SUPPING WITH A LONG SPOON:
DEPENDENCE AND INTERDEPENDENCE IN
SINO-AMERICAN RELATIONS

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As China’s involvement in the world economy has deepened, Chinese leaders have sought to maintain a careful balance between the benefits offered by economic integration and the vulnerabilities it creates. The primary benefit is the chance to use foreign markets, capital and technology to fulfill the nationalist dream of turning China into a rich and powerful country. The vulnerabilities are felt on three fronts. First is a loss of control over popular thought within China. Deng Xiaoping’s remark that “when you open the window, flies and mosquitoes come in” expressed both Chinese concerns about the domestic political impact of the foreign ideas that accompany increased integration and Deng’s confidence that these problems could be managed. Other vulnerabilities are purely economic: increased integration into the world economy also means increased exposure to negative global economic trends, such as the oil shocks in 1973 and 1979, the debt crisis in the early 1980s, and the Asian economic crisis in 1997–98. The third set of vulnerabilities involves power: international economic relationships can create an economic dependence that gives foreigners political leverage over China. Chinese leaders are well aware of the political consequences of economic relationships, not least because they themselves have utilized the lure of access to the Chinese market as an effective diplomatic tool. Throughout the reform period, Beijing has sought to control the process of China’s integration into the world economy in order to avoid excessive economic dependence on other countries.

Other developing countries face similar dilemmas in balancing the opportunities and vulnerabilities presented by greater integration into the world economy. But China’s history of economic exploitation by foreigners and the

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lingering influence of Marxist–Leninist ideology make supporters of increased economic integration especially vulnerable to nationalist charges that they are selling out China’s interests to foreigners. Recently, as China’s integration into the world economy began to affect the state-owned enterprises that were the core of China’s socialist economy, reformers have come under attack from nationalists, conservatives and protectionists who question the benefits of deeper integration.¹

This paper seeks to explain an empirical puzzle: despite the long-established Chinese fears of economic vulnerability and worries about the dangers of hegemony, over the past decade China’s economic dependence on the United States has increased significantly. This trend has occurred despite Chinese hostility to the repeated (and sometimes successful) efforts by the Clinton and Bush administrations and the US Congress to use economic pressure to force Chinese concessions on human rights, economic disputes, and nuclear and missile proliferation. It has occurred during a decade of strained Sino-American relations and despite the fears of Chinese leaders and strategic analysts that the United States seeks to contain China, subvert its socialist system, and promote Taiwanese independence. It has occurred despite Chinese concerns that unchecked US power in the post–Cold War era poses a growing threat. Nevertheless, economic ties between the US and China have continued to deepen, and China has become increasingly dependent on access to the US market in order to maintain the high economic growth rates its leaders believe are necessary to maintain domestic social stability.

What explains the contrast between China’s frequently expressed concerns about maintaining sovereignty and independence, and the reality of China’s increasing economic dependence on the United States? Has China accepted the need for economic interdependence, or are economic forces operating independently of strategic and political concerns? Has China decided that the United States cannot use its economic leverage effectively, and that increased economic dependence on America will not necessarily create political vulnerability? Or is short-term dependence seen as a necessary price to pay to improve China’s long-term international position? Or do Chinese leaders have no alternative but to accept the risks of this dependency in order to maintain domestic social and political stability and preserve the Party’s hold on power?

In addressing these questions, this paper examines two aspects of the complex relationship between economics and security. The first focuses on how economic integration and interdependence influence Chinese decisions about internal and external security. The second examines how China’s rapid economic growth (and corresponding increases in China’s future military potential) are beginning to be perceived as a possible security threat by other countries, forcing Chinese leaders to pay more attention to the international consequences of their

economic and military decisions. In analysing these two factors, I begin by examining China’s strategic relationship with the United States during the later stages of the Cold War and the economic opportunities this created for China. I then examine Chinese thinking about the post–Cold War international system and Beijing’s perspectives on interdependence. I next probe into the quantitative indicators of Chinese integration into the world economy and assess the extent of Chinese dependence on the United States. The final section seeks to explain the empirical puzzle laid out above: why has Chinese economic dependence on the United States increased despite Chinese concerns about the political dangers?

Economics and Security

Because interdependence has numerous definitions in the political science and economics literature, it is necessary to define the terms used in my analysis. Economic integration refers to a country’s degree of participation in the world economy. Deeper economic integration affects the structure of the domestic economy as domestic firms are subjected to competition from imported goods, benefit from access to foreign capital and technology, and specialize to take advantage of new export opportunities. These structural changes allow greater gains from trade that improve overall economic welfare, but also increase the costs if trade and other international economic interactions are disrupted. Although the costs of such disruption are most accurately referred to as a country’s dependence on the world economy, many analysts use the term interdependence to refer to the restraints these potential costs impose on a country’s international behaviour. In a bilateral context, interdependence refers to the mutual dependence that develops in any bilateral economic relationship. Economic relations between two states give rise to varying degrees of mutual dependence, but the degree of economic dependence is often unequal. This is sometimes referred to as asymmetrical interdependence. If one country is much more dependent on the other, threats to curtail economic relations can give the less dependent country political leverage. Economic dependence in this paper refers specifically to the power relationships that result from asymmetrical economic interdependence between two countries.

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2 For a useful analysis and review of the international relations literature on interdependence, see Dale C. Copeland, “Economic Interdependence and War: A Theory of Trade Expectations”, International Security, Vol. 20, No. 4 (Spring 1996), pp. 5–41. In China’s case, “dependence on the world economy” is a more accurate term than interdependence inasmuch as the world economy’s dependence on China is extremely limited. Nevertheless, because the term interdependence is commonly used in international relations theory, this paper will follow the standard usage.


4 Dependency theory analysts use the term dependence to describe the asymmetrical economic and power relationships between less developed states and the capitalist world economy in general, and the term dependent development to describe the impact of these
Economic growth has been China’s top priority since its economic reforms began in 1978. Deng Xiaoping’s judgement that war was unlikely and that “peace and development” were the dominant international trends allowed China to focus on economic development while relegating military modernization to a lower priority. Chinese leaders have sought to maintain an international environment favourable for economic development throughout the reform era. Within the security realm, this has involved efforts to improve China’s relations with its neighbours in order to ease immediate security threats and remove obstacles to international economic cooperation. Within the economic realm, Chinese officials have sought to open international markets while protecting key sectors of the domestic market in a manner similar to the mercantilist development strategies of other East Asian states. Madelyn Ross argues that China has consistently practiced economic nationalism in the international arena, and that “the driving force behind all of China’s foreign economic relations — to make China stronger, more modern, and more self-reliant — has not wavered”. In line with this, Chinese economic reformers have used competition from imported goods to force Chinese enterprises to become more efficient, and have encouraged foreign investment to improve Chinese technology and management practices.

Increased integration into the world economy thus serves the Chinese goal of building a “rich country and strong army”, but integration does not simply involve the relationship between China’s economy and the world economy. Instead China confronts a world of economically powerful states which both cooperate and compete. Chinese decisions about how much economic integration to accept are not based solely on how integration into the global market will affect China’s domestic economic and political situation; they are also based on expectations about how other powerful states will respond to increasing Chinese power. For this reason, Chinese strategic beliefs about how the United States and other great powers will behave are important. During the later stages of the Cold War, China’s relatively weak economy and its strategic relationship with the United States dampened international reactions to Chinese economic growth. But changes in the international system, strained bilateral relations with the United States, China’s economic success, the heightened importance of economic competition in the post–Cold War era, and fears about how a strong China will behave in the future have all focused increased international attention on China.

The widespread view of China as an emerging great power is based largely on China’s rapid economic growth rate since the late 1970s. In the two decades from 1979 to 1998, China grew faster than any country in the world, averaging a real growth rate of about 8 per cent. Several recent projections suggest that China

relationships on developing economies. Because the developed countries have been unable to act collectively to convert China’s dependence on the world economy into political influence, in this paper the term economic dependence is restricted to bilateral relations.

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has the potential for continued rapid development over the next several decades and may eventually possess the world’s largest economy.\textsuperscript{6} As Avery Goldstein has noted, however, the perception of China as a rapidly rising power is partly because China’s economic and military growth commenced from a low starting point.\textsuperscript{7} Moreover, in light of the many difficult challenges Chinese leaders face as they seek to reform state-owned enterprises and to construct a social safety net for a population of 1.2 billion people, continued rapid economic expansion is by no means a certainty. Nicholas Lardy has pointed out that China shares many of the weaknesses of the countries affected by the Asian economic crisis, including a weak financial system heavily burdened by nonperforming loans.\textsuperscript{8}

Notwithstanding these economic problems, Western and Asian fears of a potential “China threat” are driven largely by the assumption that continued Chinese economic growth will eventually provide the foundation for a substantial increase in Chinese military power, and by uncertainty about how China is likely to use this power in the future. China’s use of military intimidation against neighbouring countries reinforces these concerns. From a realist perspective, China represents an implicit challenge to the position of the United States in Asia and the world. Realist analysts point out that previous challenges to an established hegemony by a rising power frequently resulted in wars.\textsuperscript{9} China is often explicitly viewed as a revisionist power that seeks to change the rules of the international system.\textsuperscript{10} From a liberal perspective, China’s authoritarian regime and history of threats and aggressive behaviour against neighbouring countries lead to concerns about whether a strong China is likely to behave responsibly. At the same time, liberals argue that increasing integration into the world economy and growing economic interdependence will reinforce China’s need to abide by the international rules of the game. Both the realist and liberal perceptions provide reasons for other states to pay close attention to Chinese economic growth and its impact on China’s military power.

\textsuperscript{8} Nicholas R. Lardy, “China and the Asian Contagion”, \textit{Foreign Affairs} (July/August 1998), pp. 78–88.
Sino-American Relations during the Cold War

Although Sino-American relations have historically suffered from mutual misperceptions, cultural differences, and unrealistic expectations, these problems were largely muted in the 1970s and 1980s because bilateral relations were based on a clear strategic logic. For both China and America, the rationale for rapprochement was to resist the threat posed by an expansionist Soviet Union. The primacy of security interests in US foreign policy during this period meant both that realpolitik served as a reasonably accurate guide for understanding America’s China policy and that China’s poor understanding of the United States did not have major negative consequences. The chief obstacle to their relations lay in their differences over Taiwan, which China regarded as a vital issue of national unity. Chinese pressure for American concessions on Taiwan waxed and waned according to Chinese perceptions about whether the United States or China needed the other partner more. These perceptions were defined primarily in strategic terms according to the relative balance of power between the United States and the Soviet Union.

This relationship imposed minimal demands on China and helped make cooperation with the United States possible despite major differences in ideology and social systems. Although China did make some significant contributions to US security interests such as joint intelligence programs to monitor Soviet missile tests and support for Mujahedin rebels in Afghanistan, its most important contribution was to keep a significant portion of the Soviet military tied down along the Sino-Soviet border. Michael Yahuda has argued, however, that in light of China’s relative weakness, Beijing’s actual strategic importance in the Sino-Soviet-American triangle was greatly exaggerated, not least by the Chinese. Nonetheless, China’s advantageous position as the balancer within the strategic triangle helped Chinese leaders to maintain a degree of strategic independence and protect Chinese national sovereignty. The strategic basis of Sino-American relations meant that it was relatively easy for Beijing to satisfy Washington’s most pressing demands without making major changes in its domestic structure.


The Sino-American strategic relationship also allowed Chinese leaders to end China’s international isolation and manage China’s gradual integration into the world economy on their own terms. Susan Shirk’s argument about the dominant role of Chinese domestic politics and institutions in China’s gradual integration into the world economy is persuasive, but US political support for China’s entry into the world economy also played an important facilitating role and helped China gain access to Western capital and technology. While American business was interested in access to the China market, economic relations were important to Washington mainly as a means of stabilizing the strategic relationship. More than that, Washington viewed improvements in Chinese economic and military power as positively serving American interests by creating a more effective Chinese balance against Soviet power. China’s direct economic value to the United States was relatively limited, but so was the challenge posed by its exports, and the low volume of bilateral trade through the 1980s reduced US pressure for China to make economic concessions. This favourable situation allowed Beijing to pursue both economic growth and increased national power without worrying about reactions from other great powers.

While liberal thinking about interdependence focuses on the ways increased integration into the world economy constrains states, the peculiar circumstances of China’s re-entry into the world economy did not challenge long-held views within China about the need to safeguard its sovereignty against outside interference. This was because Beijing was able to control the pace of economic integration to accommodate domestic economic conditions and the need to maintain political consensus within the top leadership. This situation changed dramatically in 1989, when the end of the Cold War undercut the strategic foundations of Sino-American relations and the Tiananmen incident strained bilateral relations and poisoned foreign perceptions of the PRC government. These shifts not only removed structural constraints against US efforts to use economic leverage against China, but led Congress and many American interest groups to advocate the use of economic pressure to force changes in China’s domestic political and economic system. Within China, this unexpected turn of events gave the issue of economic dependence on the United States new salience, and forced Chinese leaders to confront trade-offs they had previously been able to ignore.

Chinese leaders believe the United States has pursued a strategy of “peaceful evolution” aimed at gradually subverting the Communist Party’s power. From the Chinese perspective, the United States has regularly attempted to use its economic power to force China to make costly human rights and economic concessions that threaten the regime’s survival. American measures that China


has viewed as hostile have included bans on exports of military and nuclear technology to China, efforts to restrict loans to China from international financial institutions, restrictions on export financing, efforts to link renewal of China’s MFN status with improvements in human rights conditions, threats of economic sanctions for violations of intellectual property rights and textile export agreements, and insistence on tough conditions for China’s entry into the World Trade Organization (WTO). These measures, combined with inconsistent US policy on Taiwan, convinced many Chinese leaders and analysts that the United States was seeking to weaken and fragment China. In 1997–98 the two governments attempted to reduce tensions by announcing their intention to work towards a “constructive strategic partnership”, but this effort has foundered in the wake of allegations of Chinese nuclear espionage and the accidental US bombing of the Chinese embassy in Belgrade.

**Chinese Perspectives on Hegemony**

China’s increasing trade dependence on the United States is especially puzzling because both the realist and Marxist–Leninist strands in Chinese strategic analysis consistently have emphasized the dangers a hegemonic power poses to Chinese security. Chinese conflicts with the Soviet Union during the Cold War were partly based on the perception that Soviet aspirations to hegemony posed a major threat to China’s independence. The unipolar structure of the post–Cold War international system means that America’s capacity to impose its hegemony is far stronger and potentially more threatening to China and that Beijing’s ability to resist US pressure by forming alliances with other powers is limited.

The dominant Chinese view is that the present international structure is best characterized as “one superpower and several great powers”. This structure lies somewhere between unipolarity and multipolarity, but Chinese analysts believe a trend toward multipolarity will eventually reduce China’s vulnerability to US pressure. Chu Shulong, a prominent analyst at a government think tank, writes that “The United States is indeed the only superpower in the world today, yet it is also true that a process of multipolarization has been underway throughout the

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17 See Saunders, “China’s America Watchers”.

18 The two schools differ in their analysis of the motivations for hegemony, with realists emphasizing state interests and Marxists seeing class interests as the driving forces. The realist strand emphasizes the danger of a dominant hegemon able to force its views on other countries and the Marxist–Leninist perspective interprets American efforts to “expand the community of market democracies” as a new form of capitalist imperialism. But because both perspectives view hegemony as something to be resisted by seeking any available allies, analytical differences lead to the same policy prescriptions.

world”.20 A professor at China’s National Defense University argues: “In the next five or ten years, the global structure will quickly undergo multipolar development ... Although hegemony and power politics will remain as the main obstacles in international relations, the trend towards multipolarity cannot be reversed. The restraining effect of other strategic powers on hegemonic behaviour will clearly strengthen”,21 Chinese realists share the view that a multipolar world is more peaceful and stable than a bipolar world (and certainly more stable than a unipolar world).22 A multipolar world provides China with maximum strategic flexibility and limits the chances of a hostile combination of powers ganging up against China. Much of the Chinese debate about international relations revolves around the ultimate impact of differential rates of economic growth among the great powers and the extent and speed of America’s decline from superpower status to a position as just one of several great powers.23 Chinese realists view economics as the ultimate basis of “comprehensive national strength” and emphasize the impact of different economic growth rates as a key dynamic in international relations.24

These views give Chinese realists cause to worry about the continued strength of the US economy and America’s consequent international economic dominance. The anticipated trend toward a multipolar system that would reduce America’s relative power and give China greater international flexibility has all but evaporated, as Japan, Western Europe and Russia have suffered from domestic economic problems. From 1990–97, economic growth in the US was faster than in all the great powers except China, implying that US economic power was increasing relative to other powers (see Table 1).

22 These views contrast with those of American structural realist Kenneth Waltz, who views a bipolar world as the most stable international structure. See Kenneth N. Waltz, Theory of International Politics (New York: Random House, 1979), Chapter 8, pp. 161–93.
24 Because Marxism and realism are both materialist theories, their views about the primacy of economics are similar. The theories differ in their analysis of whether class interests or national interests drive state behaviour, but their underlying similarities have made it easy for Chinese analysts to move from Marxism towards realism. See Chapter 2 of Robert Gilpin, The Political Economy of International Relations (Princeton: Princeton University Press, 1987).
Table 1: Real GDP growth rates, 1990–97

<table>
<thead>
<tr>
<th>Country</th>
<th>Average real GDP growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>2.5%</td>
</tr>
<tr>
<td>Japan</td>
<td>1.4%</td>
</tr>
<tr>
<td>France</td>
<td>1.3%</td>
</tr>
<tr>
<td>Germany*</td>
<td>2.5%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.9%</td>
</tr>
<tr>
<td>Russia</td>
<td>-9.0%</td>
</tr>
<tr>
<td>China</td>
<td>11.9%</td>
</tr>
</tbody>
</table>

* For 1990–91, before the reunification of Germany, the data used included only West Germany.


Some Chinese analysts argue that America’s recent economic growth spurt is only temporary, and that other great powers can catch up quickly as they emulate American economic restructuring. The majority view is that while the United States significantly improved its relative position in the 1990s, internal divisions and social problems will eventually limit US power and its ability to exercise global leadership. Most analysts conclude that a multipolar system will emerge, but that it will take longer than previously expected. A few analysts, though, see a different future: the United States is the first country to make the transition to an information-based economy, and it may therefore strengthen its relative position over the long term.

Chinese analysts whom I have interviewed stress that China does not pose a challenge to the United States due to its relative weakness. In general, they acknowledge America’s current economic and military dominance and declare

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that China does not seek to challenge the United States directly. One senior Chinese analyst stated that “there’s no way for the Chinese military or the Chinese economy to catch up to the US in the foreseeable future”. Asked how far away the foreseeable future was, he replied that China would not be able to catch up to the United States in military technology by 2050. Even if the size of China’s economy equalled that of the United States by 2020–30, it would still lack the “quality” of the US economy in terms of technological sophistication. Chinese analysts — including those affiliated with military institutes — emphasize that China is still a developing country and that economic construction will remain China’s top priority. One military analyst predicted that economic development would be the central element of China’s national interest for the next hundred years. These views have been challenged. Recently a significant minority of Chinese analysts have argued that the US military’s ability to intervene in Kosovo without suffering any casualties indicates that China needs to devote more resources to military modernization. But most Chinese analysts reiterate that China needs a stable international environment in order to continue economic development.

When I interviewed a number of such analysts at a variety of civilian and military research institutes in Beijing and Shanghai during 1997–99, some of them expressed the hope that bilateral efforts to work toward a constructive strategic partnership might lead the United States to accept that China’s rising economic power is not detrimental to American interests. Yet their own tendency to focus on international power relationships among nations leads them to worry that the United States will eventually resist China’s emergence as a potential rival. A Chinese historian saw the problem in terms of hegemonic transitions: “Some Americans are afraid the power structure will change fundamentally, their economic advantage will be hampered, and their strategic sphere of influence lost. Historically, most of the old powers have held such a mentality towards rising new powers”. While Americans view bilateral economic disputes over intellectual property rights, market access, technology transfer, and China’s entry into the WTO as part of normal economic negotiations between countries, many Chinese analysts tend to interpret tough American negotiating positions as a strategic effort to impede China’s economic growth.

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28 Some of the analysts who were interviewed regularly advise Chinese officials on policy toward the United States. Although their published writings frequently follow the government policy line, they often spoke more candidly in private interviews. I have tried to give some sense of their differing views in the text, but should note that realist views were more common than liberal views.

Chinese Perspectives on Interdependence

Chinese attitudes towards interdependence draw upon both liberal and realist perspectives on international relations. Liberal international relations theory emphasizes the mutual benefits from economic interaction and the importance of international cooperation to solve transnational problems such as environmental degradation.30 Chinese analysts with this view hold a “receptive attitude towards increasing globalization and interdependence in the world economy and politics”.31 For these analysts, US leadership is not necessarily a threat to Chinese sovereignty, but a requirement for a stable global economy that is a precondition for Chinese economic development. One liberal Chinese analyst has written that “The globalization of the world economy and politics objectively demands a leadership. The United States is the best candidate for the position”.32 The Asian economic crisis has reinforced Chinese perceptions about the importance of international cooperation in managing the international economy. Chinese analysts argue that China has made major contributions to economic stability by not devaluing the renminbi, but some also recognize the importance of US leadership in preventing the crisis from spreading.

Conversely, realism focuses more on the power relationships of vulnerability and dependence created by economic interdependence.33 Chinese realists are keenly aware of the political costs of dependence, but nonetheless are seldom willing to acknowledge China’s vulnerable position. Most now understand the necessity of keeping the door to the outside open if China is to develop into a great power. As one Chinese military analyst put it, “In this age, the spread of information isn’t preventable. Being open to the world is a good policy. Mao’s way wasn’t; that was the Middle Kingdom way. It was a forbidden city — everything was forbidden. There was no new thinking, no new knowledge”.

Although a small number of Chinese analysts view interdependence as a normatively desirable condition, most tend to deploy interdependence arguments as a tactical defence of China’s interests. When Chinese analysts discuss interdependence with foreigners, they tend to emphasize the cooperative and


32 This analyst is quoted in ibid, p. 914.

mutually beneficial aspects — observing that the economies of China and the developed countries are “complementary” — while downplaying negative side effects and political vulnerabilities. This largely corresponds with how Chinese leaders use the rhetoric of interdependence in international diplomacy. They define interdependence as mutually beneficial economic cooperation and argue that all countries share a common interest in peace and development. Chinese analysts argue that China deserves special understanding and patience from its partners due to its status as a developing country. They invoke interdependence when arguing that the United States and China have a common interest in maintaining stability in the Pacific region inasmuch as both countries wish to continue their economic growth. They downplay China’s dependence on the United States as an export market, frequently pointing out that American trade statistics overstate China’s trade surplus with the United States.

Transnational issues such as environmental pollution, organized crime, and drug smuggling are also frequently cited as areas where cooperation is important, even though most Chinese analysts view these as areas of marginal importance compared with economic and security issues. When Beijing and Washington sought to establish more cooperative bilateral relations in late 1996 and 1997, China’s America watchers began to cite transnational issues as areas where Chinese cooperation could help stabilize Sino-American relations, allowing China to avoid concessions in more important areas.

**Dependence and Interdependence in Sino-American Relations**

Although China’s integration into the world economy (measured through the volume of foreign trade and investment) has increased dramatically since economic reforms began in 1978, Susan Shirk concluded in 1994 that according to the standards of a Brookings Institution project on economic integration, “China’s economy is only shallowly integrated into the world economy”.34 This judgement underestimates the importance of China’s access to the international economy in helping China to maintain rapid growth rates. Chinese economic growth and employment increasingly depend on access to international markets, in particular to the US market.

Table 2 illustrates the increasing openness of China’s economy, measured by China’s trade as a percentage of the country’s gross domestic product (GDP). For greater accuracy, China’s GDP has been adjusted to take account of purchasing power parity (PPP).

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34 Shirk, *How China Opened its Door*, p. 3.
Table 2: Chinese Trade, 1970–98

<table>
<thead>
<tr>
<th>Year</th>
<th>Trade as a percentage of GDP</th>
</tr>
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<tbody>
<tr>
<td>1.5%</td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>3.6%</td>
</tr>
<tr>
<td>1985</td>
<td>6.7%</td>
</tr>
<tr>
<td>1990</td>
<td>7.5%</td>
</tr>
<tr>
<td>1991</td>
<td>8.5%</td>
</tr>
<tr>
<td>1992</td>
<td>8.8%</td>
</tr>
<tr>
<td>1993</td>
<td>8.6%</td>
</tr>
<tr>
<td>1994</td>
<td>11.9%</td>
</tr>
<tr>
<td>1995</td>
<td>11.3%</td>
</tr>
<tr>
<td>1996</td>
<td>11.3%</td>
</tr>
<tr>
<td>1997</td>
<td>11.6%</td>
</tr>
<tr>
<td>1998</td>
<td>10.9%</td>
</tr>
</tbody>
</table>

Sources: Total imports and exports of goods and services are taken from World Bank, 1997 World Development Indicators, (CD-Rom and database). Trade as a percentage of GDP was adjusted to attain purchasing power parity by multiplying it by the ratio of GNP to purchasing power parity GNP. China’s PPP GNP is from World Bank, 1999 World Development Indicators (Washington DC: World Bank, 1999), p. 12.

The overall trend is clearly toward increased integration into the world economy.\(^{35}\) In fact, a 1997 World Bank study concludes that China’s openness to trade has caught up with other large developing countries, but still lags behind the high degree of openness that characterizes other East Asian economies.\(^{36}\) The fall in trade in 1998 was due to the impact of the Asia crisis, which dramatically slowed Chinese export growth to 0.5 per cent and caused a decline in imports. However, China’s rapid economic growth means that the overall volume of both imports and exports has increased markedly over the past decade and more, and rapid trade growth can be expected to resume.

Many Chinese enterprises have become highly dependent on exports. Export dependence varies across provinces and industries, but is higher in coastal provinces such as Guangdong and Fujian, in labour-intensive sectors such as textiles and consumer goods, and among joint-venture firms. Provinces in the

\(^{35}\) Trade as a percentage of China’s official GDP figure for 1998 was 38.9 per cent, much higher than the 10.9 per cent listed in Table 2. The actual percentage is sensitive to the accuracy of the PPP estimate for China’s GDP.

\(^{36}\) World Bank, China 2020 (Washington DC: World Bank, 1997), Figure 7.1, pp. 84–5.
interior and the state-owned enterprises are relatively less dependent on exports. As China’s foreign policymaking process has become more pluralized, provinces and industries dependent on trade have obtained an increasing ability to influence foreign policies that affect their interests through a variety of formal and informal channels.37

Much of the increase in Chinese trade has been driven by a flood of foreign direct investment (FDI), largely by overseas Chinese investors from Hong Kong, Taiwan and Southeast Asia. Much of this investment supports the transfer of labour-intensive production into China and most of the goods produced have been destined for export into the European and American markets. Table 3 shows the expansion of FDI in China from 1979–98.

Table 3: Utilized Foreign Direct Investment in China, 1979–98
(US$ billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Utilized FDI (US$ billion)</th>
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<tbody>
<tr>
<td>1979–89</td>
<td>18.47</td>
</tr>
<tr>
<td>1990</td>
<td>3.41</td>
</tr>
<tr>
<td>1991</td>
<td>4.37</td>
</tr>
<tr>
<td>1992</td>
<td>11.01</td>
</tr>
<tr>
<td>1993</td>
<td>27.52</td>
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<tr>
<td>1994</td>
<td>33.77</td>
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<tr>
<td>1995</td>
<td>37.52</td>
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<tr>
<td>1996</td>
<td>41.73</td>
</tr>
<tr>
<td>1997</td>
<td>45.28</td>
</tr>
<tr>
<td>1998</td>
<td>45.58</td>
</tr>
<tr>
<td>Total</td>
<td>268.66</td>
</tr>
</tbody>
</table>

Sources: Ministry of Foreign Trade and Economic Cooperation, cited by the United States–China Business Council.

FDI accounted for 10.8 per cent of total investment in China in 1997.38 In recent years, China has attracted about 40 per cent of the total FDI that has gone to developing countries and has been the second largest recipient of FDI after the

37 Formal channels include industrial ministries and local officials who lobby in Beijing for their own industries. Informal channels include personal relationships with policymakers and government officials. (Information based on my conversations with senior and mid-level Chinese Foreign Ministry officials and analysts in Shanghai and Beijing.)

United States. The significance of FDI lies less in its direct contribution to net Chinese capital formation (high domestic savings rates are the major source of investment) than in its modernizing effect on the Chinese economy. Nicholas Lardy wrote in 1995 that “although foreign capital has not made a major impact on China’s savings-investment balance, it has contributed significantly to the transfer to China of advanced technology and managerial practices in many industries; to the expansion of China’s trade; and indirectly to the supply of foreign exchange”. Mary Gallagher argues that FDI has also played an important role in transforming labour practices, both in foreign-invested enterprises and (through competitive market pressures) in state-owned enterprises. Foreign direct investment and trade are also closely linked, with foreign-invested enterprises accounting for a disproportionate and growing percentage of China’s imports and exports. In 1990, foreign-invested enterprises accounted for 12.6 per cent of China’s total exports; by 1998, they accounted for 44.1 per cent of exports.

Chinese efforts to balance the costs and benefits of economic integration have increasingly been discussed under the rubric of “economic security”. While Jiang Zemin’s 1997 address to the Fifteenth Party Congress called for expanding China’s economic involvement with the world economy, he also noted that “we must correctly handle the relationship of opening up versus independence and self-reliance, and safeguard the economic security of the country”. The effort to maintain economic security has been reflected in China’s relatively slow pace in financial liberalization. This cautious approach has not only helped China to avoid current account deficits and unsustainable levels of foreign debt, but has also paid dividends during the Asia crisis, when the nonconvertibility of China’s currency protected it from the financial instability that devastated other Asian economies. China has also maintained an extremely high level of foreign exchange reserves (US$145 billion at the end of 1998) in order to provide additional protection against external economic shocks. As noted earlier, debates about economic security also play a major role in policy issues such as China’s efforts to enter the WTO and state-owned enterprise reform.

39 China 2020, pp. 90–1.
44 Xinhua, “Official on Exchange Reserve, Renminbi Exchange Rate”.
The efforts to maintain economic security are intended not only to protect China from the unpredictable impact of international economic shocks, but also to reduce Chinese vulnerability to foreign economic pressures. Chinese leaders have balanced borrowing between multilateral, bilateral and private sources in order to prevent any one lender from developing too much political leverage. This balance helped China compensate for US efforts to suspend World Bank loans after Tiananmen. China has followed a similar pattern in trade, seeking (though with only limited success) to diversify its trading partners. A Chinese analyst writes that “China tries to reduce its dependence on the US market and expand its economic interaction with Japan, South Korea, ASEAN, and the European Union while at the same time skillfully playing its market card”. But such efforts have been complicated by trade liberalization, which has reduced central government control over the foreign trade conducted by Chinese enterprises (and especially foreign-invested enterprises). These enterprises make decisions based on market opportunities without regard for government security concerns. The Chinese government’s efforts to encourage increased trade with Russia to support the Sino-Russian strategic partnership have produced only limited results, because markets, and not governments, are driving trade.

Despite rhetoric about diversifying markets, China’s dependence on the United States as an export market has increased steadily over the past decade. Calculations of bilateral trade between China and the United States are complicated because a significant percentage of this bilateral trade is routed through Hong Kong, and these Hong Kong re-exports are treated differently in Chinese and US customs statistics. Chinese Customs significantly understates Chinese exports to the United States, while US Customs’ figures significantly overstate imports from China. This results in huge discrepancies in bilateral trade balances. Using Chinese figures, the 1998 Chinese trade surplus with the US was about US$21 billion; US statistics showed a surplus of US$56.9 billion. Accurate assessments require adjustments that take into account trade routed through Hong Kong, the value added by Hong Kong trading firms, and differences in methodology between US and Chinese customs. Table 4 shows a recent set of estimates by K. C. Fung and Lawrence J. Lau that adjust US and Chinese


46 It is interesting that despite similar expressions of government concern about the potential negative effects of economic dependence, Taiwan’s economic dependence on the PRC has also increased markedly over the last decade.

customs statistics to take these factors into account. The adjusted estimate for 1998 suggests that China actually enjoyed a trade surplus of about US$37 billion.

Table 4: Estimated US Merchandise Trade Deficit with China, 1989–98 (US$ billion)

<table>
<thead>
<tr>
<th></th>
<th>US Imports from China</th>
<th>US Exports to China</th>
<th>US Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>9.3</td>
<td>7.0</td>
<td>2.3</td>
</tr>
<tr>
<td>1990</td>
<td>11.4</td>
<td>5.9</td>
<td>5.5</td>
</tr>
<tr>
<td>1991</td>
<td>14.0</td>
<td>7.8</td>
<td>6.2</td>
</tr>
<tr>
<td>1992</td>
<td>18.7</td>
<td>9.5</td>
<td>9.2</td>
</tr>
<tr>
<td>1993</td>
<td>22.6</td>
<td>11.6</td>
<td>11.0</td>
</tr>
<tr>
<td>1994</td>
<td>28.4</td>
<td>12.6</td>
<td>15.8</td>
</tr>
<tr>
<td>1995</td>
<td>33.9</td>
<td>16.1</td>
<td>17.8</td>
</tr>
<tr>
<td>1996</td>
<td>38.5</td>
<td>17.2</td>
<td>21.3</td>
</tr>
<tr>
<td>1997</td>
<td>47.9</td>
<td>18.1</td>
<td>29.8</td>
</tr>
<tr>
<td>1998</td>
<td>55.8</td>
<td>18.9</td>
<td>36.9</td>
</tr>
</tbody>
</table>

Sources: Based upon estimates in Tables 4.2, 4.3 and 4.4 in K. C. Fung and Lawrence J. Lau, “New Estimates of the United States–China Bilateral Trade Balances”, Asia/Pacific Research Center, Stanford University, April 1999.

The adjusted trade figures show a dramatic surge in China’s trade surplus with the United States over the past decade. Most of these Chinese exports are labour-intensive, low-value-added goods such as textiles, shoes, toys and other consumer goods. In many cases, production is managed by foreign-invested firms, which import components from abroad, use inexpensive Chinese labour to assemble the products, and then export the finished goods to markets in the United States, Europe and Asia. Many of these factories have moved from Hong Kong, Taiwan and Southeast Asia to tap China’s vast supply of cheap labour.

48 The estimated figures convert official trade statistics to a free-on-board (f.o.b.) basis, add bilateral trade passing through Hong Kong that is omitted from official statistics, and subtract the value added by Hong Kong firms when goods are re-exported from Hong Kong to the United States or China. Because smuggling and widespread corruption make Chinese trade statistics less reliable than US figures, Fung and Lau suggest that the adjusted US data provide the best estimate of actual bilateral trade. Their adjusted estimates for US–China trade are employed throughout the remainder of this paper.
Because the Chinese contribution is mainly inexpensive labour, a disruption in Sino-American trade relations would probably eventually result in these factories relocating to South or Southeast Asia. While the short-run costs of such a disruption would be significant for both sides, the possibility of relocation makes access to the US market more important to China than access to Chinese labour is to the United States. According to one Chinese analyst, exports of merchandise amounted to about 20 per cent of total Chinese aggregate demand, and the expansion of exports of manufactured goods has created about 40 million jobs in recent years.49

### Table 5: China’s Trade with the United States

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports to US as a percentage of China’s total exports</th>
<th>Imports from US as a percentage of China’s total imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>17.7%</td>
<td>11.8%</td>
</tr>
<tr>
<td>1990</td>
<td>18.4%</td>
<td>11.1%</td>
</tr>
<tr>
<td>1991</td>
<td>19.5%</td>
<td>12.2%</td>
</tr>
<tr>
<td>1992</td>
<td>22.0%</td>
<td>11.8%</td>
</tr>
<tr>
<td>1993</td>
<td>24.6%</td>
<td>11.2%</td>
</tr>
<tr>
<td>1994</td>
<td>23.5%</td>
<td>10.9%</td>
</tr>
<tr>
<td>1995</td>
<td>22.8%</td>
<td>12.2%</td>
</tr>
<tr>
<td>1996</td>
<td>25.5%</td>
<td>12.4%</td>
</tr>
<tr>
<td>1997</td>
<td>26.2%</td>
<td>12.7%</td>
</tr>
<tr>
<td>1998</td>
<td>30.4%</td>
<td>13.5%</td>
</tr>
</tbody>
</table>


The figures in Tables 4 and 5 show that China’s dependence on the United States as an export market has increased dramatically over the past decade in both absolute and relative terms. In 1989, the US bought about 18 per cent of China’s exports; by 1998, the American market accounted for about 30 per cent. The US share of China’s imports has remained relatively constant at 11–13 per cent, though the total volume has increased. The consequence is a large and growing

49 “Try Every Possible Way to Open up International Markets”, *Beijing Jingji Ribao* [Beijing Economic Daily], January 29, 1999 in WNC.
asymmetry in relative dependence. While the United States bought nearly a third of China’s exports in 1998, China purchased only 2.8 per cent of America’s exports. China’s growing bilateral trade surplus has become the target of criticism in the United States, but China’s growing trade dependence also gives the US potential political leverage. Chinese analysts argue that because the value added within China to many of these exports is low, much of the benefit from China’s bilateral trade surplus with the US goes to foreign investors and suppliers.

Although trade figures are the most dramatic indicator of China’s growing economic dependence on the US, they are not the only indicator of the asymmetrical economic relationship. China is the single largest recipient of development assistance from the World Bank. The United States has considerable political influence over World Bank lending and has sometimes used this influence to further its political and strategic objectives, as in the temporary suspension of World Bank lending to China after Tiananmen, and to India and Pakistan following their nuclear tests.

While US direct investment in China amounts to only about 7–8 per cent of China’s total annual FDI inflows, US investment has been growing steadily and became relatively more important when the Asian economic crisis caused a sharp reduction in overseas Chinese investment. Because American firms have been more willing to transfer technology than Japanese or overseas Chinese investors, US investment is more important to the Chinese economy than the raw numbers indicate. Beijing also needs to consider that much of the non-American foreign investment that China receives goes into the construction of factories which export heavily to the United States, so loss of access to the US market would also have a negative effect on China’s ability to attract investment from other countries.

Finally, the United States has played a critical role in negotiating the terms of China’s entry into the World Trade Organization, insisting that the large size of China’s economy makes it critical that China enters on “commercially viable terms”. China hopes that entry into the WTO will eliminate the annual congressional review of its MFN status and provide some protection against unilateral US trade sanctions. Although Japan and West European countries share American concerns about the terms of China’s entry, Washington’s position as a gatekeeper has made it the critical player in the WTO negotiations, giving the United States additional economic leverage in dealing with China. For their part, Chinese officials and analysts are reluctant to acknowledge the extent of China’s dependence on the US for fear of reducing China’s negotiating leverage. However, one indirect indicator of China’s dependence is that when Chinese leaders were curtailing bilateral dialogue in various areas after the embassy bombing, they made no threats to reduce economic cooperation.

**Explaining the Puzzle**

In a nutshell, the balance of dependence has shifted further in favour of the United States over the last decade. What explains the disjuncture between
Chinese concerns, on the one side, about US hegemony and vulnerability to US economic pressure and, on the other, the reality of China’s increasing economic dependence on US markets?

First, the immediate economic and social challenges that China faces have forced Chinese leaders to accept that increased dependence on the United States is necessary to maintain the high economic growth that they believe will maintain social stability. Pressing short-term challenges have trumped longer-term concerns. Second, China has managed its vulnerability by mobilizing supporters in the US business community and by using access to the Chinese domestic market as a source of leverage. While the statistics show growing Chinese economic dependence on the United States, Beijing has worked to create a degree of interdependence that increases its ability to resist US economic pressure. Third, despite Chinese worries about US hegemony, China’s options are limited because there are few alternatives to maintaining positive relations with the United States. Traditional solutions like military alliances do not address China’s economic vulnerabilities and may stimulate reactions that actually decrease China’s security.

Maintaining Social Stability

China’s economic problems are also domestic political problems. As belief in Marxist–Leninist ideology has waned, the Chinese Communist Party has searched for new sources of legitimacy to justify its continued rule. The Party’s domestic legitimacy now rests largely on economic performance, including the ability to raise living standards, to absorb the flood of new workers entering the labour market, and to maintain employment levels in the midst of major reforms to its state-owned enterprises. China’s leaders have tried to forge a new ideological connection between economic performance and legitimacy by arguing that social and political stability is an essential precondition for economic development. In line with this, the Party has emphasized a development-oriented neo-authoritarianism that claims authoritarian rule is necessary during early stages of economic development. The argument that the Party is the only force capable of holding China together and guiding economic

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development has proved persuasive to many Chinese, but this belief must be reinforced by continuing success in delivering economic growth.53 China’s leaders, in short, now see integration into the world economy as essential to the maintenance of Party rule.54 Reasonably positive relations with the United States, China’s largest single export market, are an essential element of this strategy. The importance of US cooperation has increased as Chinese leaders have begun to address long-delayed and politically sensitive state-owned enterprise reforms. Inefficient and poorly managed state enterprises have been losing huge amounts of money, draining the overall economy.55 Beijing recognizes that the state-owned sector must be overhauled, but the enterprises are a major source of employment and benefits such as housing, pensions and health care, and the state fears social unrest if too many of these enterprises are forced simultaneously to go out of business. This issue is closely linked to China’s entry into the WTO, because dismantling protectionist barriers to win WTO accession will expose many vulnerable state-owned enterprises to tough foreign competition. The complex linkages between protectionism, state-owned enterprise reform, and employment comprise one reason Chinese leaders have had such difficulty making the concessions needed to enter the WTO.56 Even so, China’s need to be part of the world market system is so palpable that despite the leadership’s worries about state enterprise collapses, in November 1999 Beijing finally made the sweeping concessions necessary to win American support for entry into the WTO.

Creating Interdependence

In the aftermath of the Tiananmen massacre, US groups quickly turned to economic sanctions as a means to punish the Chinese government for killing protesters and to pressure the Chinese government to lift martial law and improve human rights conditions. Although the Bush administration imposed limited economic sanctions, Congressional critics opposed Bush’s efforts to maintain working relations with China and called for tougher sanctions. The Jackson-Vanik amendment’s requirement for annual renewal of China’s MFN status provided Congress with the institutional means to press the executive branch for a tougher China policy. Nancy Pelosi and Senate Majority Leader George


54 Yahuda, “How much has China learned from interdependence?” p. 13.


56 For an informative account of the linkages between the WTO and state-owned enterprise reform, see Edward S. Steinfield, “Beyond the Transition: China’s Economy at Century’s End”, *Current History*, Vol. 98, No. 629 (September 1999), pp. 271–5.
Mitchell introduced legislation in 1990 calling for revocation of China’s MFN status. Votes on bills conditioning MFN renewal on Chinese progress in meeting a series of human rights, economic and nonproliferation benchmarks soon became an annual ritual on Capitol Hill, though none of the proposed legislation ever became law. Although the American business community was initially reluctant to be identified with the Chinese government, the annual debate over renewal of China’s MFN status eventually helped mobilize American business in support of continued trade and investment with China, leading to the formation of a powerful, organized and well-funded lobby. American corporations regarded China’s own efforts to lobby Congress as clumsy and counterproductive, and urged China to support their lobbying efforts by purchasing American products such as wheat and aircraft. Chinese trade officials regularly made trips to the United States in the months prior to the annual MFN vote, purchasing billions of dollars of American goods in order to build congressional support for renewal of China’s MFN status. As the volume of US exports to China increased and a growing network of businesses dependent on Chinese imports emerged, the American business lobby became an increasingly powerful force opposing restrictions on trade with China.

American business played a crucial role in forcing President Clinton to abandon efforts to link MFN renewal with improvements in human rights conditions. The Clinton administration’s focus on promoting American exports increased China’s leverage. China has regularly played US firms and US officials off against European and Japanese competitors, using billion dollar purchases and infrastructure contracts to reward or punish governments for their China policy. These efforts to use American businesses have not always succeeded. For example, the business community lined up behind the Clinton administration in pressing for China to enforce intellectual property rights laws and on tough conditions for China’s entry into the WTO. But the existence of powerful American interest groups committed to doing business with China has helped Beijing to reduce China’s vulnerability to US economic pressure, despite China’s increasing dependence on the US market. Politically, US$18 billion of US exports to China have become more important than US$55 billion of Chinese exports to the US.

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58 Author’s interviews with present and past leaders of the Hong Kong American Chamber of Commerce, Hong Kong, November 1998.

Although China repeatedly made concessions in the early 1990s in order to maintain its MFN status, a senior analyst at China’s Institute of American Studies stated to me that by 1994 Chinese leaders had become less nervous about the threat of MFN cancellation: “We began to realize that economic interests were deepening and started to think that the US wouldn’t dare to cancel MFN”. When Clinton eventually removed the linkage between trade and human rights, many Chinese analysts interpreted the decision as evidence of the value of standing firm against US pressure. A Shanghai analyst rhetorically asked: “Why did the US readjust its policy? It’s the result of the Chinese hardline position. If you give the US an inch, they will ask for a mile. Only by keeping a firm stance can the Chinese side achieve its objectives and improve relations”. Others in Beijing felt the reversal of US policy showed that China had become too important to ignore, and that the United States could not maintain economic pressure against China: “Even Clinton himself had to admit the lack of support for his ineffectual high-handed China policy and its unsustainability”. The Chinese realize that the higher priority of economic interests in the post–Cold War era has reduced the willingness of industrialized democracies to follow through on economic threats. This has partially eased Chinese fears about the political vulnerabilities that flow from economic integration. But this shift from one-sided dependence toward interdependence is not a natural by-product of economic interactions; it is partly the result of conscious Chinese efforts to create a balance of dependence that limits the ability of the United States to apply economic pressure.

**Manoeuvring toward Multipolarity**

As pointed out in an earlier section, Chinese analysts feel threatened by American hegemony in the post–Cold War era and seek ways to limit US power over China. The American military’s operational success in Kosovo and the bombing of the Chinese embassy in Belgrade have intensified Chinese concerns about US military superiority, about the lack of international constraints on American military intervention, and about US intentions toward China. These events have fuelled nationalism and anti-American sentiment among officials, the military and the general public. One PLA officer claimed that just as pictures of a Chinese protester blocking a tank in 1989 instantly altered American perceptions of China, pictures of the Chinese diplomats killed in the embassy bombing had a powerful negative impact on Chinese views of the United States. NATO’s intervention in Kosovo over strong Chinese and Russian objections sparked a

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major internal debate in China about whether peace and development was still the dominant global trend. However, even though some military voices argued that war with the United States was becoming a real possibility, the dominant view in Beijing is that the international environment is still favourable for economic development and that war is unlikely in the near future.

This conclusion was probably influenced by the fact that China’s options for counterbalancing America’s power are limited and unattractive. China’s efforts to build a strategic partnership with Russia are intended to provide leverage against the United States, but despite a substantial increase in military technology cooperation, Russia’s weakness has limited the success of this strategy. Chinese analysts and policymakers increasingly view India not as a strategic rival but as a potential ally in the efforts to limit US power. Japan is another potential partner, but Chinese efforts to improve ties with Japan have foundered on historical tensions over World War II and Japanese fears of China’s growing military power. Jiang Zemin’s disastrous 1998 visit to Tokyo illustrates how China has been unable to build normal relations with Japan even when strategic logic provides strong incentives. China has been able to use the desire of Western European countries to enter the Chinese market as a means of resisting US pressure. (China’s most notable success was in getting the European Union to agree in 1997 that none of its members would support a United Nations Human Rights Commission resolution to investigate Chinese human rights practices.) But European countries generally support a broad US military role and have tacitly supported US efforts to open China’s markets. In general, the United States enjoys better relations with the other great powers than China does, and is in a position to provide them with economic and security benefits that China cannot hope to match.

Thus, while China is uncomfortable with the fact that the United States is the only superpower, it has little choice but to acknowledge that America is uniquely positioned to facilitate or impede China’s transition from a regional power to full great power status. Improved relations with other great powers can provide China with room to manoeuvre, but cannot compensate for the heavy economic and security costs that China would bear if it entered into a hostile relationship with the United States.

The Taiwan Strait crises provide a case in point. China used intimidating military exercises in 1995–96 to warn Taiwan and the United States that it was

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64 China’s good relations with Russia are a partial exception. But despite efforts of leaders in both countries to strengthen economic ties, American economic decisions have much more impact on Russia than do China’s actions.
willing to use force to prevent Taiwan from declaring independence. Although Chinese leaders and analysts believe that the military exercises slowed Taiwan’s momentum toward independence, the incident also stimulated talk of a “China threat” throughout Asia and prompted improvements in US security cooperation with Japan that Chinese analysts view as threatening. A senior Chinese analyst noted to me in mid-1997 that “China’s national interest is to prevent containment from becoming the centerpiece of America’s China policy”. Since the 1996 Taiwan Strait crisis, Chinese leaders have avoided military actions that would lend credence to China’s image as a threat to Asian stability. China’s vociferous protests but very restrained actions after President Lee Teng-hui’s July 1999 call for “special state-to-state relations” are one indicator of this new caution.

In sum, China has no good alternative to a cooperative relationship with the United States. As a result, Chinese strategic concerns about unipolarity and US hegemony have had relatively little impact on China’s foreign policy, partly because China can do little to ameliorate them. China complains loudly about US hegemony, but its actions do not match its words.

Conclusions

Chinese leaders have accepted the necessity of increased integration into the international economy, but they have sought to manage this process on their own terms in order to maximize benefits and minimize vulnerabilities. Although increased economic dependence on the United States makes Chinese leaders and the military uncomfortable, the political survival of the Communist regime depends on maintaining rapid economic growth and low unemployment. Integration into the world economy has helped deliver rapid economic growth, but the government has not been able to diversify its trading partners to minimize economic dependence. As China’s economic performance has been increasingly threatened due to the poor performance of state-owned enterprises and the impact of the Asia crisis, Chinese leaders have been forced to accept even greater economic dependence on the United States and the corresponding risk of greater vulnerability to US pressure. Chinese leaders have sought to resist the potential threat of US economic sanctions by mobilizing American businesses and by controlling access to the Chinese market. Longer-term strategic concerns about the threat posed by “peaceful evolution” and American hegemony have been put on hold due to the short-term imperatives of regime survival.

If China’s long-term strategy is to accept a degree of short-term economic dependence now in order to build greater comprehensive national power in the future, then careful management of China’s economic and security relations with other great powers is essential. However, the Chinese military is much less sensitive to foreign reactions than the Foreign Ministry. Domestic politics, leadership disagreements, and growing nationalism have all influenced Chinese policy toward the United States in recent years, sometimes in unpredictable ways.

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65 This section draws upon arguments presented more fully in Saunders, “China’s America Watchers".
that arguably do not serve China's long-term interests. China lacks a comprehensive grand strategy to relate ends to means and to coordinate its international and domestic policies. The objectives of national security, economic growth and domestic political stability often conflict. The limited coordination between these goals that exists takes place at the apex of the Chinese political system, where leaders are concerned with personal power as well as national objectives. China's long-term ability to harness economic integration for realist ends without creating new enemies is unclear.

Even if Chinese leaders intend to use deeper integration into the world economy as a means toward the goal of greater national power, short-term increases in dependence on the United States and longer-term increases in interdependence may constrain their future choices. Although US efforts to exploit Chinese economic dependence in order to extract specific human rights and security concessions from China have met with only limited success, China's growing economic dependence on the United States and on the world economy act as a passive restraint on Chinese behaviour. Increasingly, Beijing's calculations must now consider international reactions as well as China's own domestic situation. The increased complexity of Chinese foreign policymaking is an additional, unavoidable cost of interdependence.

Monterey, California
November 1999

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