight other nations, abstained from a UN general assembly vote where 140 countries praised the IAEA for its impartiality and urged Pyongyang's cooperation. More importantly, the US and China cooperated in the Security Council to forge a compromise on the Korean sanctions issue in late March 1994¹²⁰, only two weeks after Secretary of State Christopher's contentious MFN visit to Beijing. North Korea's cooperation may have also reflected a perceived need to counterbalance the negative

impact of the Christopher visit with the MFN decision still in the balance.

Second, what has been characterized as cooperation above, might more closely reflect what Robert Keohane describes as "harmony".¹²¹ US and Chinese interests on the Korean peninsula, and the Pacific region in general, are not far apart. The Chinese have no interest in seeing the Pyongyang regime acquire nuclear weapons. They are equally concerned with the impact this would have on the nuclear aspirations of neighboring states, particularly Japan and South Korea, as well as the possible reintroduction of American nuclear weapons onto the Korean peninsula. One official at the US Mission to the United Nations noted that China "agreed 100% with US goals" on the peninsula.¹²² Moreover, any conflict in the region would be antithetical to the economic growth so important to the contemporary Chinese leadership. One commentator has suggested that the PRC's Korean policy merely reflects Beijing's more general national security strategy which is "to remove all foreign-policy impediments in its rush for domestic economic development."¹²³ Certainly, many would argue that, however unattainable, this sentiment also captures the Clinton Administration's attitude precisely. Thus, to the extent that Beijing was pursuing its own self-interests, it is difficult to attribute any perceived Chinese support for the US position as a successful application of American economic power and influence.

It is interesting to speculate whether the Chinese role in the Korean crisis would have changed if MFN had not been renewed. Assistant Defense Secretary Freeman's Defense Conversion Commission initiative began a series of high level

military exchanges, including Admiral Charles Larson's visit to Beijing in early July 1994 and a reciprocal visit by PLA Deputy Chief of Staff General Xu Huizi to Washington in August. Both visits were high profile and well received and neither was likely to occur in the wake of Sino-US dissension over Korean policy brought about by leftover MFN antagonisms. The nascent military relationship between the US and the PRC was undoubtedly helpful in garnering information about DPRK military activities and intentions during the crisis. Thus, while some might characterize the MFN decision as an "independent event"¹²⁴ relative to China's support for the US position in the Korean crisis, lack of a positive MFN outcome would likely have poisoned an otherwise increasingly cordial military relationship. This situation was not only undesirable in June of 1994, but would be in any future Korean crisis, as well.

Conclusion

Secretary of the Air Force Sheila E. Widnall has stated: "The changing world political and domestic social environments have two profound implications for the American military. First, we now better understand that national security requires more than military might. It also requires economic strength, environmental well being and a cohesive society. The result is a new set of budgetary priorities."¹²⁵ Arguably, the Secretary's statement implies that, with respect to this new conception of national security, the torch has been passed from the military soldier to the economic man. A "new set of budgetary priorities" that favor economic rejuvenation means that the military

instrument of national security has been marginalized in its ability to secure contemporary society's most important demands. Although more work is required in areas such as the proliferation of weapons of mass destruction, the physical security requirements of the major industrial countries have been largely satisfied. National interests in the post-Cold War era center nearly exclusively on domestic growth and international competitiveness. Very few places are left in the world where military instruments are even *equal* to economic means in their effectiveness for achieving this new set of national goals (the Persian Gulf may be one of them). Commenting on the most recent showdown with Japan over bilateral trade issues, one American official remarked that this economic dispute was similar to the military confrontation in Haiti with one major difference: "This is really important."¹²⁶

Nations defend interests and uphold values. In an interdependent world where borders become less relevant to the operation of the market, where powerful nations hold increasing stakes in the future of their competitors, and where national interests coincide, the role of the US military may be confined to upholding values in places like Bosnia, Haiti, Rwanda, and Somalia. While these US-led peace keeping and peace enforcement activities are relevant for the maintenance of international order, success or failure in these missions will change little in the most important affairs of the largest states. Moreover, the angst expressed by the American people through their elected representatives in initially committing US forces to these regions and the rapidity in pulling them out in the face of even minimal casualties, provides clear enough evidence that where unimpeachable economic rationale for military intervention is not

forthcoming, the US commitment will not be resolute. Because the on-going requirement to "uphold values" has largely supplanted the need to "defend interests", the US military's current absorption in "operations *other* than war" may describe exactly their future role in international affairs.

Michael Kramer has argued that "Bill Clinton's reflexive faith in the efficacy [of economic instruments] is hardly surprising, since he is the No. 1 proponent of the post-cold war's leading fallacy: economic might counts far more than military clout."¹²⁷ Left unspoken in this presumed "fallacy" are the stakes involved. Mr. Kramer correctly suggests that economic instruments are ill-suited for "toppling tinhorn dictators. who couldn't care less about their citizens' economic status." He assumes that only force can overturn unwanted foreign governments. The UN-sponsored, US-led intervention into the Haitian regime of General Raoul Cedras in September 1994 is only the most recent case in point. But toppling today's dictators is problematic for the US only in consolidating the political *will* to do so, not in its ultimate ability to accomplish the task. The more important difference is that the military capabilities of post-Cold War dictatorships hardly threaten the general welfare of the citizenry of the United States, as did the former Soviet Union. Where the stakes involved are national well-being and increasing living standards, as they are in the post-Cold War era, the ability to squash dictatorships will not advance the cause very far.

Because the stakes have shifted from national survival to economic competitiveness, international economic instruments have become more important than military ones regarding the contribution they make to a nation's most fundamental post-Cold

War interests. As Kramer himself suggests, economic instruments work best when friends, not enemies, are the target. The evidence above points out that not only are economic instruments viable in influencing international behaviors, they are most effective when pursued on the basis of cooperation and engagement rather than confrontation. Rather than clashing over human rights in the pursuit of democracy in the PRC, it could be argued that there is nothing quite so subversive as a well-run joint venture.

Economic power still counts in affecting international outcomes. The US-PRC case study suggests that asymmetrical dependence in the vertical domain of bilateral economic relationships produces the potential to influence dependent partners so long as the scope is confined to economic issues. Where that scope is allowed to drift into areas perceived as relating to internal political sovereignty and control, economic power is much less productive.

The evidence above suggests that for issues related to horizontal interdependencies, economic power, if not directly fungible, sets the climate within which powerful nations can advance their agendas. Whereas economic interdependence may not always translate into security cooperation, an absent, neutral or antagonistic economic relationship offers no solace in the economism of the post-Cold War era.

ENDNOTES

¹ See Alan Tonelson and Ronald A. Morse, "Outdated Alliance Strategies", in Powernomics: Economics and Strategy After the Cold War, ed. Clyde V. Prestowitz, Jr., Madison Books, 1991, pp. 241-256.

² International Institute for Strategic Studies, Military Balance 1993-1994, p. 224.

³ Robert O. Keohane and Joseph S. Nye, Power and Interdependence, Harper Collins, 1989, p. 27 (*italics in the original*).

⁴ *Ibid*, p. 249-50.

⁵ Kenneth Waltz, Theory of International Politics, Addison-Wesley, Reading, MA, 1979, p. 163.

⁶ As quoted by Norbert Wieczorek, "Uruguay Round and the Future Agenda for Global Trade," Retired Officer Association National Security Report, July 1994, p. 53.

⁷ Helge Hveem, "Responses to Interdependence: International Restructuring, National Vulnerability and the New Protectionism," Interdependence and Conflict in World Politics, James N. Rosenau, Hylke Tromp (ed.), Avebury, 1989, p. 134.

⁸ See, for example, Steve Coll, "Retooling Europe," Washington Post National Weekly Edition, August 22-28, 1994, p. 6. Coll argues that the sell-off of European state-owned enterprises (some \$100 to \$150 billion worth of West European government assets in the next four years) is indicative of the retreat from socialism these governments see as necessary to boost international competitiveness. Moreover, they recognize that the "process is already weakening the grip of European governments of their own economies, which now can be more easily moved by decisions made by private investors and speculators, rather than politicians."

⁹ Quoted by Thomas Friedman, "When Money Talks, Governments Listen", New York Times, 24 July 1994, p. E3.

¹⁰ *Ibid*.

¹¹ For a discussion of the debate surrounding loss of sovereignty resulting from GATT and the WTO, see Ronald Brownstein, "Critics See Foreign Ties as a Leash Around U.S. Neck," LA Times, 12 June 1994, p. 1.

¹² Woods and Baltzly cite the International Conciliation Association Pamphlet No. 70 in their 1915 paper titled Is War Diminishing?, p. 10-11.

¹³ Robert J. Art, "Excerpts from a Defensible Defense: America's Grand Strategy After the Cold War," International Security, Spring 1991, p. 5-53.

- ¹⁴ Richard Rosecrance, Rise of the Trading State: Commerce and Conquest in the Modern World, Basic Books, New York, 1986, p. 145-47.
- ¹⁵ Peter Drucker, "The Changed World Economy", Foreign Affairs, Spring 1986, p. 782.
- ¹⁶ Norman Angel, as quoted by Jaap de Wilde, "Norman Angell: Ancestor of Interdependence Theory," Interdependence and Conflict in World Politics, James N. Rosenau and Hylke Tromp, eds., Gower Publishing, Brookfield, VT, 1989, p. 26.
- ¹⁷ Richard Cooper's "Economic Interdependence and Foreign Policy in the Seventies" (World Politics 24 (January 1972): 158-181) represents the "archetype of this literature" (John Kroll, "The Complexity of Interdependence," International Studies Quarterly (1993) 37, pp. 321-348.
- ¹⁸ Keohane and Nye, p. 12.

¹⁹ Waltz has argued that sensitivity measure of interdependence are "economically more interesting" but "politically less important" than relationships of dependence. See Waltz, "Myth of Interdependence," in International Cooperation, ed. C. Kindleberger, Harvard University Press, 1970, p. 205-223, and Chapter 7, Theory of International Politics, 1979.

²⁰ See, for example, Robert O. Keohane, After Hegemony, Princeton University Press, 1984, and Robert Gilpin, War and Change in World Politics, Cambridge University Press, 1981.

²¹ David Baldwin, "Interdependence and power; a conceptual analysis," International Organization, 34:4, Autumn 1980.

²² Raymond Duvall, "Dependence and Dependencia Theory: Notes Toward Precision of Concept and Argument," International Organization 32 (Winter 1978), p. 51-78.

²³ The notion that power arises from asymmetrical interdependence is most often associated with Keohane and Nye as articulated in their influential book, Power and Interdependence. However, they were certainly not the first to introduce this idea. Predating Klaus Knorr ("International Economic Leverage and Its Uses", Economic Issues and National Security, 1977) and Kenneth Waltz's ("The Myth of National Interdependence", in Kindleberger's The International Corporation, 1970) work in this area, the classic treatment of this subject remains Albert O. Hirschman's 1945 study on international trade, a work which will be examined in more depth below.

²⁴ This interpretation of vertical vs. horizontal interdependence differs from other scholars' use of this terminology. Rather than distinguishing among domains (issue areas), Michael P. Sullivan (Power in Contemporary International Politics, University of South Carolina Press, 1990, p. 43-44) and Richard Rosecrance ("Whither Interdependence?", p. 427) use these terms to examine trend data exclusively within the economic domain of a bilateral relationship. Similarly, May Ann Tetreault ("Measuring Interdependence", p. 442-443) discusses bilateral vs. systemic interdependence, still within a strictly economic context.

²⁵ For example, David A. Baldwin, in discussing the contribution made by Hirschman, writes: "From a conceptual standpoint the period since 1968 has contributed very little to thinking about international interdependence" (International Organization 34, 4, Autumn 1980, p. 489). Keohane and Nye's book Power and Interdependence was first published in 1977 and remained essentially unchanged in its 1989 edition.

²⁶ Hirschman, p. 26.

²⁷ Commentator wishes to remain anonymous

²⁸ This source, who by agreement with the Naval War College, must remain anonymous, stated that the White House had made the economic dimension of national security "the number 2 component, knocking on number 1's door". Discussions took place on February 1, 1994, Naval War College, Newport, RI.

²⁹ "Our primary economic goal is to strengthen the American economy . . . The first step toward that goal was reducing the federal deficit . . ." A National Security Strategy of Engagement and Enlargement, The White House, US Government Printing Office, July 1994.

³⁰ Preoccupation with "class struggle" as the organizing concept of the Party's ideology has been abandoned: "It took decisive measures to eliminate the *interference* [emphasis added] of class struggle which was quite acute at certain quarters for a moment." Zheng Bijian, Gong Yuzhi, and Pang Xianzhi, "On the Political and Theoretical Significance of Volume 3 of the *Selected Works of Deng Xiaoping*," Renmin Ribao, Beijing, PRC, 13 December 1993, pp 1,3; translated and published by Foreign Broadcast Information Service, China edition, 93-239, 15 December 1993, p12.

³¹ Despite the impressive figures that follow, Richard Hornik has argued that there are many causes for concern regarding the Chinese economic miracle. He charges that the PRC's growth is a "facade" and that most aspects of the economy, when closely examined, reveal a "mess." He argues, that despite their best intentions, the CPC is incapable of managing the transformation to a market economy because of the dichotomy between the openness necessary for reform and the Party's demand for continued control. See Richard Hornik, "Bursting China's Bubble", Foreign Affairs, May/June 1994. p. 28-42. The Pacific Economic Cooperation Council, while more upbeat than Hornik on the longterm prospects for the Chinese economy, agrees that the pitfalls are immense (Michael Zielenziger, "Without You I'm Nothing - New report says China propels Pacific Rim Growth", Far Eastern Economic Review, June 23, 1994, p. 56.

-
- 32 "Asia Survey", The Economist, October 30, 1993, p. 14.
- 33 Yun-Wing Sung, "China's Impact on the Asian Pacific Regional Economy," Business and the Contemporary World, Spring 1993, p. 105.
- 34 Zielenziger, p. 56.
- 35 .Bijian, et al (op cit), FBIS China, 15 December 1993.
- 36 International Monetary Fund, International Financial Statistics, November 1995, p. 66-67.
- 37 "Asia Survey", p. 15.
- 38 "Asia Survey", p. 16.
- 39 Bijian, et al (op cit), p 13.
- 40 "Only when the productive forces are developed can we: Increase our material wealth, improve the people's livelihood, and provide the necessary material conditions for eliminating poverty; solve various problems arising in the process of economic and social development to maintain political and social stability; and can we increase the national strength, accelerate the modernization of national defense, raise China's international status, and create favorable conditions for achieving reunification of the motherland." Zhao Fulin, Secretary of Guangxi Autonomous Regional CPC Committee, "Earnestly Studying Volume 3 of the *Selected Works of Deng Xiaoping*," Renmin Ribao, Beijing, China, 26 November 1993, p. 5; translated and published by Foreign Broadcast Information Service, China edition, 93-240, 16 December 1993, p. 41.
- 41 Li Ruihuan, CPC Central Committee Political Bureau Standing Committee member, quoted in Tzu Ching No 12, 5 Dec 1993, pp 8-11; translated and published by Foreign Broadcast Information Service, China edition, 93-240, 16 December 1993, p.15.
- 42 Ruihuan, p. 15.
- 43 "Asia Survey," p. 13.
- 44 See Thomas L. Friedman, "U.S. Pares Imports of China's Fabrics in a Punitive Move," New York Times, January 7, 1994, p. 1, and Patrick E. Tyler, "Textile Accord With China Averts Trade Clash," New York Times, 18 January 1994, p. D1.
- 45 This was reported in the lead story of the Beijing China Daily newspaper, 30 July 1994.
- 46 Jim Hoaglund, "Battered in Beijing," Washington Post National Weekly Edition, 21-27 March 1994, p. 29.
- 47 Louis Uchitelle, in "Back to Business on China Trade," New York Times, May 27, 1994, p. D1, quotes the Bureau's 1993 statistics that show \$31.5b exported from China to the US while the US sent \$8.7b to China.

⁴⁸ The numbers cited come from the IMF's Direction of Trade Statistics, June 1994 edition. Many other figures have been cited. For example, U.S. News and World Report suggests the China-to-US export figure is 38% ("The China Syndrome," 21 March 1994); Secretary of State Christopher claims the number is "almost 40%" (Foreign Policy Bulletin, May/June 1994, p.28); in an interview with the author, Christopher J. Szymanski, Minister-Counselor for Economic Affairs at the US Embassy in Beijing, 28 July 1994, claims the right number is 27 percent. Not surprisingly, the Chinese dispute these numbers claiming that an interruption in China's MFN status would "seriously affect only 10% of China's exports" (Patrick Tyler, "Beijing Says It Could Live Well Even if U.S. Trade Was Cut Off," New York Times, March 21, 1994, p. A10).

⁴⁹ For a brief but lucid description of the difficulties of measuring international trade, see Bob Davis, "World-Trade Statistics Tell Conflicting Stories", Wall Street Journal, March 28, 1994, p. 1. For example, if profits earned overseas by all U.S. companies are added to trade statistics, trade deficits of \$28B, \$39.7B, and \$76.8B in 1991, '92, and '93 respectively become trade *surpluses* of \$24B and \$8.5B in '91 and '92, and the deficit for '93 is reduced to \$30.8B.

⁵⁰ International Monetary Fund, Direction of Trade Statistics, September 1995. These statistics are as reported by the United States, whose figures differ substantially from the People's Republic of China. The PRC does not include goods shuttled through Hong Kong and Taiwan, but destined for the United States, as part of their total exports to America. Washington, of course, does. It is also interesting to note that Chinese figures show that Japan is China's number one trading partner: in 1994, total trade with the US was listed at \$35.4B while trade with Japan reached \$47.8B.

⁵¹ "Colliding with China," The Economist, March 12, 1994, p. 37.

⁵² Susan V. Lawrence, "The China Syndrome", U.S. News and World Report, 21 March 1994, p. 39.

⁵³ Paul Davis, "Threatened by trade war," Providence Journal-Bulletin, March 29, 1994, p. D-1, D-14.

⁵⁴ Susan V. Lawrence, "The China Syndrome," p. 39.

⁵⁵ Uchitelle, p. D1.

⁵⁶ Jeff Cole, "Boeing Nears Major Order from China," Wall Street Journal, 26 May 1994, p. A3.

⁵⁷ Foreign Policy Bulletin, May/June 1994, p. 20.

⁵⁸ See Thomas L. Friedman, "U.S. to Maintain Trade Privileges for China's Goods", New York Times, May 27, 1994, p. A8, and Patrick E. Tyler, "Beijing Says It Could Live Well Even if U.S. Trade Was Cut Off," New York Times, March 21, 1994, p. A10.

- ⁵⁹ See "Gripped by China", The Economist, 27 November 1993, p. 15. Similarly, a Spanish delegation of 200 businessmen, headed by Deputy Prime Minister Narcis Serra, visited Beijing in late July 1994, signing seven agreements and memoranda with Vice-Premier Zhu Rongji, who praised Spain for "always tak[ing] the lead among European countries in developing ties with China." ("Zhu pledges closer relations with Spain", China Daily, 26 July 94, p. 1).
- ⁶⁰ "China Syndrome", p. 42.
- ⁶¹ "World Bank Reports on Foreign Investment in China," Foreign Broadcast Information Service, China edition, 93-240, 16 December 1993, p.4.
- ⁶² Wang Yong, "New policies planned on foreign investment", China Daily, 28 July, p. 1.
- ⁶³ Xiao Yong, "Foreign ventures do a third of trade", China Daily, 27 July 94, p. 1).
- ⁶⁴ "The China Syndrome," p. 39.
- ⁶⁵ In late February, State Department Assistant Secretary for Human Rights, John Shattuck, emphasized that MFN would not be renewed if human rights concessions were not forthcoming. In early March, Under Secretary of Commerce, Jeffery Garten, extolled the virtues of continued bilateral trade expansion.
- ⁶⁶ Foreign Policy Bulletin, May/June 1994, p. 27.
- ⁶⁷ Hobart Rowen, "Who's Driving This Thing?," Washington Post National Weekly Edition, 28 March-3 April 1994, p. 5.
- ⁶⁸ Hoagland, "Battered in Beijing," p. 29.
- ⁶⁹ Philip Terzian, "Revenge of the China rhetoric", Providence Journal-Bulletin, 27 March 1994, commentary section.
- ⁷⁰ See "Crackdown sets bad tone for Christopher's trip to China," Providence Sunday Journal, 6 March 1994, p. A13.
- ⁷¹ In the months following the signing of the executive order on May 28, 1993, a series of incidents strained US-Sino relations including the *Yin He* freighter incident, discovery of M-11 missile technology transfer to Pakistan, and the conduct of a Chinese nuclear weapons test in the face of protestations from Washington.
- ⁷² "Secretary Christopher's Visit to China: Human Rights and Most-Favored-Nation Renewal," Foreign Policy Bulletin, May/June 1994, p. 21.
- ⁷³ Foreign Policy Bulletin, May/June 1994, p. 28.
- ⁷⁴ Elaine Sciolino, with Thomas L. Friedman and Patrick Tyler, "Clinton and China: How Promise Self-Destructed," New York Times, May 29, 1994, p.1.

⁷⁵ *Ibid*, p. 8.

⁷⁶ See Thomas L. Friedman, "Bentsen Wants Compromise With China on Rights," New York Times, March 20, 1994, p. 20.

⁷⁷ Patrick I. Tyler, "Beijing Says It Could Live Well Even if U.S. Trade Was Cut Off," New York Times, March 21, 1994, p. 1.

⁷⁸ "U.S. Renews Most-Favored-Nation Trade Status for China," U.S. Department of State Dispatch, May 30, 1994, Vol. 5, No. 22, p. 345.

⁷⁹ *Ibid*, p. 345.

⁸⁰ These include: denial of participation in the U.S. Trade and Development Assistance Program; OPIC and the U.S.-Asia Environmental Partnership Program; continued opposition to non-basic human needs loans by the World Bank to China; and denial of dual-use technology licenses and U.S. munition list items.

⁸¹ See "Crackdown sets bad tone for Christopher's trip to China", Providence Sunday Journal, March 6, 1994, p. A13, and "Colliding with China", The Economist, March 12, 1994, p. 37.

⁸² See Tyler, "Beijing Says It Could Live Well Even if U.S. Trade Was Cut Off," p. A10.

⁸³ Daniel Williams and Clay Chandler, "The Hollowing of a Threat", Washington Post Weekly Edition, May 16-22, 1994, p. 18.

⁸⁴ "China's Bad Report Card," New York Times editorial, 9 February 1994.

⁸⁵ J.C. Harsanyi, Rational Behavior and Bargaining Equilibrium in Games and Social Situations (New York: Cambridge University Press, 1977), p. 186-189.

⁸⁶ For an authoritative overview of the PRC's military build-up and modernization program, see Robert G. Sutter and Shirley Kan, "China As A Security Concern in Asia: Perceptions, Assessment, and U.S. Options", Congressional Research Service (CRS) Report to Congress No. 94-32 S, 5 January 1994, p. 8.

⁸⁷ The Missile Technology Control Regime (MTCR) was established in 1987 by the United States, France, United Kingdom, Canada, West Germany, Italy, and Japan. Neither a treaty nor an executive agreement, it is instead a set of guidelines that "member" countries agree to abide by with regards to the selling or transfer of systems, subsystems, or components of missile systems capable of delivering a nuclear warhead. A missile with a range of 300 kilometers (186 miles) and a payload of 500 kilograms (1100 pounds) was deemed to fall into that category. Unlike the IAEA, no organization exists to monitor compliance, although the US has passed domestic legislation (Arms Export Control Act and Export Administration Act) that has the effect of implementing MTCR guidelines. Neither China nor the former Soviet Union was approached for original membership. In January 1993, the MTCR guidelines were expanded to include missiles capable of delivering chemical and biological munitions. China agreed to abide by the earlier guidelines but not the latter, although the M-9 and M-11 missiles are covered by the earlier protocol.

⁸⁸ For an excellent summary of China's proliferation activities, see Robert Shuey and Shirley A. Kan, "Chinese Missile and Nuclear Proliferation: Issues for Congress," CRS Issue Brief, Congressional Research Service, Library of Congress, August 23, 1995.

⁸⁹ Elaine Sciolino, "U.S. and Chinese Reach Agreement on Missile Export," New York Times, October 5, 1994, p. 1.

⁹⁰ Gary Milholin and Gerard White, "A New China Syndrome: Beijing's Atomic Bazaar," Washington Post, 12 May 1991, p. C1.

⁹¹ *Ibid.*

⁹² Nucleonics Week, 23 May 1991.

⁹³ Although concerned about Iran's ability to pay, China was equally concerned with US public law that required "detailed presidential certifications" of Chinese compliance with nuclear export agreements, particularly the guidelines of the NPT. Without these certifications, the PRC would not be allowed to contract with American firms such as Westinghouse Electric for advanced nuclear power technology needed to support their plans for at least 14 new nuclear reactors in the next 30 years. See R. Jeffrey Smith, "China-Iran Talks Spark U.S. Worry," Washington Post, April 17, 1995, p. 1; John M. Goshko, "China Drops Reactor Deal With Iran," Washington Post, September 28, 1995, p. A22; Elaine Sciolino, "China Cancels Deal for Selling Iran 2 Reactors," New York Times, September 28, 1995, p. A1; and Shuey and Kan, op cit., p. CRS-13.

⁹⁴ Nucleonics Week (24 September 1992, October 1, 1992) reported that Iran had nearly procured a plutonium production research reactor from China and important fuel cycle systems from Argentina. The US was successful in halting these shipments, with MFN conditionality a factor in China's case.

⁹⁵ Shuey and Kan, p. CRS-9.

⁹⁶ John W. Lewis, Hua Di, and Xue Litai, "Beijing's Defense Establishment: Soling the Arms-Export Enigma," International Security, Spring 1991 (Vol. 15, No. 4), p.

⁹⁷ Personal interview, US Embassy Beijing, 27 August 1994.

⁹⁸ Lewis, p. 108-109.

⁹⁹ Senate Bill 1172 (McCain/Lieberman) and Senate Bill 1054 (Glenn)/House of Representatives Bill 2358 (Lantos).

¹⁰⁰ Erik Wemple, "Wow!", Commentary, Export Control News, March 31, 1994, p. 11.

¹⁰¹ Personal interview with Dr. Eden Woon, 24 June 1994, Office of the Assistant Secretary of Defense for International Security Affairs, Pentagon, Washington DC.

¹⁰² *Ibid.*

¹⁰³ Personal interview with Colonel Rocky Roland, Air Attaché, US Embassy, Beijing, 29 July 1994.

¹⁰⁴ Freedman, "Clinton and China", op cit, p. 8.

¹⁰⁵ For an indepth review of the history of COCOM, see Michael Mastandano, Economic Containment, COCOM and the Politics of East-West Trade (Ithaca, N.Y.: Cornell University Press), 1992.

¹⁰⁶ *Ibid.*, pp. 302-307.

¹⁰⁷ R. Jeffrey Smith, "U.S. Agrees to New System for Curbing Sensitive Exports," Washington Post, September 20, 1995, p. 15.

¹⁰⁸ Dr. Szymanski is Minister Counselor for Economic Affairs, US Embassy, Beijing. His comments come from a personal interview with the author, 28 July 1994, op cit.

¹⁰⁹ "China Opposes an arms race - Qian", China Daily, 26 July 94, p.1.

¹¹⁰ F-16ADF's were developed specifically for US Air National Guard squadrons dedicated to the North American Aerospace Defense Command (NORAD), in which they currently serve.

¹¹¹ The best study of the North Korean nuclear program and the Clinton Administration's response is found in William E. Berry Jr., INSS Occasional Paper #3, North Korea's Nuclear Program: The Clinton Administration's Response, USAF Institute for National Security Studies, March 1995.

¹¹² William J. Taylor, Jr. "North Korea and Nuclear Weapons," ROA National Security Report, February 1994, p. 147.

¹¹³ The author's discussions with US Embassy officials in late July, 1994, indicated that, despite public pronouncements, a number of leading Beijing policy think-tanks felt China was likely to abstain from a UN vote on limited sanctions.

¹¹⁴ Chinese Foreign Minister Qian Qichen as quoted by Patrick E. Tyler, "China Tells Why It Opposes Korea Sanctions," New York Times, 13 June 1994, p. A5.

¹¹⁵ FBIS Hong Kong message 111005Z July 1994. For more on the PRC-DPRK economic relationship, see "A nervous posse assembles against North Korea," The Economist, March 26, 1994, p. 39; FBIS China Daily, 18 August 1994, p. 5, "Article Views Economic, Military Aid to DPRK"; and Susan V. Lawrence, "Bullish on Pyongyang", U.S. News and World Report, February 21, 1994, p. 49.

¹¹⁶ FBIS Hong Kong Message, 240930Z June 1994, Subj: "Column Views Beijing's Advice to DPRK." See also, Patrick Tyler, "China Tells Why It Opposes Korea Sanctions," op cit. The author's discussions with US Embassy officials in late July, 1994, confirm that the PLA, although still maintaining fairly close ties with its North Korean counterparts, had no desire to become militarily involved with Pyongyang over this issue.

¹¹⁷ Taken from a copy of the United States Information Agency's Foreign Media Reaction Daily Digest, June 10, 1994, provided by the Defense Attaché Office, US Embassy, Beijing.

¹¹⁸ The information in the following two paragraphs was gathered during informal discussions with anonymous sources during the author's 26-31 July 1994 trip to Beijing.

119 Revolutionary credentials are not lost on the younger Kim. An FBIS report out of Okinawa, 11 July, 1994, relates the following story about a visit to China by Kim Chong Il in June 1983: "According to a Chinese source, when (the late former Chinese President) Li Xiannian asked Kim to 'have a seat', Kim declined to sit in a chair. He took out a pen and a note from his shirt pocket and stood to listen to Li's story. According to the source, this is because Kim Chong Il faithfully obeyed his father's instruction: "There is no place where you sit down in a venerable Chinese revolutionist's presence."

120 With the American side pushing for a UN Security Council *resolution* calling on the North Koreans to allow IAEA inspections to continue, the Chinese suggested, and the US agreed to, a less punitive *statement*, with somewhat milder language. Paul Lewis, "U.S. and China Reach Accord at U.N. on Korean Nuclear Issue", New York Times, April 1, 1994, p. A7.

121 Robert Keohane defines "harmony" as a situation in which "actors' policies (pursued in their own self interest without regard for other) *automatically* facilitate the attainment of others' goals" whereas "cooperation" requires that actions "be brought into conformity with one another through a process of negotiations, which is often referred to as "policy coordination." After Hegemony, 1984, p. 51.

122 Telephone interview with David Wallace, member of the US Mission to the United Nations, 16 July 1994.

123 Patrick Tyler, "A Puzzle for the Chinese: How to Chastise an Old Ally", New York Times, 2 April 1994, p. A1.

124 David Wallace, op cit.

125 Policy Letter, Office of the Secretary of the Air Force, September 1994, p. 1.

126 Thomas L. Friedman, "Blinking First on U.S.-Japan Trade," New York Times, September 27, 1994, p. E2.

127 Michael Kramer, "A Rung on the Ladder to War," Time, 13 June 1994, p. 31.

INSS OCCASIONAL PAPERS

1. *Explaining Weapons Proliferation: Going Beyond the Security Dilemma.* Gregory J. Rattray, July 1994

2. *The Ukrainian Military: Instrument for Defense or Domestic Challenge?* Oleg Strelak, November 1994

3. *North Korea's Nuclear Program: The Clinton Administration's Response.* William E. Berry, Jr., March 1995

4. *Environmental Assistance as National Security Policy: Helping the Former Soviet Union Find Solutions to its Environmental Problems.* Robert L. Dunaway, November 1995

UNITED STATES AIR FORCE ACADEMY

**Lieutenant General Paul E. Stein
Superintendent**

**Brigadier General Ruben A. Cubero
Dean of the Faculty**

**HEADQUARTERS, US AIR FORCE
PLANS AND OPERATIONS DIRECTORATE**

**Major General Robert E. Linhard
Director of Plans**

**Colonel Richard B. Wallace
Chief, National Security Negotiations Division**

**USAF INSTITUTE FOR NATIONAL SECURITY
STUDIES**

**Lieutenant Colonel Jeffrey A. Larsen
Director/Editor**

**Editor
Major Timothy J. Krein
USAF Reserves**

**Ms Judy Thurlow
Cover Design**

**2Lt Grant Simmons
Technical Support**

USAF Institute For National Security Studies

USAFA/DFE
2354 Fairchild Drive, Suite 4K25
US Air Force Academy
Colorado Springs, CO 80840

(719) 472-2717
DSN: 259-2717
FAX: (719) 472-2716