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A THINK TANK WITHOUT WALLS

The Big Issues in U.S.-China Relations: The Silent Debate

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In a presidential election in which foreign policy occupies a less than central role, it may come as no surprise that China and U.S.-China relations are virtually absent from the debate. As *LA Times* columnist Jim Mann observed regarding the presidential campaign and U.S. policy toward China, "The country ought to be having a debate, but instead our political leaders act as though they have all been afflicted by an epidemic of lockjaw." Indeed, there appears to be a more public debate in China about U.S.-China relations than in the United States.

The debate within the U.S. over China's accession to the WTO seemed to end with a whimper rather than a bang, with an 83-15 vote in the Senate approving PNTR for China. But as I discuss below, the debate over the WTO is not over. Furthermore, two other issues involving China that have global implications—nonproliferation, and climate change—are also effectively absent from the presidential campaign. Whoever wins the election, the U.S. public has been let down by a Clinton administration that has been unable to develop a coherent China policy outside of trade liberalization, and betrayed by a presidential campaign unwilling to address major foreign policy issues.

WTO accession

On November 2, negotiations will resume at the working group on China's accession to the WTO. The 14-year-old talks on China's accession broke down in September after several important WTO members, led by the United States and the European Union (EU), insisted that China must not have one set of rules for its domestic economy and enterprises, and another for foreign companies and international trade. In September, the Chinese side backpedaled on its previous commitment to a timetable for opening its telecommunications market, reducing or abolishing export subsidies, and other market-opening measures. WTO Working Group members also maintained that given China's opaque legal system, the overall rules for it to join the trade body must be more stringent. Part of the problem for the current distrust about China's ability to comply with the WTO rules is that Beijing has not submitted its complete legislative plan on how it will conform with the trade body's complex rules. China said it would submit its proposed legislation plan of some 160 laws to comply with its WTO commitments, but so far it has placed only half of those laws for WTO members' consideration. China refused to give in to those demands, saying that it was not prepared to meet the "WTO-plus" conditions and what one Chinese official called "excessive demands concerning China's internal policies."

China still has three main hurdles to overcome before accession. First it must hammer out a market-access schedule in Geneva. Then it must complete protocol documents outlining its other commitments under the WTO agreements. The protocol for accession is the legal scaffolding for China's membership in the WTO, and is prepared on the lines of bilateral agreements that Beijing has already signed with Washington, Brussels, and 33 other countries. Finally, it needs to finish its bilateral negotiations with Mexico. Most analysts say China will likely not enter the World Trade Organization until the first or second quarter of next year, although China still publicly insists that it hopes to gain membership before the end of 2000.

Following the collapse of talks in September, U.S. Trade Representative Charlene Barshefsky and European Union Trade Commissioner Pascal Lamy visited China to get negotiations back on track. For the U.S., the main issue was the legislative plan for actually implementing the legislative changes linked to accession. In addition to that point, the EU was also concerned about China's failure to issue insurance licenses for foreign companies that had been detailed in the EU-China bilateral accord earlier this year. The insurance issue has been resolved.

This delay is due to a combination of several factors. One element is conventional statecraft, with China trying to get the best deal possible, hoping to make the fewest explicit commitments before its accession. A second element is the time required to restructure the regulatory frameworks for many sectors of the economy. The third, and probably most important, is that the accession process has exposed deep political divisions within the Chinese Communist Party and the state. While the Finance Ministry is full steam ahead, other Ministries, like Agriculture and many state-owned enterprises, are opposed to the liberalization measures that will be required under the WTO.

In the run up to accession China has also moved to change several key elements of its economic policy. In late October, a joint statement by U.S. Treasury Secretary Lawrence Summers and Chinese Finance Minister Xiang Huaicheng underlines Beijing's commitment to liberalize its present exchange-rate regime, which allows the currency to float within a narrow trading band. The band was originally instituted to prevent volatility. The yuan has been trading in a tight range between 8.2770 and 8.2800 to the U.S. dollar for more than two years The yuan is convertible only on the current account, comprised mainly of trade flows, while the capital account, covering investment, remains controlled. The Chinese central bank has been concerned about the movement of "hot money," particularly after the shock waves of the Asian crisis jolted the region. With China's entry to the WTO around the corner, a more flexible management policy for its currency will cushion it against future external financial shocks.

Signs that China's anti-liberalization forces are waging some fierce battles include:

- China's central bank is considering new restrictions on foreign banks that would limit lending in local Chinese currency to a multiple of operating capital. As the operating capital of most foreign banks is Rmb30m ($3.6 million), a cap being considered of between eight or 12 times of operating capital would marginalize them as participants in the banking business.
- A new telecommunications law, now being drafted, is also expected to restrict the award of operating licenses to foreign companies according to several criteria, including how much they are prepared to invest.
- New price controls on pharmaceuticals sold in China are also expected. These may limit the earnings of foreign drug companies in one of the world's fastest growing markets.

China's accession is hoped to spur an increase in foreign direct investment (FDI), which has slowed in recent years. Beijing has tried to supplement dwindling FDI flows with portfolio flows, and has raised more than $13 billion by listing shares of three its largest state-owned enterprises in New York, London, and Hong Kong. They included its two largest oil companies (PetroChina and Sinopec) and its second-largest telecommunications company, China Unicom. Future companies are likely to include Baoshan Iron & Steel, several banks, and more telecommunications firms.

While providing fresh capital, these IPOs have also provided new leverage for both progressive and right-wing forces to advance their own agendas. In April, human rights groups, labor unions, environmentalists, and right wing anti-China groups—like the Casey Institute of the Center for Security Policy (http://www.security-policy.org/papers/2000/00-F52.html)—campaigned against PetroChina's IPO, with the effect of lowering the proceeds from the IPO by an estimated 50%, according to the *Wall Street Journal*. This informal PetroChina coalition also targeted the Sinopec IPO, although with less open fanfare and with less impact to date. In both cases the main issue was the companies' operations in Sudan.

Two days after Sinopec's IPO, the Commission on International Religious Freedom sent a letter to the Securities and Exchange Commission, the body that vets stock listings, asking the SEC to investigate the "accuracy and adequacy" of Sinopec's filing. The Commission charged that Sinopec's prospectus had "a material omission" because "nowhere does it disclose any assets or operations in Sudan." Activists are pushing for investors to divest themselves of Sinopec shares. Should Sinopec's share price fall as a result of a divestment campaign, some activists are exploring the possibility of mounting class-action negligence suits against the SEC and Morgan Stanley Dean Witter, the oil firm's underwriters. Such a campaign against a Canadian oil firm with operations in Sudan has met with some success.

The AFL-CIO took a lower profile on Sinopec and is focusing on providing investors—such as American pension funds—with clear guidelines, including human rights criteria, to evaluate listings by companies from emerging markets. One of the union's first targets will be China's planned sovereign bond issue in November.

The opportunity for using access to U.S. capital markets as a tool for advancing a progressive foreign policy agenda is an important one—as long as China is not singled out.

Nonproliferation and military issues

Two major developments on military and security issues have also taken place: China released a new white paper on national defense, and the Clinton administration is engaged in new, quiet negotiations with China on nonproliferation.

The white paper (http://www.chinadaily.com.cn/cndydb/2000/10/d1-6re~1.a17.html) received generally positive reactions from analysts. (For the story on this issue see http://www.washingtonpost.com/wp-dyn/articles/A25890-2000Oct17.html.) It provides details on the structure of the Peoples' Liberation Army as well as the plans for its modernization. There was no information provided about numbers or types of weapons and equipment in use, or the deployment of forces—all categories of information that most arms analysts say China should provide. Nonetheless, the new report is widely regarded as a positive step forward in offering a better understanding of China's security strategy. Clearly, China regards the U.S. as a major security threat.

In response to nonproliferation concerns that briefly slowed the PNTR legislation in the Senate, evidence suggests that the Clinton administration is quietly negotiating a new arms-control agreement in which China would promise to stop supplying missile technology to Pakistan, Iran, and other countries. The movement toward a deal began in September, when China's top arms-control negotiator, Sha Zukang, met with officials from the National Security Council and the State Department, who were in Beijing to attend an arms-control conference.

The deal would fall short of the administration's oft-stated goal of bringing China into the Missile Technology Control Regime (MTCR—the accord signed by about 30 nations to restrict the export of missiles, missile parts, and know-how). (For links and background on this issue see http://www.foreignpolicy-infocus.org/papers/china/stumbling.html.)

Following Clinton's 1998 trip to Beijing, administration officials asserted that one of his main accomplishments had been winning China's assent to "actively study" joining the MTCR. China has balked at moving forward, however, and administration officials have decided to push for a less sweeping agreement in which Beijing would adopt its own laws on missile proliferation without joining the MTCR.

The Chinese have indicated a willingness to work out a deal in accord with the administration's approach. Negotiations now focus on how detailed and explicit the Chinese laws will be. The U.S. hopes to complete an agreement and sign it during Clinton's last months in office, perhaps at his meeting with Chinese President Jiang Zemin at the APEC summit in mid-November.

Last summer, the CIA reported to congress that China's technical assistance to Pakistan's missile program was increasing. The CIA claimed that China had been providing items such as guidance systems and specialty steels, as well as scientists and technical advice. The CIA, in an unclassified report covering the last half of 1999, said that in addition to Pakistan, "firms in China provided missile-related items, raw materials, and/or assistance to several countries of proliferation concern—such as Iran, North Korea, and Libya." (http://www.cia.gov/cia/publications/bian/bian_aug2000.htm#15)

The administration has been under pressure from Congress to impose sanctions against China for its export of M-11 missiles to Pakistan in 1992, and for subsequent missile-related sales to

Pakistan. Those exports appear to be covered by a 1990 law authorizing the imposition of sanctions to combat missile proliferation.

Policymakers and analysts are divided on both the administration's stated goal of bringing China into the MTCR as well as the new agreement which tries to achieve the substance of MTCR membership without its actual formal status. Skeptics argue that China is unlikely to actually implement the agreement, while others suggest that China uses the prospect of joining the MTCR as a bargaining chip with the U.S. policy toward Taiwan and missile defense.

Climate Change

Meanwhile, with the sixth Conference of parties to the Climate Convention (COP 6) scheduled for later this month (November 2000), the role of China in the negotiations, and the growing centrality of China in the overall greenhouse debate is increasingly apparent.

China is on track to become the world's number one emitter of carbon dioxide in 2020. China is the second largest emitter of carbon dioxide (behind the U.S.) accounting for 14 percent of the planet's total. By 2020 it is expected to surpass the U.S., emitting 18 percent of the world's total. However, China emits four times less carbon dioxide per person than developed countries. China will approach the COP-6 ready to torpedo any proposal that seeks to impose restrictions on developing countries' emissions, and is promoting along with India and a number of other Southern countries, a proposal to set equal per-capita emissions limits. (For discussion on this, see the FPIF commentary by Tom Athanasiou at http://www.foreignpolicy-infocus.org/commentary/climate-justice-blues.html.) The Chinese government argues strongly against reviving the issue of cutting developing countries' carbon gas emissions, and instead argues that the 38 industrialized countries that signed the Kyoto Protocol should meet their commitments on cutting emissions and for funding and technology transfers for developing countries.

The global effects of climate change are being felt within China as well. According to government data, the rise in temperature on the Tibetan plateau has exceeded the world average (up 0.8 degrees since 1950), threatening to dry up rivers which water a large part of Asia—such as the Yangtze, the Mekong, and the Yellow River. According to the International Energy Agency, China's energy consumption will more than double in the next 20 years, particularly since 77 percent of its energy consumption is provided by coal. The increasing number of vehicles in China is also a significant factor in the worsening pollution situation. The five-year social and economic development plan recently adopted by the Communist party places a priority on the environment, but at the same time, promises to "boost capacity to buy personal cars," according to state media reports.

China's pollution levels also carry a financial and health toll. After 20 years of rapid growth, the 1999 China Human Development Report estimates the cost of pollution on health and agriculture to be around eight percent of GDP.

The U.S. response to these challenges is weak. In contrast to Japan's environmentally oriented foreign aid, U.S. support is anemic, and provided largely through small, under-funded technical assistance initiatives under the auspices of the EPA. China is not eligible for funding from U.S. Agency for International Development (USAID) and is excluded from participating in the U.S.-Asia Environmental Partnership.

Conclusion

The failures of the Clinton administration to build an effective policy toward China is exacerbated by the fact that the presidential campaign has failed to address one of the central foreign policy relationships that will shape the future of the world. The U.S. public deserves a debate on these issues.

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