

**THE EFFECTS OF THE HONG KONG HANDOVER
ON U.S. ONE-CHINA POLICY**

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Declaration

I declare that this thesis is the result of my own original work, and all sources used have been acknowledged.

A handwritten signature in black ink, appearing to read 'Peter Ungvari', with a long horizontal stroke extending to the right.

Peter Ungvari

Abstract

The motivation for any foreign policy emanates from three broad arenas of interests that a state has—security, prosperity and political order. Scholars have long hypothesised that a hierarchy of these interests can be constructed, with realist thinkers being often perceived as placing security interests above the others. This thesis will apply the concept of a hierarchy of interests to analyse US "one China" policy, while recognizing that a state's interests in security, prosperity and political order may not always be readily separated from each other.

In the US decision to recognise the People's Republic of China, the global security interest of containment of the Soviet Union was prevalent, but by the end of the Cold War in 1989, US security interests in its PRC policy became oriented towards a lesser goal of 'war avoidance' in the Taiwan Strait as opposed to a comprehensive global strategy. This study will argue that the years preceding the handover of Hong Kong, and the political and economic issues that the handover raised, had a significant impact on US foreign policy perceptions vis-à-vis Greater China. By the mid 1990's, repression in Tiananmen Square, the Patten proposals in Hong Kong, and Taiwanese democratisation had built a new link in US policy towards the PRC to fundamental US interests concerning political order, and this exposed the US "one China" policy to previously quiescent pressures from Congress and public opinion in general.

As 1997 and the handover of Hong Kong approached, the day to day political bargaining in Hong Kong on the territory's future political order threw a brighter spotlight on US interests in democracy in Taiwan, thereby disturbing the underlying balance of interests that had shaped the "one China" policy in previous years.

The foundations of the "one China" policy had experienced a dynamic evolution, as the balance of competing interests in US policy were realigned—the strategic focus of the relationship was abridged and economic and political interests took greater precedence.

Preface

This thesis has two broad aims. First, it undertakes to document the trend of United States (US) policy towards Hong Kong in the years leading up to the return of the territory to the sovereignty of the PRC. Second, it will analyse the relationship between US policy on Hong Kong in that period and its "one China" policy—that is the recognition of the People's Republic of China (PRC) as the sole government of "one China" and the acceptance that Taiwan is part of "one China".

The thesis will argue that events in Hong Kong in the lead-up to the handover had helped to raise the political aspects of the US-Taiwan relationship, thereby disturbing the balance of interests that underpinned the "one China" policy.

The subject of the thesis is the hierarchy of interests in the formulation of United States foreign policy. Three competing, yet complimentary, interests are addressed—security, prosperity and political order. Their evolution over time in Hong Kong and Taiwan will be examined and some conclusions regarding their respective weights in the formulation of US policy will be made.

The thesis uses a simple narrative and deductive style of analysis, based fairly firmly in the school of international relations, which tends to regard the state as a unitary actor in foreign policy formulation. The main actors are therefore all within the US Administration: the President, and the Executive Branch of government. It will generally be assumed that the President and the Executive Departments (for example: the Department of State, the Department of Defense) are in agreement over policy. However, the unitary action model is far from

perfect, especially in the case of the US, where Congress can have a strong influence on foreign policy. Thus while the main concentration will be on the Administration, Congress will not be disregarded. Declarations and Acts of Congress will be taken into account throughout the study, as strong Congressional pressure does have an effect on the final policy that the Administration decides to pursue. In effect, Congress provides an important defining quality to the acts of the Administration.

The introduction to the thesis will elaborate on why this subject is important.

Chapter 1 introduces the theoretical framework for the thesis, and includes a brief elaboration of the foreign policy powers of the President and Congress, in order to make clear the political context in which US interests were being formulated. Chapter 2 provides an overview of the evolution of the US "one-China" policy, with particular reference to the interplay of US political, economic and security interests in Greater China from 1949 until 1995.

Chapters 3 and 4 examine in turn US political and economic interests in Hong Kong during 1995 and 1997.

Chapter 5 provides an examination of US interests in Taiwan between 1995 and 1997. The conclusion relates how US interests in Hong Kong, as they emerged before 1997, influenced US "one China" policy. The thesis concludes with some tentative remarks regarding the future of the "one China" policy and some judgement on the validity of the theoretical framework of hierarchy of interests.

Throughout this thesis all references to the "one China" policy are synonymous with the policy of recognition that the US has pursued towards the

governments of the PRC and Taiwan—that is choosing to recognise only one of them as the legitimate government of a unitary China, made up of the mainland and Taiwan.

Throughout the thesis, the term “Greater China” will be used to refer to the People’s Republic, Taiwan and Hong Kong together. This term is used for convenience only, and no further meaning should be attached to its use.

Primary sources of information for this study are Administration statements and documents, or reports of Administration thinking or positions. These sources include United States Presidential Orders and Declarations, Press Releases and Speeches, Congressional testimonies of senior Administration personnel, and Congressional Bills and Resolutions. Besides publicly available government documents, secondary sources, such as academic journals and news-services (such as Reuters, FBIS) are also used.

Full citation of a reference is given the first time that it occurs in each Chapter.

Australian usage is observed for spelling, except where citing text or titles, in which case the spelling of the original source is retained.

Chinese names of people or places will be presented using the system of transliteration that the particular name is usually presented in. Therefore, both *pinyin* and Wade-Giles systems will be used. Chinese names of Hong Kong origin will be presented as they have popularly been accepted in the territory.

I would like to take this opportunity to express my gratitude and sincere thanks to my supervisor, Dr Greg Austin, whose extensive knowledge of international relations, as well as his guidance and patience have made this thesis possible.

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Introduction

The United States (US) has extensive interests in both Hong Kong and Taiwan and wants a peaceful and stable future for both. Any use of force by the People's Republic of China (PRC) against Taiwan would immediately challenge the commitment made by the US to defend Taiwan, while political repression in Hong Kong after 1997 would “automatically invoke the US concern for human rights”.¹ Furthermore, any social instability or economic stagnation in the region would “be detrimental to the growing American economic interests” in Greater China.² US policies towards Hong Kong, the PRC and Taiwan are not only closely intertwined, but are probably inseparable. The US has realised that it cannot “disentangle” its policy on the PRC from its position in Hong Kong, or for that matter, from its position on Taiwan.³

While US interests in any region tend to be global as well as local, there are some clear trends that run through US goals and interests in general: the avoidance of military conflict, the spreading of democratic ideals and the encouragement of free trade. These interests can all be seen in US policy towards Hong Kong and Taiwan. Chapters one to five will elaborate US interests in Hong Kong and Taiwan but the following material offers some preliminary information on US interests by way of introduction.

Despite the obvious differences that exist between Hong Kong and Taiwan

¹ H. Harding, *A Fragile Relationship: The United States and China Since 1972*, The Brookings Institution, Washington, D. C., 1992, p 347.

² *Ibid.*, p 247.

³ R. Garson, *The United States and China Since 1949: A Troubled Affair*, Pinter Publishers, London, 1994, p 212.

geographically, politically and militarily there are two compelling reasons why Hong Kong can be used as an example for examining US policy and for drawing conclusions towards the future of the "one China" policy.

First, Hong Kong is important because, just like Taiwan, the PRC claims sovereignty over its territory. Unlike Taiwan, where separation was a side-effect of the Chinese civil war, Hong Kong was colonised and appropriated by the British during the 19th Century. The three 'unfair' treaties that were forced on China by the British after the opium wars helped to fuel a Chinese ambition in the 20th Century to erase the physical reminders of their colonial past, and to ensure that China would never again be plundered by foreigners. The Chinese Communist Party (CCP) draws a large part of its legitimacy from its history of fighting against foreign invaders—be they Japanese or European. Thus the PRC sees both Hong Kong and Taiwan as alienable parts of its sovereign territory, and its leadership believes that it is their duty to recover both entities. The formula used by the PRC for the reunification of Hong Kong into the PRC on the 1st of July 1997—Deng Xiaoping's "one country, two systems" idea—has also been mooted as the future framework for Taiwanese reunification.⁴ The US, having extensive interests in the region, has repeatedly expressed its desire to see a peaceful unification, and has indicated that the "one country, two systems" framework would be acceptable to it—provided that Taiwan agrees.

Secondly, both Hong Kong and Taiwan have begun to experiment with democratic forms of government—Taiwan more so than Hong Kong. As the US

⁴ J. W. Garver, *Face Off: China, the United States, and Taiwan's Democratisation*, University of Washington Press, Seattle, 1997, p 44-45.

has “an abiding interest...in supporting democracy and respect for human rights”,⁵ the prospect of either territory returning to the rule of those responsible for Tiananmen was met with concern in the US. The way the PRC deals with pro-democracy forces in Hong Kong has a significant bearing on both the Taiwanese and US views on reunification. Furthermore, Hong Kong plays an important part in unofficial cross-Strait relations, especially in the area of trade, transportation and travel. To give just one example, it is estimated that by the time of the handover of Hong Kong, almost a quarter of Taiwan's exports (and perhaps more) will go to the PRC, and perhaps half of Taiwan's foreign direct investment will be directed to the PRC.⁶

Although in the case of Hong Kong, the US never believed it could use force to defend it, there are two significant issues that relate to US strategic interests in Hong Kong. The first relates to intelligence gathering. The US had long used Hong Kong as a base for electronic surveillance of the mainland, although most of the facilities involved were closed as the handover neared. Of course, most of the electronic surveillance of the PRC can now be carried out by satellites and other long-distance surveillance measures, meaning that the loss of Hong Kong as a listening base probably will not have any detrimental effects on US surveillance.

Secondly, Hong Kong has been symbolic of the Western (i.e.: US) military presence and commitment to Asia. The most obvious signs of this military

⁵ M. K. Albright, (Secretary of State), *1997 Forrestal Lecture: “American Principle and Purpose in East Asia”*, At the U. S. Naval Academy, Annapolis, Maryland, 15 April 1997. From the State Departments web site - <http://www.secretary.state.gov/www/statements/970415.html>. Date last accessed: 4 July 1998.

⁶ H. Smith, S. Harris, *Economic Relations Across the Strait: Interdependence or Dependence?*, Pacific Economy Papers No. 264, February 1997, Australia-Japan Research Centre, Australian National University, Canberra, 1997, p 15.

commitment were the frequent US Navy ship visits to Hong Kong. Since the handover, US ships have continued to visit Hong Kong, with the approval of the PRC government. The only difference after 1997 is that the US Navy now requests berthing privileges from the PRC, since it now has responsibility for Hong Kong's foreign affairs and defence.

The territory has extensive political, economic and social ties with the US. There is a large scale exchange of educational and cultural links between the US and Hong Kong. In 1996, over 700,000 American citizens visited Hong Kong, and there are approximately 36,000 US citizens living and working in the territory. At the same time over 14,000 Hong Kong students studied in American Universities, and over 180,000 new tourist and business visas were issued to Hong Kong residents.⁷ Furthermore, the US Navy makes about 60-80 port calls to Hong Kong each year, and cooperation between US law enforcement agencies and the Hong Kong police “makes a real difference” in US “efforts to combat organized crime, drug trafficking, alien smuggling, and counterfeiting”.⁸

In a 14 June 1997 radio address to the nation, President Clinton referred to people-to-people links as an important reason for continued US involvement in the territory after July 1997, when he emphasised that:

it matters to us that the people of Hong Kong retain their distinct system with its political freedoms and its open economy—not only because we hold these principles in common with them and

⁷ J. A. Bader, (Deputy Assistant Secretary for East Asian and Pacific Affairs), Statement submitted for the record to the Senate Foreign Relations Committee, Subcommittee on East Asian and Pacific Affairs, Washington D.C., 24 April 1997. From the State Departments web site - http://www.state.gov/www/regional/eap/970424_bader_hong_kong.html. Date last accessed: 4 July 1998.

⁸ Ibid.

with a growing number of people around the world, but because we are involved with them.⁹

The US feels a moral obligation to ensure that Hong Kong's free lifestyle remains under PRC sovereignty. This moral obligation stems from the position that the US took during the Sino-British negotiations during the mid 1980s. The US accepted that the return of Hong Kong to PRC sovereignty was inevitable, and did not take an active part in the formulation of the Sino-British Joint Declaration, which was signed in 1984 and provided for the return of Hong Kong to PRC sovereignty on 1 July 1997. Once the Joint Declaration was promulgated, the US received it warmly, with Secretary of State Shultz stating that:

The United States has a strong interest in the continued stability and prosperity of Hong Kong and believes the agreement will provide a solid foundation for Hong Kong's enduring future progress.¹⁰

However, when the Joint Declaration was signed, and the above statement made, Hong Kong was governed by a London appointed Governor and a non-elected Legislative Council (LegCo) and Executive Council (ExCo). The US could not foresee a move by Britain to democratise Hong Kong nor the emergence of a democratic movement in Hong Kong. According to the PRC, the Patten proposals for the introduction of democratic reforms launched in 1992 (see last section of Chapter 3) constituted a direct breach of the understandings arrived at in the Joint Declaration. This presented the US with a serious dilemma. Should the US promote democracy, a serious US foreign policy objective in Hong Kong, as

⁹ W. J. Clinton, *Radio Address of the President to the Nation*, 14 June 1997. Saturday Radio Address. From the White House web site - <http://www.whitehouse.gov>. Date last accessed: 4 July 1998.

¹⁰ H. Chiu, *The Hong Kong Agreement and American Foreign Policy*, Occasional Papers/Reprint Series in Contemporary Asian Studies, Number 3, 1986 (74), School of Law, University of Maryland, 1986, p13.

pointed out by President Clinton: "how can the United States be against democracy? That's our job—get out there and promote it".¹¹ Or should the US place its support behind the Joint Declaration, the document that was described as the agreement that would provide "a solid foundation for Hong Kong's future"?¹²

In the final analysis, the US took the middle path, by expressing public support for democracy in the territory while at the same time continuing to express faith in the Joint Declaration. A 1998 report by the US Administration reiterates US support for the Joint Declaration and emphasises that the US will continue to support the Joint Declaration by expanding bilateral ties between Hong Kong and the US. The report implied that the US would end its separate treatment of Hong Kong as an autonomous economic territory if it perceives that the PRC was eroding the territory's autonomous political status.¹³

More importantly though, US interests in Hong Kong are defined by US interests in the PRC. As Hartland-Thunberg points out, "it is China's importance to the US that is the prime reason for Hong Kong's importance to the US".¹⁴

Writing in 1992, Hartland-Thunberg observed:

China—the largest country of the world in population, with a demonstrated capacity for rapid economic growth and even more rapid foreign trade expansion—is large enough to make a difference in the world arena, [and] in a few years Hong Kong will be part of that country.¹⁵

¹¹ *Remarks by the President in Photo Opportunity with Governor Chris Patten of Hong Kong*, White House Press Release, The Oval Office, 3 May 1993. From the White House web site - <http://www.whitehouse.gov>. Date last accessed: 4 July 1998.

¹² Chiu, *The Hong Kong Agreement*, p13.

¹³ Preface, *United States Hong Kong Policy Act Report*, Released by the Bureau of East Asian and Pacific Affairs, US Department of State, 2 April 1998. From US State Department web site - http://www.state.gov/www.regions/eap/980401_us-hk_pol_act_rpt.html. Date last accessed: 4 July 1998.

¹⁴ P. Hartland-Thunberg, *Hong Kong in the MFN Debate: CSIS Project on Democracy, Prosperity and Stability in the Future of Hong Kong and East Asia*, The Center for Strategic and International Studies, Washington D. C., 1992, p 11.

¹⁵ *Ibid.*, p 11.

President Clinton, in a Voice of America broadcast, highlighted six reasons for the PRC's importance to the US. Firstly, the US wants the PRC to be part of the international process, for without its cooperation, the US goal of promoting “a peaceful, prosperous and stable world” would not be possible. Secondly, US interests in peace and stability in Asia depend, to a certain degree, on the PRC. Neither the Korean nor the Taiwan question can be solved without the PRC's participation. Thirdly, the US aim of keeping weapons of mass destruction out of “unstable” regions requires the PRC to agree to major international arms control regimes. Fourth, the US “has a profound interest in fighting drug-trafficking and international organized crime”, and as more and more “smugglers and criminals” are using the PRC's vast hinterlands as their base for illegal activity, it is in the interest of both nations to cooperate on this issue. Fifth, the US has an interest in making global trade “free, fair and open”, however, lack of access to the PRC's internal markets and a growing trade deficit with the PRC are points of contention.¹⁶ President Clinton emphasises that:

Tearing down trade barriers also is good for China, and for the growth of China's neighbors and, therefore, for the stability and future of Asia.¹⁷

Finally, Clinton emphasised environmental challenges that the developed and developing world faces. The PRC's need for energy, and the resulting greenhouse gas emissions are a global problem, that requires a global solution.¹⁸

How does Hong Kong fit into US calculations in its relations with the PRC? First, and this will be expanded upon in Chapter 4, Hong Kong acts as an

¹⁶ *Remarks by the President in Address on China and the National Interest*, Broadcast on the Voice of America, 24 October 1997. From the White House web site - <http://www.whitehouse.gov>. Date last accessed: 4 July 1998.

¹⁷ Ibid.

¹⁸ Ibid.

economic go-between the US and the PRC. Secondly, PRC actions in Hong Kong after the handover will provide the US and others with a litmus test of the PRC's commitment to respect the Joint Declaration.¹⁹

The behaviour of the PRC on these, and other, issues will shape the way the US thinks and responds to the PRC. As Richard Boucher, the US Consul General in Hong Kong, points out, the transition of Hong Kong from British to PRC rule will be “one of the key events” in US-PRC relations in the next few years.²⁰

The third role that Hong Kong plays in US-Sino relations is related more to the PRC than to the US. Hong Kong, according to Ezra Vogel, a China specialist at Harvard University, is a “buffer zone” between western nations and the PRC, a place where:

bureaucrats and companies inside China can readily come into direct contact with every major nation in the world...gaining direct access to technology and information.²¹

Hong Kong has already played a vital, if little recognised, role in the promotion of peace and prosperity in Asia by assisting the PRC in opening up to the world. Cheung credits the territory with being an “important catalyst and conduit in the development of economic relations between the PRC and many of its key trading partners, such as the United States”.²²

The third reason for Hong Kong's importance to the US is Taiwan. Hong

¹⁹ M. Oksenberg, Y. Huang, J. Fewsmith, and M. Goldman, *The Hong Kong Transition and U.S.-China Relations, Analysis*, Volume 8, Number 3, The National Bureau of Asian Research, June 1997, p 3.

²⁰ *U.S. Consul General 12/10 Speech on Hong Kong Transition*, E-Mail message from “owner-isis-security@spice.com”, Received on Thursday, 12 December 1996.

²¹ *Hong Kong's Post-1997 Status Examined*, FBIS, Hong Kong Ching Chi Tao Pao (original in Chinese), 11 September 1995. From the FBIS web site - <http://wnc.fedworld.gov>. Date last accessed: 22 May 1998.

²² T. M. Cheung, *The Strategic Implications of Hong Kong's Return to Chinese Rule*, Hong Kong, 1996, p1. (no further information is available)

Kong has allowed unofficial contacts between the PRC and Taiwan to grow. The “one country, two systems” approach that guides Hong Kong’s unification with the PRC was developed by Deng Xiaoping with Taiwan in mind. Both the PRC and the US have indicated that a successful unification in 1997 could lay the groundwork for the eventual reunification of Taiwan with the mainland.

To elaborate on the above two points, Hong Kong has long served as the entry place for Taiwanese businesses into the PRC. Taiwanese investment flows through Hong Kong, into both Fujian and Guangdong provinces. Until recently, all trade between the PRC and Taiwan had to be routed through Hong Kong first.²³ In 1993, for example, Hong Kong oversaw more than US\$8,500 million worth of indirect trade between the PRC and Taiwan.²⁴ Confidence in the continuation of such business, especially business of such high volume, depends on reliable mediation of commercial disputes. Since neither the PRC’s or Taiwan’s legal system can recognise the validity of the other, they can both rely on Hong Kong’s system of law to mediate disputes.²⁵ Furthermore, since the Taiwan government maintains a strict rule of no direct contact with the mainland, elderly Taiwanese who wish to see their ancestral home for the last time, must first fly to Hong Kong, and then into the PRC. Since 1987, when travel restrictions in Taiwan were loosened, some 1-1.5 million Taiwanese have used Hong Kong each year as the gateway to the PRC.²⁶ Thus Hong Kong has served, and still serves to

²³ According to Li Jian, the Association for Shipping Across the Taiwan Strait vice secretary general, direct shipping would save at least US\$100 million, as goods would no longer have to be shipped through Hong Kong. From *Taiwan: Cross-Strait Shipping Seminar Opens in Taipei*, Taiwan Central News Agency, FBIS. Original in English. Published 12 August 1997. From the FBIS web site – <http://wnc.fedworld.gov>. Date last accessed 22 May 1998.

²⁴ G. A. Postiglione, J. T. H. Tang, (Eds.), *Hong Kong’s Reunion with China: The Global Dimensions*, M. E. Sharpe, New York, 1997, p 61.

²⁵ D. Wilson, *Hong Kong! Hong Kong!*, Unwin Hyman, London, 1990, p 113.

²⁶ Postiglione, et al., *Hong Kong’s Reunion*, p 61.

strengthen personal and business ties between the people of the PRC and Taiwan, in some way helping to alleviate animosity and foster understandings between the two societies.

The second point mentioned above in relation to Hong Kong's role in US interests regarding Taiwan is that the framework guiding the unification of Hong Kong to the PRC is the same framework that the PRC wants to use in pursuing reunification with Taiwan. Deng Xiaoping's policy of "one country, two systems" whereby both communism and capitalism could co-exist in one country was designed with Taiwan in mind. It was (and is) a formula that allows for compromise between form and substance. In return for a formal submission to Beijing's sovereignty, Taiwan would retain a high degree of administrative autonomy within its territory.²⁷ As Eugene Lawson, a senior US State Department official pointed out in a 1984 newspaper interview in Hong Kong:

A smooth transition for Hong Kong would serve as a model for the future of Taiwan and encourage the Taiwanese to accept the sovereignty of China.²⁸

The Taiwan government has refuted any notion that the successful handover of Hong Kong would have any effect on Taiwanese policy and made it clear that the "one country, two systems" framework is generally unacceptable to it. With both the US and the PRC viewing this framework as the model for reunification, if the Hong Kong handover is successful over the long run, Taiwan's bargaining position might be eroded over time. The Joint Economic Committee of the US Congress highlights these assessments:

²⁷ R. Cottrell, *The End of Hong Kong: The Secret Diplomacy of Imperial Retreat*, John Murray Publishers, Ltd., 1993, pp 58-61.

²⁸ Chiu, *The Hong Kong Agreement*, p 8.

The PRC's credibility in its policy of "one country-two systems" is totally dependent on whether Hong Kong does well, and the consequences for China's economic and political relations with Taiwan and with the world are considerable...In Taiwan's case, the development of more extensive economic relations could, in time, lead to some mutually acceptable settlement of the Taiwan question.²⁹

As will be demonstrated in Chapter 2, the biggest issue of disagreement between the US and the PRC is that of Taiwan's status, thus the successful integration of Hong Kong into the PRC might provide the impetus for the resolving of Taiwan's status to the satisfaction of all involved.

At the same time, any major backtracking on PRC promises to Hong Kong would have repercussions on PRC relations with both the US and Taiwan. Taiwan would probably be encouraged to move towards *de jure* independence, as it would find nothing of benefit in the "one country, two systems" formula.³⁰ The PRC has repeatedly threatened that a declaration of independence by Taiwan would be met with force—an action that is sure to draw a strong response from the US.

²⁹ K. Dumbaugh, *Hong Kong and China in the 1990s*, in "China's Economic Dilemmas in the 1990s: The Problems of Reforms, Modernization, and Interdependence", Joint Economic Committee, Congress of the United States, M. E. Sharpe, New York, 1993, p 864.

³⁰ J. M. Brown, R. Foot, (Eds.), *Hong Kong's Transitions, 1842-1997*, St Anthony's College, Oxford, 1997.

PART 1

THEORY, US FOREIGN POLICY ACTORS, AND

US HIERARCHY OF INTERESTS IN

GREATER CHINA, 1949-1995

Chapter 1

Hierarchy of Interests - A Theory of US Foreign Policy Formulation

This Chapter has two aims: first, to lay down the theoretical assumptions of the thesis, particularly the idea of national interests and a hierarchy of those interests; second, to offer some comments on the relationship between the Administration and Congress as they affect the pursuit of US foreign policy objectives.

Theoretical Framework

The theoretical assumptions of this thesis place it well within the realist theory of international relations, following in the political science tradition of foreign policy analysis.

The thesis avoids an overly elaborate theoretical examination because as Craib in his book on modern social theory has noted "much modern social theory is unintelligible, banal, or pointless"¹. Equally, the thesis acknowledges, as Craib does too, that theoretical explanations of problems are sometimes required in order for people to make sense of moral and political problems, as well as to cope with problems that people face in their everyday lives.²

What then makes a theory outstanding enough so that it does not qualify for the "unintelligible, banal, [and] pointless" label? According to Morgenthau,

¹ I. Craib, *Modern Social Theory: From Parsons to Habermas*, Wheatsheaf Books, Brighton, Sussex, 1984, p 3.

² *Ibid.*, p 3.

theory must be judged by methods that are empirical and pragmatic. The purpose of a theory is to bring "order and meaning to a mass of phenomena which without it would remain disconnected and unintelligible".³ He further states that for any theory to be useful, it must "meet a dual test"⁴ - is it consistent with the facts and with itself?

Do the facts as they actually are lend themselves to the interpretation the theory has put upon them, and do the conclusions at which the theory arrives follow with logical necessity from its premises?⁵

There are two general classes that theories of international relations usually can be classified into - realist and liberal theories. Albert Sorel argues that this dichotomy comes about because of the "eternal dispute between those who imagine the world to suit their policy, and those who arrange their policy to suit the realities of the world".⁶ The former description refers, in Sorel's view, to those pursuing liberal theories, while the latter describes those pursuing realist theories.

The fundamental difference between the two schools of theory originates from their widely differing view of the nature of "man, society and politics".⁷ The liberal school generally believes that a moral and rational order derived from "universally valid principles"⁸ can be achieved in the present. Smith summarises some of the main ideals of liberalism, as put forward by Carr in *The Twenty Years' Crisis*, as:

³ H. J., Morgenthau, *Politics among Nations: The Struggle for Power and Peace*, (4th Ed.), Alfred A Knopf Publishers, New York, 1967, p 3.

⁴ Ibid., p 3.

⁵ Ibid., p3.

⁶ A. Sorel, *L'Europe et la Révolution Française*, Plon-Nourrit, Paris, 1904. Page 474., as cited in E. H., Carr, *The Twenty Years' Crisis 1919-1939: An Introduction to the Study of International Relations*, (2nd Ed.), MacMillan Press Ltd., 1946, p 11.

⁷ Morgenthau, *Politics Among Nations*, p 3.

⁸ Ibid., p 3.

faith in reason and in the infallibility of public opinion; a sense of moral rectitude and intellectual superiority; confidence in laissez-faire economics and in an underlying harmony of interests: in short, the view that war is irrational and the way to end it is through education and the vigorous pursuit of international law and world government⁹

Realists, on the other hand, see an imperfect world as "the result of forces inherent in human nature".¹⁰ They view the world as one that is inherently involved in a conflict between opposing interests, a world where moral principles cannot and will not ever be fully realised. In a realist world, moral principles can, at best, be "approximated through the ever temporary balancing of interests and the ever precarious settlement of conflicts".¹¹ It is for this reason that realist theory appeals to precedents set in history, as opposed to abstract principles, and has as its aim the "realisation of the lesser evil rather than the absolute good".¹²

Realist writers are concerned mainly with the "primary and inescapable importance of power".¹³ Realist intellectual history goes back to embrace Thucydides, Machiavelli and Hobbes among others. The long history of realism "rests on the apparent durability of power politics as a feature of human civilization".¹⁴ As Smith points out,¹⁵ the most quoted phrase from Thucydides's *The Peloponnesian War* concerns power, the phrase being:

"What made war inevitable was the growth of Athenian power and the fear which this caused in Sparta".¹⁶

⁹ M. J. Smith, *Realist Thought from Weber to Kissinger*, Louisiana State University Press, Baton Rouge, 1986, p 70.

¹⁰ Morgenthau, *Politics Among Nations*, Page 3.

¹¹ *Ibid.*, p 3.

¹² *Ibid.*, p 4.

¹³ Smith, *Realist Thought*, p 4.

¹⁴ S. Smith, K. Booth, M. Zalewski, *International Theory: Positivism and Beyond*, Cambridge University Press, Cambridge, 1996, p 47.

¹⁵ Smith, *Realist Thought*, p 4.

¹⁶ Thucydides, *History of the Peloponnesian War*, (translated by Rex Warner), Penguin Books, Baltimore, Maryland, 1972, p 49.

Smith credits Thucydides with providing the foundation for "a paradigm of realist thought" with his "conception of international order, his notion of state honor and interest, and his view of the radically circumscribed place of morality in foreign policy".¹⁷

For Machiavelli, as with Thucydides, the keys to understanding the behaviour of states lies with calculations of power, interests and consequences. Although Thucydides regards this with a solemn sense of "brooding tragedy",¹⁸ Machiavelli regards the power calculus as "a simple fact, observable to all but the most blinkered moralist".¹⁹

In the *Discourses*, Machiavelli writes:

For where the very safety of the country depends upon the resolution to be taken, no considerations of justice or injustice, humanity or cruelty, nor of glory or shame, should be allowed to prevail. But putting all other considerations aside, the only question should be, What course will save the life and liberty of the country.²⁰

The excerpt above clearly shows that for Machiavelli, morality that would guide an individual in life does not apply to states. For Machiavelli "politics and morality operate in quite different spheres, and those interested in the latter should stay out of the former".²¹ Machiavelli is perhaps one of the few realist writers for whom the absence of morality from politics seems to pose no distress.

Another early realist, who goes somewhat further than a pure power argument is Thomas Hobbes, whose analysis of the state of nature is still one of the pillars of realist thought. Hobbes takes his theory of the behaviour of people as

¹⁷ Smith, *Realist Thought*, p 4.

¹⁸ *Ibid.*, p 10.

¹⁹ *Ibid.*, p 11.

²⁰ N. Machiavelli, *The Prince and the Discourses*, Random House, New York, 1940. Third Book, Chapter XLI, p 528.

²¹ Smith, *Realist Thought*, p 12.

individuals in the state of nature and interposes this on the behaviour of states in a world with no central authority or power to keep ambitions in check.²² For Hobbes, the existence of a state of nature among individual states amounts to a constant state of readiness for, if not actual war, because:

Where there is no common Power, there is no Law: where no Law, no Injustice. Force and Fraud, are in warre the two Cardinal vertues.²³

Early realists in the academic discipline of international relations this century, the likes of Carr and Morgenthau, maintained that the need to maximise power is the undercurrent of modern politics. For these thinkers, power can be viewed as anything "that establishes and maintains control of man over man".²⁴ In his book, *Politics Among Nations*, Morgenthau lays down five basic principles of realism.

According to Morgenthau, the first principle is that "political realism believes that politics, like society in general, is governed by objective laws that have their roots in human nature". He argues that human nature, from where the laws of politics emerge, has not changed significantly since ancient times. Therefore, an ancient idea - such as the balance of power used by Thucydides - should not be discounted simply because of age. He also assumes that any leader will approach any problem from a rational frame of mind. Morgenthau's second principle concerns the use of the concept of interests, defined in terms of power. He argues that "we assume that statesman think and act in terms of interest defined as power, and the evidence of history bears that assumption out". Thirdly,

²² Ibid., pp 12-14.

²³ T. Hobbes, *Leviathan*, Clarendon Press, Oxford, 1909, Part 1, Chapter 3, p 98.

²⁴ J. Rosenberg, "What's the Matter with Realism?", *Review of International Studies*, 16, 1990, p 289.

he argues that for realist thinkers, the concept of power is not restricted with a fixed, inflexible meaning.²⁵

Realism assumes that its key concept of interest defined as power is an objective category which is universally valid, but it does not endow that concept with a meaning that is fixed once and for all.²⁶

Morgenthau's fourth principle deals with the moral significance of political actions. He contends that realists are aware of the tension between moral command, and requirements for successful political action. In his view, realism considers "prudence - the weighting of the consequences of alternative political action - to be the supreme virtue in politics". His last principle argues that the political realist would refuse to identify the "moral aspirations" of any one nation "with the moral laws that govern the universe".²⁷

Despite the enthusiasm that most realist thinkers exhibit when describing their school of theory, some scholars have found realism to be inadequate. One of the most frequent criticisms, besides that realists assume that states act as monolithic actors,²⁸ is that the realist model is too narrow and simplistic. Realists, by assuming that states act as monolithic actors, ignore all other possible sources from where foreign policy decisions can emanate from. As elucidated by Clarke:

...any study of a state's foreign policy over a given period quickly reveals that rather than a series of clear decisions, there is a continuing and confusing 'flow of actions', made up of a mixture of political decisions, non-political decisions, bureaucratic procedures, continuations of previous policy and sheer accident.²⁹

²⁵ Morgenthau, *Politics Among Nations*, p 4-11.

²⁶ *Ibid.*, p 4-11.

²⁷ Morgenthau, *Politics Among Nations*, p 4-11.

²⁸ J. S. Nye, *Transnational and Transgovernmental Relations*", p 36, in Goodwin J. L., Linklater, A., (Eds.), *New Dimensions of World Politics*, Croom Helm Ltd., London, 1975.

²⁹ M. Clarke, B. White, (Eds.), *Understanding Foreign Policy: The Foreign Policy Systems Approach*, Edward Elgar Publishing Ltd., England, 1989, p 27.

With the end of the Cold War, the traditional realist state-centric notion of foreign policy has come under increasing attack.³⁰ Although the fervour of attacks on realism increased with the removal of Cold War restraints, criticisms of realist theory has long existed. In 1954, Snyder and associates applied a decision-making approach to the study of foreign policy.³¹ This approach was in contrast to the hitherto accepted status quo, challenging one of the underlying pillars of realist thought. As Rosenau elucidates, Snyder helped to:

crystallize the ferment and to provide guidance - or at least legitimacy - for those who had become disenchanted with a world composed of abstract states and with a mystical quest for single-cause explanations of objective reality.³²

The basis for Snyder's theory is that "state X as actor is translated into its decision - makers as actors".³³ The assumption is that unlike states, individual human beings can be observed, and therefore it is possible to undertake a scientific examination of the foreign policy decision making process.

Smith, among many others, argue that...

the state-centric perspective is...outdated as new actors have come on the scene and as new forces, predominantly economic, have altered the nature of international relations by entangling states in a network of interdependencies.³⁴

Foreign policy analysis is an interesting hybrid model, that falls well within the realist paradigm. It acknowledges the presence of other actors within

³⁰ S. Smith, "Theories of Foreign Policy: An Historical Overview", *Review of International Studies*, 12, 1986, p 13-29.

³¹ R. C. Snyder, H. W. Bruck and B. Sapin, "Decision Making as An Approach to the Study of International Relations" in *Foreign Policy Analysis*, Princeton University Press, Princeton, Series No. 3. 1954. Reprinted in Snyder et. al. (Eds.), *Foreign Policy Decision-Making: An Approach to the Study of International Politics*, Free Press of Glencoe, New York, 1962.

³² J. N. Rosenau, "The Premises and Promises of Decision-Making Analysis", in J.C. Charlesworth, (Ed.), *Contemporary Political Analysis*, Free Press, New York, 1967, p 202.

³³ Snyder, et. al. (1962), p 65.

³⁴ Smith, "Theories of Foreign Policy", p 13.

the system and at the same time maintains a state centric approach to foreign policy formulation. The focus is on the interaction between states or a government acting on behalf of a state. Similar to general realist theory, foreign policy analysis accepts that power relations (either explicit or implicit) play a major part in the foreign policy of a state. Where foreign policy analysis differs from realism is that it opens up the "Black Box"³⁵ of the state, and attempts to examine the various elements that make up the decision making mechanism.³⁶ The rationale for this action is that:

a scholar focussing narrowly on the international level of analysis...is more likely to produce an explanation that emphasises balance-of-power considerations.³⁷

The rationale behind foreign policy analysis is that foreign policy can often be explained by examining the way the actors inside the "Black Box" behave towards each other. The final major difference between realist and foreign policy analysis thinkers is that realists take the rationality of actors as granted, whereas for foreign policy analysis "rationality is a contested concept".³⁸ Light views foreign policy analysis as a "bridging discipline" because its aim is:

connecting together the diverse issues that students deal with under separate headings in other subjects, and because it translates abstract theory into concrete problems. Furthermore, by concentrating on the interface between the state and the state system, FPA [foreign policy analysis] links the micro level of politics and the macro level of the international system.³⁹

³⁵ M. Light, "Foreign Policy Analysis" in A. J. R. Groom, M. Light, *Contemporary International Relations: A Guide to Theory*, Pinter Publishers, London, 1994. See Chapter 7, pp 93-109.

³⁶ *Ibid.*, p 93.

³⁷ G. D., Austin, *The Sources of Military Doctrine-A Lesson from the Cold War*, PhD Thesis, Australian National University, 1994, p 23.

³⁸ Light, "Foreign Policy Analysis", p 93.

³⁹ *Ibid.*, p 94.

There are, as with all theories of international relations, some pitfalls in the foreign policy analysis school, five of which have been summarised by Smith.⁴⁰

First, Smith argues that during the futile search for a general theory by foreign policy analysis scholars, the epistemological assumption that - "if everyone used the same concepts, collected data, tested hypotheses then theory would emerge"⁴¹ - could lead only to unattainable expectations. Second, to follow on from the first point, the quantitative analysis used by scholars indicated an inherent problem of mathematical research meaning that the works were describing, not explaining, policies. Third, Smith blames the reluctance of theorists to undertake cumulative research. Smith maintains that "there has been little in the way of testing the theories that have been developed".⁴²

The fourth pitfall identified by Smith has its roots in the "seductive" idea of national interest, an idea of particular relevance to this thesis. The term "national interest" is an inconsistent expression, that has been applied since the Middle Ages to the "foreign policy and national security goals of nation-states"⁴³, while today in the US, "it is widely used to define the broad purposes of U. S. foreign policy".⁴⁴ Von Vorys identifies a fundamental interest for the US: "it is never in the US national interests to be conquered or subjugated by a foreign power."⁴⁵ Beyond such a fundamental assumption, however, there is still much room for further debate on what is, or should be, considered to be in the national

⁴⁰ Smith, "Theories of Foreign Policy", p 22-25.

⁴¹ Ibid., p 22.

⁴² Ibid., p 23.

⁴³ D. E. Nuechterlein, *America Recommitted: United States National Interests in a Restructured World*, The University Press of Kentucky, Lexington, Kentucky, 1991, p 13.

⁴⁴ Ibid., p 13.

⁴⁵ K. Van Vorys, *American National Interest: Virtue and Power in Foreign Policy*, Praeger Publishing, New York, 1990, p 19.

interest. Deese argues that in the multi-polar 1990's it does not make sense to speak of a unified US "national interest".⁴⁶ He argues:

Individuals and groups in different socioeconomic classes, economic sectors, or geographic regions are affected differently by international forces. Their interests, policy preferences, and opportunities for political participation will vary widely.⁴⁷

Despite Deese's quite reasonable argument that national interest depends on who expresses it, the concept remains popular, in part because of this very quality. It can be used to define whatever the writer wishes it to define. This propensity for flexibility in the concept has hindered the development of foreign policy analysis, which turns on concepts of national interest.

Lastly, an inability to define "what the state is and what foreign, as opposed to domestic, policy consists of has also impeded the theoretical development of foreign policy analysis".⁴⁸ Despite the criticisms levelled at foreign policy analysis, Smith believes that "FPA [foreign policy analysis] has much to offer the study of International Relations" for "foreign policy does form patterns" and these patterns can be discovered and explained by structures and processes that can be found in the behaviour of most states.⁴⁹

Bearing in mind these pitfalls of foreign policy analysis and acknowledging that an expression of national interest depends on the power position of the proposer, this thesis will proceed in the style of foreign policy analysis to build up a hierarchy of interests in US foreign policy, firstly towards Hong Kong and later Taiwan.

⁴⁶ D. A. Deese, *The New Politics of American Foreign Policy*, St. Martin's Press, New York, 1994, p 4-5.

⁴⁷ *Ibid.*, p 4.

⁴⁸ Smith, "Theories of Foreign Policy", pp 22-24.

⁴⁹ *Ibid.*, p 25.

Legg and Morrison offer four different categories of interests that a state has to juggle every time a foreign policy is created. First, military security is essential for the "shared desire to ensure the survival and territorial integrity of the community and state".⁵⁰ Second, the economic interests of the community are highlighted by Legg and Morrison. The importance of economic security should not be underestimated, as "the economy of a state is fundamental to a state's capabilities and therefore power *vis-à-vis* other states".⁵¹ Third, the influence of domestic political factors is highlighted by the above authors. The fourth and last category is the "cultural/psychological, and/or ideological needs"⁵² of the state - such as the need for fulfilling religious or ideological imperatives, or the need to follow moral principles and obligations.⁵³

In this study, the third (political) and fourth (cultural/psychological/ideological/moral) interests of the US will be fused in a single category, hereafter referred to simply as political interests. Thus this study will analyse United States foreign policy from the point of view that in the making of any state's foreign policy towards another state, there are three general arenas of interests that have to be harmonised: security, prosperity and political order. The thesis uses the terms security interests, economic interests and political interests to refer to the three general arenas of a state's interests.

As Peter Van Ness suggested, these dimensions of foreign policy seem to represent a "rough hierarchy of priorities: First security, then economics and

⁵⁰ K. R. Legg, J. F. Morrison, "The Formulation of Foreign Policy Objectives" in M. Smith, R. Little and M. Shackleton, (Eds.), *Perspectives on World Politics*, Open University Press, London, 1981, p 56.

⁵¹ *Ibid.*, p 57.

⁵² *Ibid.*, p 58.

⁵³ *Ibid.*, p 58.

finally questions of morality".⁵⁴ Although the balance between the three obviously changes according to circumstances, in general it is assumed that when a state is militarily secure and economically confident, the ordering of priorities will be skewed towards greater emphasis on political interests. This is an example of a more general assumption implicit in the theoretical framework, namely that the balance between the three interests changes according to circumstances.

The three categories referred to above have a wide and vague definition in everyday usage, thus the following will set out the definition for them which will be used in this study. In all three areas of interest examined, this thesis will emphasise and focus on the issues that the US government feels are important.

The term "National Security" is a conceptually broad and difficult one, especially for a thesis focusing on US policy towards Hong Kong, where security interests have not been an overt priority for the United States in the 1990's - mostly due to the inconceivability of fighting a war with the PRC over Hong Kong. Therefore, as the main focus of this study is the interaction, within the confines of US foreign policy, of economic and political interests, the influence of security issues will be downplayed in the study.

However, while security interests are not of utmost importance when examining US policy towards Hong Kong, in the case of policy on the PRC and Taiwan the situation is very different. In the later part of the thesis dealing with US policy towards Taiwan, "security interests" will be taken to refer almost exclusively to the military security of the state, and will include the threat as well as the actual use of military force by any party to further its own goals. The

⁵⁴Peter Van Ness, "Addressing the Human Rights Issue in Sino-American Relations", *Journal of International Affairs*, Winter 1996, 49, p 309.

improvement of one side's military capacity through the acquisition of conventional weapons, or actions resulting in the proliferation of weapons of mass destruction, will also be an important aspect to be taken into account.

Economic interests will be understood to include investment, trade and trade regimes. Trade will be examined by looking at the amount of total export/import (including re-exports) from one country (or customs territory) to another. Investment will be explored by looking at the amount of total direct investment in the economy by the foreign state. The study will also be taking into account the relevant country's access to each others markets, and any restricting quotas or tariffs that exports face from one country to the other. For this, the PRC and Hong Kong (as well as the Hong Kong SAR) will be treated separately.

The term 'political interests' is, due to its nature, fundamentally difficult to define absolutely. Thus, in this thesis the term 'political interests' will be used to refer to interests that the US has in the political order of foreign countries. Therefore issues that relate to democratisation, as defined by the US - such as human rights, political representation and self-determination - will be examined. US interests in these issues, unlike US interests in security and economic issues which are mostly self-explanatory, require a brief clarification.

The rhetorical sources of US interest in political order can be traced to the principles laid out in major constitutional or political documents. The Declaration of Independence⁵⁵ (4 July 1776), the Constitution of the United States (ratification completed 21 June 1788),⁵⁶ especially the first 10 amendments - commonly

⁵⁵ *The Declaration of Independence*, Action of Second Continental Congress, 4 July 1776. From the US Congress web site - <http://www.house.gov/Declaration.html>. Date last accessed: 4 July 1998.

⁵⁶ See the *Constitution of the United States of America*, From the US Congress web site - <http://www.house.gov/Constitution/Constitution.html>. Date last accessed: 4 July 1998.

referred to as the Bill of Rights - together with President Lincoln's 1864 Gettysburg Address⁵⁷ laid down the rhetorical foundations for US values of political order that have been maintained to this day.

The values espoused in the Declaration of Independence, the Constitution and the Gettysburg address are values that the US holds up as universally applicable. After all, as Vogel explains, these values provide a mechanism to bind together the people of the US given their differing social and cultural backgrounds:

stripped of [the] confidence that their values transcend the cultural difference of their diverse origins, Americans would remain divided by their separate pasts.⁵⁸

The Declaration of Independence represented a fore-runner of the right of self-determination for communities, although this did not become entrenched until the 20th Century, in the Wilsonian notion of the right of nationalities to self-determination.

The US Constitution, especially the Bill of Rights, lays down a number of rights that the US believes are applicable to people universally. The first Amendment to the Constitution sets out freedoms pertaining to religion, speech, press and assembly, as well as to allow people "to petition the Government for redress of grievances".⁵⁹ The fourth Amendment sets out the right of the people to be safe from unreasonable searches and seizures, while the sixth Amendment sets forth the right to a "speedy and public" trial by jury, as well as providing for the

⁵⁷ A. Lincoln, (President of the US at that time), *The Gettysburg Address*, 19 November 1861. From <http://jefferson.village.virginia.edu/readings/gettysburg.txt>. Date last accessed: 4 July 1998.

⁵⁸ E. F. Vogel, (Ed.), *Living With China: U.S.-China Relations in the Twenty-first Century* W. W. Norton & Company, New York, 1997, p 59.

⁵⁹ See *Amendments to the Constitution*, From the US Congress web site - www.house.gov/Constitution/Amend.html. Date last accessed: 4 July 1998.

right of adequate legal representation.⁶⁰ The freedoms described in the US Constitution are similar, if not identical, to the basic human rights that are enshrined in the Universal Declaration of Human Rights,⁶¹ which was proclaimed by the General Assembly of the United Nations on the 10th of December 1948 by 48 votes to nil - although with nine abstentions. This thesis will focus on breaches of "human rights" that the Administration places emphasis on during its dealings with Hong Kong, Taiwan and the PRC.

Lincoln's Gettysburg Address on the 19 November 1863 reinforced the values enshrined in the Declaration of Independence and the Constitution. The famous start of Lincoln's speech:

Four score and seven years ago our fathers brought forth on this continent a new nation. Conceived in liberty and dedicated to the proposition that all men are created equal.⁶²

The values espoused by Lincoln reinforced the values and propositions that the US policy has been pursuing in relation to its political interests, with varying degree of success, since the inception of the United States.

For the classification of US political interests, within the paradigm offered by the above, a definition of a quintessential democratic country offered by Peter Van Ness will be used. Van Ness argues that for any country to be considered democratic the following three criteria must be fulfilled:

- 1) rule of law and citizen equality before the law
- 2) protection of human rights
- 3) the establishment of effective political institutions to represent citizen options, to choose leaders, and to hold those leaders accountable.⁶³

⁶⁰ Ibid.

⁶¹ *Universal Declaration of Human Rights*, Department of External Affairs, Wellington, New Zealand, 1951.

⁶² Lincoln, *The Gettysburg Address*, 19 November 1861.

⁶³ P. Van Ness, "Human Rights and Democracy in China: Four Theories on Why the World Should Care", *Peace Research Center Working Paper*, No. 167, RSPAS, ANU, Canberra, 1996, p 4.

While Van Ness maintains that these standards are probably not totally fulfilled in any country, "all of the regimes that we customarily describe as democratic would accept these standards as appropriate".⁶⁴ Nevertheless, as emphasised before, the focus of this thesis in addressing US political interests will be on these categories. It has been a primary principle of the rhetoric of US foreign policy that these aspects of political order in foreign countries represent a primary foreign policy interest of the US.

Actors in US Foreign Policy Formulation

Any foreign policy that the United States decides to pursue is the outcome of an extremely complex political process. The President, 535 Members of Congress, the Secretary of State, the National Security Adviser, the Department of State, the Department of Defense, the Central Intelligence Agency, the National Security Council, public opinion, interest groups and specialists are just a few of the many individuals and institutions which can have an input into the final policy.

P. A. Mundo describes US policy making as:

motivated by pragmatic considerations - individuals, interest groups, parties - operate in a system where compromise and bargaining lead to success and rigid, ideologically based positions most often lead to failure.⁶⁵

Because of the large number of actors involved in US foreign policy making, there is a need to simplify and clarify the nature and powers of the main actors involved.

⁶⁴ Ibid., p 4.

⁶⁵ P. A. Mundo, *Interest Groups: Cases and Characteristics*, Ivelson-Hall Publishers, Chicago, 1992, p 237.

For the purpose of this thesis, the actors involved in US foreign policy formulation will be classified into two separate (but complementary) categories - central and peripheral actors. The focus will be on the central actors, which are the three branches of government - the Administration, both Houses of Congress and the Courts⁶⁶ - of the United States that are Constitutionally empowered to formulate policy. Throughout the thesis, the term Administration will refer to the President as well as government Departments and appointed officials supposedly under his/her control. As argued later, within the central actors, the President is considered to be the most important actor in the formulation and implementation of foreign policy.

The term “peripheral actors” refers to actors which have no Constitutional role in foreign policy decisions, yet, due to other factors, tend to have an input into foreign policy decision. The above term is meant as a wide cover to encompass among others, interest groups, specialists, and outside circumstances. The impetus for new policy or the modification of an old policy can come from peripheral actors, especially interest groups, or as a response to some outside circumstance beyond US government controls (for example - the Tiananmen Square incident in 1989).

Although peripheral actors can play an important role in the formulation of US foreign policy - mostly by convincing either the President, Members of Congress or the general public that their cause or course of action is worthy of becoming US policy - this thesis will concentrate mostly on the documented

⁶⁶ While US Courts tend not to play a role in the formulation of US foreign policy, they can be seen as occupying the role of the overseer and final adjudicator between the executive and legislative. This role is discussed further later in this Chapter.

actions of the central branches of the US government, although cases where the actions of peripheral actors had a notable affect on US policy will be highlighted.

While the United States Constitution⁶⁷ does give clear indications as to the role of the executive, what it fails to do is to proscribe other actions. This in turns ensures the continuation of the ambiguity that surrounds the Constitutional powers of the executive and legislative arms of the US Government. The most relevant section of the US Constitution is Article 2, Section 2 which sets forth the powers of the President, declaring him/her to be the Commander in Chief over the Army and Navy of the US, as well as giving the President the power to make treaties, subject to Senate ratification.

Despite the powers conferred on the President, due to the reluctance on behalf of the 'Founding Fathers' to allow the accumulation of executive power in the hands of one person, the power to declare war and to raise funds for the army and navy, as well as the power to regulate commerce with foreign nations was left in the hands of Congress.⁶⁸ According to E. S. Corwin, all of this:

amounts to saying that the Constitution, considered only for its affirmative grants of power which are capable of affecting the issue, is an invitation to struggle for the privilege of directing American foreign policy.⁶⁹

Due to the unclear delineation of the separation of powers as described in the US Constitution, the three co-equals that make up the US government - the Administration, Congress and the Courts - are in a constant state of competition for what Corwin refers to as the "privilege"⁷⁰ of formulating US foreign policy. Of

⁶⁷ See the *Constitution of the United States of America*, From the US Congress web site - <http://www.house.gov/Constitution/Constitution.html>. Date last accessed: 4 July 1998.

⁶⁸ See Article 1, Section 8 in particular of the US Constitution

⁶⁹ E. S. Corwin, *The President Office and Powers: 1787-1948: History and Analysis of Practice and Opinion*, New York University Press, 1948, p 208.

⁷⁰ *Ibid.*, p 208.

the three co-equals of government, without doubt the Courts are the least involved in the formulation of US foreign policy, nevertheless, interested parties can bring a foreign policy action or decision before the courts in an attempt to rule the policy illegal or unconstitutional. Therefore, the courts could be seen as occupying the role of the overseer of the foreign policy making process.

In fact the Courts "tend to play a passive role in the area of foreign policy".⁷¹ While the US Constitution, in establishing the Supreme Court to judge issues of its interpretation, might have in principle been providing a referee in cases of dispute, the Court has been very reluctant to hear cases where issues of foreign policy have been involved. Generally, the court prefers to leave questions relating to the Constitutional separation of powers and foreign affairs unanswered on the grounds that they are political rather than legal questions. As Justice Marshall noted in *Marbury v Madison* in 1803:

Questions, in their nature political, or which are, by the Constitution and laws, submitted to the executive, can never be made in this court.⁷²

Despite the above ruling by Justice Marshall, the Supreme Court has, on the rare occasion that a question regarding the separation of powers in foreign policy was brought to the Courts attention, delivered judgements affecting the power balance between the Administration and Congress.

In spite of the reluctance of the Supreme Court to be involved in political matters, in the few cases where the Supreme Court had decided to hear a case that had implications for the pursuit of foreign policy, the tendency has been to take

⁷¹ J. A. Rosati, *The Politics of United States Foreign Policy*, Harcourt Brace Jovanovich College Publishers, Fort Worth, Texas, 1993, p 37.

⁷² P. E. Peterson, *The President, the Congress, and the Making of Foreign Policy*, University of Oklahoma Press, Norman, 1994, p 28.

the side of the President, naming him the “sole organ”⁷³ of government that deals with foreign policy. It is also worthwhile to note that the implications of “sole organ” have not been explored in any subsequent case thus far.

The nucleus of this rather complex legal, political and philosophical debate is present in the following assessment by Louis Henkin:

in foreign affairs there is no excess power for the Court to construe, and certainly not to construe strictly....The president can make treaties only with the consent of the Senate. (But we are not sure what a Treaty is.) The President cannot make war. (But what is a war?) Short of a treaty and short of a war, the president can act, I think, until and unless Congress says no... The indications are that the Court will not deny presidential power when Congress has not said no, or at least has not indicated strongly that it would like to say no.⁷⁴

How exactly Congress is meant to convey its disapproval - its explicit “NO” - to the President has not been specified by the Supreme Court thus far. According to E. S. Corwin, since all that the Constitution does is to confer to the President and Congress certain qualified rights, “which of these organs shall have the decisive and final voice...is left for events to resolve.”⁷⁵

However he does concede that in the struggle for power between the Congress and the President, the latter has a number of advantages for carrying out foreign policy. Namely, the unity of the Administration, access to superior information, as well as by having the majority of the Administration residing in Washington year around - whereas Congress tends to be adjourned much of the time. Simply put:

⁷³ United States Supreme Court Decision, *United States v. Curtiss-Wright Export Corp.*, 299 U.S. 304 (1936).

⁷⁴ *Congress, the President, and Foreign Policy*, American Bar Association; Standing Committee on Law and National Security, 1984, pp 32-33.

⁷⁵ Corwin, *The President Office and Powers: 1787-1948*, p 208.

actual *practice* under the Constitution has shown that while the President is usually in a position to *propose*, the Senate and Congress are often in a technical position at least to *dispose*.⁷⁶

Until the 1970's, when Congressional frustration over the general state of foreign policy emerged, the accepted status quo was proclaimed by the Supreme Court in the case of *United States v. Curtiss-Wright Export Corporation*, as:

federal power over external affairs in origin and essential character different from that over internal affairs, but participation in the exercise of power is significantly limited. In this vast external realm, with its important, complicated, delicate and manifold problems, the President alone has the power to speak or listen as a representative of the nation.⁷⁷

However, with the souring of relations between the President and Congress in the early 1970's over a number of issues - such as the Vietnam War and the Watergate scandal - the frustrations of Congress culminated in the passing of Acts, and amendments to some Acts, by which Congress sought to gain tighter control of certain foreign policy decisions.

There were four major actions that Congress took in the 1970's in order to curb the President's hitherto unchallenged supremacy in foreign policy formulation. The first was the War Powers Act of 1973. This Act requires the President to terminate any use of US forces 60-90 days after deployment unless Congress either declares war or specifically authorises the use of US armed forces. The second Congressional action of importance is the Bingham-Nelson Amendment to the Foreign Military Sales Act of 1974. This amendment sought to empower Congress to veto arms sales to foreign countries. In the same year, the Hughes-Ryan Amendment to the Foreign Assistance Act provided Congress with

⁷⁶ Corwin, *The President Office and Powers: 1787-1948*, p 208. (Italics in Original)

⁷⁷ *United States v. Curtiss-Wright Export Corp.*, 299 U.S. 304 (1936).

better control of the Central Intelligence Agency's budget, and expanded the role of the oversight committees established earlier. Finally, the passing of the Nuclear Non-Proliferation Act in 1978, gave Congress the power to disapprove of nuclear agreements with foreign countries.⁷⁸

Despite the Supreme Court's usual reluctance to rule on matters related to foreign policy forming, in a rare event, the Supreme Court in the 1983 case of *Immigration and Naturalization Service v. Chadha*⁷⁹ ruled unconstitutional the Congressional veto in the Bingham-Nelson Amendment. However, in an essay following the judgement in this case, Congressman Solarz commented that he does not "foresee any permanent or significant loss of power by the Congress" to restrict Presidential excess in the arena of foreign policy formulation, as a result of this particular Supreme Court's decision.⁸⁰

Of the four actions of Congress discussed above, arguably the most important Congressional action after the Vietnam and Watergate debacle was the passing of the War Powers Act in 1973, over President Nixon's veto. This act is meant to restrict the powers of the President, by placing a limit of 60-90 days on any Presidential commitment of US troops abroad without specific Congressional approval. The act also requires the President to confer with Congress before US troops are introduced into battle in every possible instance.⁸¹

Although there seem to be definitive limitations on the powers of the President in carrying out foreign policy, especially if US troops are involved, most

⁷⁸ *Congress, the President, and Foreign Policy*, p 39.

⁷⁹ United States Supreme Court Decision, *Immigration and Naturalization Service v. Chadha.*, 462 U.S. 919 (1983).

⁸⁰ *Congress, the President, and Foreign Policy*, p 40.

⁸¹ H. C. Pritchett, *The American Constitution*, McGraw-Hill Book Company, New York, 1977, p 270.

Presidents have learned to circumvent these restrictions imposed by Congress (For example - President Reagan ordering the bombing of Libya, the invasion of Grenada, President Bush's invasion of Panama, as well as the military build-up in the Persian Gulf in 1991.) As long as the action planned by the President has popular support, and can be achieved quickly, it is unlikely that Congress would interfere. Considering the number of US armed actions initiated by the President since the passing of the War Powers Act of 1973, it seems unlikely that the Act has or will prove an effective restrictive measure on the President's military initiatives.

Overall, it is clear that Congress does not control foreign policy, and with "the inherent advantages the president enjoys in the modern international arena make it unlikely that it ever will." As argued by J M Lindsay, Congress is more a "subsidiary" actor in the overall decision-making process, playing the role of critic and legitimiser: "the role of Congress is not to make the president's job easier but to make the countries policies better".⁸²

Conclusion

The theoretical aspects of this thesis, as covered in the first section of this chapter are relatively simple. The thesis assumes that when a country is contemplating a foreign policy option there will be at least three different areas of interests that will have to be reconciled. These three categories of interests are strategic, economic and political interests. While it is often assumed that security interests

⁸² J. M. Lindsay, *Congress and the Politics of US Foreign Policy*, The Johns Hopkins University Press, Baltimore, 1994. See Preface (page viii) and Conclusions (p 183).

will take precedence over all other interests, what is the more difficult issue is how a state balances its political and economic interests while preserving its security interests. In circumstances where strategic interests are minimised, or do not exist, it is probable that economic interests would then take priority over matters of political interests. When there are no strategic or serious economic interests at stake, then the country in question can focus on interests that are of political importance.

International relations study has generally approached state policies as emanating from a "black box", and thus has not always sought to take account of the fact that the making of foreign policy is a very complex process. It can involve many individuals and institutions each with their own distinct agenda. While acknowledging the complexity of the process, it is still possible to make deductions regarding the overall outcomes of foreign policy formulation. In the US case, the impetus for policy can come from many quarters, but it is always the Administration that must implement a particular policy. This thesis analyses US Administration positions, but also does not lose sight of the influence of other actors, particularly the Congress.

Chapter 2

US Hierarchy of Interests in Greater China,

1949-1995

This chapter will describe and analyse the origins and development of US recognition policy towards Greater China from 1949 until June 1995. During this timeframe, there were five periods when the balance of interests in US policy changed: 1) the PRC's intervention in the Korean war in 1950; 2) the visit of US President Nixon to the PRC in 1972; 3) the official recognition of the PRC by the Carter Administration in 1979; 4) the Tiananmen Square incident in 1989; and 5) the visit to the US by Taiwanese President Lee Teng-hui in June 1995. Each section of this Chapter will examine the interaction of US economic, security and political interests leading up to the above mentioned points, along with the events that led to these policy changes. The aim of this chapter is to provide the necessary background for a subsequent analysis of the hierarchy of US interests in Greater China in the mid to late 1990s.

US political interests from 1995 onwards in Hong Kong will be discussed in Chapter 3, while US economic interests will be examined in Chapter 4. The interaction of US interests in Taiwan after the visit of Lee Teng-hui to the US will be addressed in Chapter 5. This chapter analyses the balance between US economic, political and security interests in Greater China between 1949 and 1995.

World War Two to the Korean War, 1945-1950

Between the end of the Second World War and the final defeat of the Kuomintang (KMT) troops on the Chinese mainland, US interests in Greater China were mostly political. The US had few immediate economic interests in the region. With the defeat of the Imperial Japanese army, the ending of the Chinese civil war and the political unification of China were the main priorities of the US. However, the rising power of the Soviet Union in Europe, the Korean war, and the emergence of McCarthyism all contributed to a shift in US perceptions of the internal Chinese struggle as part of the strategic confrontation of the Cold War. After the “loss of China” in 1949, until President Nixon’s visit to Beijing in 1972, US interests in Greater China were almost exclusively strategic. The need to contain Communist expansion, be it Soviet or Chinese, was perceived as paramount. This section will examine how the events that occurred in East Asia in 1950 affected the balance of US interests in the region.

Throughout the Second World War, the United States had two overriding security interests in China. The first was the effective joint prosecution of the war against the axis powers. The second was to build up China as a major power, so that it may take part in a post-war organisation as an equal to the Western powers, and contribute to the stability and prosperity of the Asia region after the war.¹ Unfortunately for the US, the fulfillment of both of these interests required a politically unified China, not one engaged in a relentless civil war. After the “New

¹ T. J. Liu, *U.S.-China Relations, 1784-1992*, University of America Press, Inc., New York, 1997, p 13.

Fourth Army incident”², the united front between the KMT and the Chinese Communist Party (CCP) fell apart, and from 1941 onwards, the Chinese civil war was reopened.³

The events that entangled the US in Chinese internal politics, culminating in the “loss of China” in 1949, had their origins in 1938, with the swift victories of the Japanese army against China. While events such as the aerial bombing of Shanghai, and the “rape of Nanking” certainly played a part in influencing US decisions, the rationale for supporting China in its struggle against Japan was based on two much less emotional grounds. First, if war with Japan was to be inevitable, the US would need time to prepare, time which the US could buy by keeping the Japanese army occupied in mainland China. Second, by bogging down the Japanese, the possibility of a Japanese attack on Southeast Asia would be significantly reduced. Furthermore, the European allies of the US, who relied on raw materials from their colonies in Southeast Asia, needed to secure these territories in the event of a European war against Germany and her allies.⁴

In 1937, President Roosevelt had actively sought to transform China into an effective ally through the provision of political support and aid to the KMT. With this policy in mind, in December of 1938, the Roosevelt Administration approved a US\$25 million commodity loan to China. This loan represented the beginning of an unshakable commitment to the survival of the state of China⁵ in

² The New Fourth Army Incident took place on the 4th of January, 1941 at Maolin, north of the Yangtse river. KMT troops ambushed the CCP’s New Fourth Army, this incident decimated any chance that the KMT and the CCP could form a lasting united front against Japan. For further elucidation see P. H. Kreisberg, *The New Fourth Army Incident and the United Front in China*, M. A. Thesis, Columbia University, 1952. Columbia University Microfilm, New York, 1976.

³ Liu, *U.S.-China Relations*, pp 13-15.

⁴ D. M. Finkelstein, *Washington’s Taiwan Dilemma, 1949-1950: From Abandonment to Salvation*, George Mason University Press, Fairfax, VA., 1993, pp 8-10.

⁵ *Ibid.*, Pages 10.

the face of obvious Japanese efforts to incorporate Chinese territory into the Japanese Empire. US economic assistance to the KMT government of Chiang Kai-shek, from 1938 until its final collapse in 1949, had increased significantly from year to year. US aid mostly took the form of commodity loans and currency stabilisation loans, with the aim of reducing inflation and bolstering public confidence in the KMT regime. A number of treaties were signed in the late 1940s between the US and the KMT government, covering trade, purchase agreements and air transport.

By 1944, the focus of US interests in China had turned away from military issues to a focus on issues of geo-politics. Realising that China was incapable of contributing any meaningful military force against Japan, US policy turned to postwar plans, which still required a politically unified China. Patrick J. Hurley, President Roosevelt's last envoy to China (who later in 1944 became Ambassador to China) attempted, on his government's instructions, to reconcile differences between the KMT and the CCP. Hurley's efforts were in vain, mostly due to his "determination to ignore the political realities of the country to which he was accredited".⁶ Ambassador Hurley was still conducting negotiations with the KMT and the CCP when the Pacific War was brought to an abrupt end with the surrender of Japan following the bombing of Hiroshima and Nagasaki.⁷

The sudden end of the war created even more confusion in China for US interests, as the race between the KMT and the CCP for control of the mainland began in earnest. While Soviet troops marched into Manchuria, Chinese Communist party Chairman Mao Zedong declared the right of the Red Army to

⁶ Finkelstein, *Washington's Taiwan Dilemma*, p 22.

⁷ *Ibid.*, pp 18-23.

accept the surrender of Japanese troops, while Chiang Kai-shek was calling on the Japanese troops to hold their positions and arms until KMT units could arrive. Washington issued orders for the Japanese to surrender only to Chiang's troops, notwithstanding the fact that the KMT army was isolated in the South-West of China, and therefore in no position to accept Japanese surrender. To rectify this situation, within the next few months, approximately 50,000 US Marines landed in Beijing, Tianjin and other coastal areas, while the US military transported between 400,000 and 500,000 KMT troops to a variety of locations throughout China, in order for Chiang to claim to control the country of China. At the same time, the US commander in the region, General Albert C. Wedemeyer, was instructed that his actions should "...not prejudice the basic U.S. principle that the United States will not support the Central government of China in fratricidal war".⁸

Following the public resignation of Ambassador Hurley in November 1945, President Truman appointed the then General of the Armies, George C. Marshall to attempt to mediate peace between the KMT and the CCP. The appointment of Marshall was accompanied by a general policy statement of US interests in China by Truman, in which he emphasised that the creation of a democratic and unified China was in the US interest. Truman further stated that the US would continue to recognise Chiang's KMT as the government of China. At first, Marshall's mission proceeded with some success. In early 1946, the KMT and the CCP agreed to a cease-fire and the formation of a Political Consultative Conference for the working out of constitutional details for a coalition

⁸ Ibid., pp 23-24.

government. By February, a tentative agreement for the integration of the Communist and KMT armies was reached. At this time, Marshall left China for Washington to secure economic aid for China in order to buttress this agreement. However, Marshall's success was short-lived. US policy makers had not yet realised that, as Chiou explains, "in the Confucian heaven, there just could not be two suns."⁹

By the northern summer of 1946, the KMT and the Chinese Communist forces were again involved in fighting in a number of provinces. In January 1947, Marshall was recalled from his mission in China and was promoted to Secretary of State by President Truman. Shortly after, the "United States declared the termination of its effort in attempting to mediate a peace in China's civil war".¹⁰ From this time, US actions in the region were calculated with the strategic need of containing communism in mind.

With the communist victory in 1949, and the US plans for a "friendly" government on the Chinese mainland seemingly ruined, the dilemma facing the US was whether the continuing support of Chiang Kai-shek's government or whether recognition of the new government on the mainland would further US interests in the region better. This question overshadowed US policy making from mid 1948 until the outbreak of war on the Korean peninsula.

With the abandoning of the mainland by the pro-US KMT government, the focus of US strategic interests turned to Taiwan, which until the end of the Second World War, had been a Japanese colony for 50 years. Although at first Japan's

⁹ C. L. Chiou, "Democratizing China and Taiwan: Cultural and Institutional Paradigms", *Regime Change and Regime Maintenance in Asia and the Pacific*, Discussion Paper No. 11, Department of Political and Social Change, Research School of Pacific Studies, The Australian National University, Canberra, 1993, p 9.

¹⁰ Finkelstein, *Washington's Taiwan Dilemma*, pp 24-29. Quote on p 29.

rule was harsh, near the end of its rule limited local self-government was allowed, along with increases in the standard of education and health services.¹¹ Thus, at the end of the Second World War, there was sufficient infrastructure for the KMT to establish a base and after 1949, for the US to reconsider the island's status.

The island's return to China was agreed to in the 1943 Cairo Declaration, however, at the Yalta Conference in the following year it was decided that Taiwan would not be officially returned until after the Japanese signed a peace treaty, which did not occur until 1951. After the victory of the CCP on the Chinese mainland, the State Department took the opportunity provided by this technicality and actively considered alternatives to acknowledging Taiwan as a province of China.¹²

In November 1948, US strategic interests were clearly asserting themselves. Acting Secretary of State Lovett requested an appraisal from the Joint Chiefs of Staff regarding the “strategic implications for the security of the United States should a Communist government control Taiwan”.¹³ It was concluded that a Taiwan administered by an unfriendly government would have the potential to dominate adjacent sea routes, and would therefore pose a serious threat to US security, economic and political interests in Japan, the Philippines, and the Malay Peninsula. The recommendation from the study, therefore, was that:

it would be most valuable to U.S. security interests if...Communist domination of Formosa [Taiwan] could be denied by such diplomatic and economic steps as may be appropriate to insure a Formosan administration friendly to the United States.¹⁴

¹¹ J. K. Fairbank, *The United States and China*, (4th Ed.), Harvard University Press, Cambridge, 1979, p 354.

¹² J. M. Grasso, *Truman's Two-China Policy: 1948-1950*, M. E. Sharpe, Inc., New York, 1987, p 36.

¹³ Grasso, *Truman's Two China Policy*, p 32.

¹⁴ *Ibid.*, p 32.

While the US objective was to keep any future government on Taiwan friendly, the US, at this time, was not prepared to engage in any military conflict with the PRC in order to secure the island for the KMT.

At the same time, Chiang Kai-shek, who had begun to move his forces into Taiwan, requested that US aid aimed for Northern China be re-routed to Taiwan instead. By the end of 1948, more than half of the ships carrying aid to China were diverted to Taiwan. There were several reasons for the reluctance of the US for military involvement in Taiwan, at least until the outbreak of hostilities in Korea. First, the main focus of US policymakers was containing the Soviet Union in Europe. Second, budgetary limitations made it difficult to find the funds for another major military commitment. Third, it was viewed as undesirable to provide ammunition for CCP and Soviet propaganda that the US was planning on separating a Chinese province for its own 'sinister' purposes.¹⁵

Analysis in the US following the 'loss of China' fell into two schools of thought. On the one hand, scholars such as Fairbank advocated a view which absolved the US from blame for the Communist victory. Arguing that the reason behind the rise of the CCP in China was not due to their communist doctrine, but due instead to three other elements—nationalism, the ancient Chinese tradition of peasant rebellion, and new social forces that had emerged with the introduction of peasant elements into government. Fairbank maintained that:

the error of the United States in dealing with the Chinese revolution has been to focus upon its Communist ideology and anti-American aspects to the exclusion of the three other elements described above.¹⁶

¹⁵ Ibid., pp 6-8.

¹⁶ J. K. Fairbank, "Competition with Communism, Not Containment", in *What Can the United States do in China?*, Foreign Policy Reports, March 15, 1949, p 7.

He further argued that the US, as a society devoted to political order, did not understand the dynamics of a peasant led revolution in a society where food and civil order were viewed as more important than political self-expression by the masses.¹⁷

The thrust of Fairbank's argument was that instead of recrimination and blame-shifting, policymakers should recognise the areas of failure in US China policy and attempt to rectify these mistakes. He encouraged US decision makers to accept the inevitable and work with the new PRC government for better relations between the two countries. He was thus advocating that the US reassert its engagement with the political order on the mainland.

The other school of thought, which remained dominant for the next 20 years, maintained that:

A Communist China is an integral part of the Soviet sphere of influence. There are no terms which we could accept that would maintain significant American educational or financial assistance. We must do everything within our power to embarrass, undermine and eventually destroy China's Communist governments and restore the hope of freedom to China's people.¹⁸

This school believed that the main reasons for the loss of China were twofold. First, and most important, was the failure of the US government (under Roosevelt and Truman) to act on expediency, and not on principle. They saw the US policy of supporting a coalition government as flawed. They argued that from the middle of 1946, the US had effectively abandoned the KMT to face the CCP alone. They argued that the US failed to supply adequate weapon systems for the Nationalists,

¹⁷ Ibid., p 7.

¹⁸ G. E. Taylor, "Aid to Nationalism, Not to Communism", in *What Can the United States do in China?*, Foreign Policy Reports, March 15, 1949, p 9.

with the assertion that "...there is every reason to believe that the Chinese Communists, by 1946, faced the Nationalist armies with equal, if not superior equipment, except for airplanes". Second, they pointed out that the Soviet Union, which viewed the US as acquiring too much influence in China, had played a major part in directing CCP policy and actions against US interests in China.¹⁹

Partly to deflect criticism, the US government published a White Paper on China in August 1949. The White Paper blamed the KMT for the "loss" of China, and portrayed the Chiang regime as corrupt and incompetent. In the White Paper, Secretary of State Acheson declared that the outcome of the Chinese civil war was the product of internal Chinese forces and thus beyond the control of the US. He emphasised that the failure of the KMT could not be traced to inadequate US material help, which amounted to over US\$2 billion in the form of grants and credits as well as approximately US\$1 billion worth of military and civilian war surplus.²⁰

On January 5th, 1950 President Truman announced that the US would not provide military aid or advice to KMT forces on Taiwan.²¹ A few days later, on January 12th, Acheson, in an address to the National Press Club, outlined the US sphere of strategic interests, which included Japan, the Philippines, and surrounding islands but not South Korea or Taiwan.²²

The omission of South Korea from the sphere of US strategic interests was instrumental in the North Korean decision to resolve the Two-Korea problem by military means. On June 25, 1950 North Korean army units marched across the

¹⁹ Ibid., pp 10-11.

²⁰ Liu, *U.S.-China Relations*, p 198.

²¹ Grasso, *Truman's-Two China Policy*, p 113.

²² Grasso, *Truman's-Two China Policy*, p 127.

38th Parallel into South Korea.²³ Two days later, Truman ordered the 7th Fleet into the Taiwan Strait to prevent an attack on Taiwan. The President also called on the KMT government in Taiwan to cease all air and sea operations against the mainland.²⁴ It is generally assumed that the outbreak of war in Korea was the final issue which prevented the recognition of the People's Republic of China by the US.

But other strategic factors also contributed to the US hard-line stance on China. The Berlin Blockade, the first successful Soviet nuclear test, a formal PRC-Soviet alliance all occurred around the time of the North Korean invasion. As argued by Chen:

the strength of ideology in U.S. China policy was...reinforced by the evidence of recent Communist threat in Europe, as well as the current threat in Asia.²⁵

Thus PRC's actions were not viewed by the US as pursuing the PRC's national interests, but as part of an international Communist conspiracy. This perception made it all the more difficult for the US to recognise the PRC, as well as to allow Taiwan's unification (forced or otherwise) with the mainland. The importance of global strategic interests were paramount in the US decision to provide military support for Taiwan, but US domestic politics also played an important part, with the containment of communism being the overriding foreign policy objective of the United States—which did not allow for the contemplation of normalising relations with a communist China.

²³ E. P. Hoyt, *The Day the Chinese Attacked-Korea 1950: The Story of the Failure of America's China Policy*, McGraw-Hill Publishing, New York, 1990, p 71.

²⁴ Grasso, *Truman's Two China Policy*, p 128.

²⁵ J. Chen, *Ideology in U.S. Foreign Policy: Case Studies in U.S. China Policy*, Praeger, Westport, 1992, p 36.

During the 1950s, as a direct result of the Korean war, US security interests became paramount, with the US pushing to the background any interest in the political order of China—beyond supporting its military ally and working to undermine its military enemy. Yet, US political interests in opposing communism on a global basis also played into the security calculations.

Korea to the Nixon Visit, 1950-1972

PRC participation in the Korean war had left the US with a feeling of suspicion and animosity towards it. For the next twenty years, US strategic interest lay in containing the perceived threat posed by the PRC, while supporting the KMT regime on Taiwan.²⁶ It was not until President Nixon—20 years after the outbreak of the Korean war—that the US seriously attempted to reconcile its differences with the PRC. It was the signing of the Joint US-China Communiqué²⁷ in Shanghai on the 27th of February, 1972 that signaled the end of 20 years of hostility between the two countries. During this time, US interests were overwhelmingly strategic. The need for a solution to the Vietnam conflict, and the opportunity of using the “China card” to contain the Soviet Union was foremost in Nixon’s mind when he approached China in the early 1970s. This section will examine the changes in the balance of US interests in its policy towards Greater China in the two decades leading to the recognition of the PRC by the US.

After the Korean war, the US Secretary of State John Foster Dulles

²⁶ S. Ogata, *Normalization with China: A Comparative Study of U.S. and Japanese Processes*, Institute of East Asian Studies, University of California, Berkeley, 1988, p 1.

²⁷ *The Joint U.S.-China Communiqué, Shanghai, 27 February 1972*. From the American Institute in Taiwan web page—<http://ait.org.tw/shanghai.html>. Date last accessed: 4 July 1997.

embarked on a crusade of anti-communist policy against the PRC. The US continued to refuse to recognise the PRC, and in line with non-recognition, refused to allow the PRC to join the United Nations. The US also kept up its trade and travel embargo on the PRC. There were three major reasons for the inflexibility of US policy—the bitter aftertaste of the Korean war, the effects of McCarthyism on the State Department and the effective lobbying power of the China lobby.²⁸

On 9 February 1950, Senator McCarthy entered the political arena with charges that he had the names of 205 persons in the State Department who were avid communists.²⁹ Dulles sums up the overall disruptive effects of McCarthyism:

it significantly served to paralyse any further moves towards disengagement from the Chinese civil war, it also led to the dispersal of many veteran China experts in the State Department at a time when first-hand experience could hardly have been more needed.³⁰

By 1953 the State Department had only two of its pre-war China foreign services officers left, all others having "either resigned, retired or run to cover in jobs dealing with other parts of the world".³¹

While Senator McCarthy was hounding the State Department, as well as the Truman Administration, for losing China to the worldwide communist conspiracy, a complex association of groups and individuals, collectively known as the China Lobby were pressuring the Administration to provide support for Chiang Kai-shek's KMT on Taiwan. The China Lobby had two main objectives: one was to continue securing financial and other support for the KMT; and the

²⁸ Ogata, *Normalization with China*, p 2.

²⁹ F. R. Dulles, *American Policy Toward Communist China, 1949-1969*, Thomas Y. Crowell Company, New York, 1972, pp 75-80.

³⁰ *Ibid.*, p 80.

³¹ *Ibid.*, p 82.

other to prevent US recognition of the new regime on the mainland. From 1949 until the end of the 1950s US policy was frozen in place by what A. T. Steele described as a "kind of congressional paralysis, based on the assumption that any suggestion of change would provoke a hostile public reaction", as well as "the reluctance of the Administration and of influential private groups to take the initiative in encouraging a new look at the China situation".³²

After the cessation of the Korean war in 1953, the US was reluctant to enter into a military agreement with the KMT for fear of being caught in a full scale conflict with the PRC. However, in 1954, the PRC started to apply military pressure on Taiwan, in the form of artillery exchanges with KMT held islands near the mainland, as well as clashes between respective air and naval forces. Thus, negotiations between the US and the KMT over a mutual defence treaty were influenced by the PRC attacks on KMT held territory. In late November 1954 a mutual defense treaty was signed between the US and Taiwan, much to the displeasure of the Beijing government, which on the 8th of December took the opportunity to denounce the treaty and reaffirm the PRC's determination to liberate Taiwan.³³ Besides the defence treaty, US aid to Taiwan also began to flow, economic aid between 1951-1961 amounted to approximately US\$1.3 billion, while military aid reached approximately US\$2.7 billion in the same time frame.³⁴

Despite the obvious ideological differences between the US and the PRC, sporadic diplomatic contact was eventually established between the two countries.

³² A. T. Steele, *The American People and China*, McGraw-Hill Book Company, New York, 1966. pp 205-207, Quote from p 205.

³³ H. Chiu (Ed.), *China and the Taiwan Issue*, Praeger, New York, 1979, pp 159-160.

³⁴ M. W. Meyer, *China: A Concise History*, (2nd Ed.), Rowman & Littlefield Publishers Inc., Maryland, 1994, p 292.

In 1955, at the Bandung Conference in Indonesia, the PRC's Premier Chou En-lai first proposed diplomatic talks with the US. Although US reaction at first was negative, ambassadorial level discussions were eventually initiated in Geneva. The issue of Taiwan, as in later negotiations, turned out to be the major obstacle between friendlier relations.

Both the US and the PRC assumed contradictory positions on Taiwan, with Beijing calling for the total withdrawal of all US forces from the Taiwan area and the US insisting that Beijing renounce the use of force in relation to Taiwan.³⁵ Ironically, as US attitudes towards the PRC mellowed in the late 1950s and 1960s, Beijing's position towards the US hardened. The PRC change in policy was, on the one hand, in line with its general world wide "hard line" foreign policy shift, and also the result of fears in Beijing that the US would attempt to move towards a "two Chinas" policy. The new negotiating policy of Beijing was that until the Taiwan issue has been resolved, no further advancement in US-PRC relations could be realised.³⁶

By the early 1960s, with the effects of McCarthyism and the Korean war starting to diminish, the US begun to seriously examine its interests towards the PRC. In 1962, a new Mainland China Affairs desk was created in the State Department, staffed by mostly post-McCarthy China specialists, trained in Hong Kong and elsewhere. In a speech in 1963, two weeks after the assassination of President Kennedy, the Assistant Secretary for Far Eastern affairs, Roger Hilsman, expressed his resolve to:

³⁵ D. A. Barnett, *A New U.S. Policy Toward China*, The Brookings Institution, Washington D.C., 1971, p 13.

³⁶ *Ibid.*, p 14.

keep the door open to the possibility of change and not to slam it shut against any development which might advance our national good, service the free world, and benefit the people of China.³⁷

Hilsman's speech was designed to test the US domestic climate as well as to speak across more than a decade of hostility to the PRC. Due to the favourable reception of the speech across the US in general, a number of friendly gestures by the Far Eastern affairs office were implemented. These included the raising of travel restrictions in December 1965, and ways of altering the rigid US stand on representation in the United Nations and on trade were also pursued.³⁸

In 1966, the US Senate Committee on Foreign Relations met in order to begin a series of public lectures on US-China relations. The opinion of specialists attending fell into two general categories. The first, as iterated by people such as the Hon. Walter H. Judd, a former member of the House of Representatives, maintained that Communist China must be isolated and contained or else the US would "face a great expansionist movement",³⁹ with the choices facing the US being presented as similar to the choice that faced the US with Hitler and Japan. Judd urged the US to check PRC aggression early, or risk trying to contain PRC aggression once it has grown stronger and the US grown weaker.⁴⁰ To emphasise his point, Judd used a baseball analogy to elucidate on Communist Chinese plans for the world:

To the Communists China is first base. The Countries around China, where live a third of the people of the world, are second base. Africa and Latin America are third base. But ordinarily you don't go to third base to stop; you go to third base to try and get

³⁷ Ogata, *Normalization with China*, p 5.

³⁸ *Ibid.*, p 5.

³⁹ *US Policy With Respect to Mainland China*, Hearings before the Committee on Foreign Relations, in the United States Senate, Eighty-Ninth Congress, Second Session, US Government Printing Office, Washington, D.C., 1966, p 437.

⁴⁰ *Ibid.*, p 437.

home. Homeplate, of course, is the United States and Western Europe.⁴¹

The other school of thought evident in the Senate hearings, espoused by specialists such as Morgenthau, drew attention to the fact that, despite its communist ideology, China's understanding of the world around it remained steeped in its traditions. He emphasised that during Chinese history, "China has not relied upon military expansion but rather upon the establishment of subtle and complex tributary relationships between herself and her neighbours". He further pointed out the need to distinguish between the "extreme and almost mad statements" that China was espousing and contrast them with the "extreme caution" with which China was acting with regard to the outside world.⁴² Morgenthau further elucidates his point by drawing attention to the fact that all of China's territorial claims at the time, which included Tibet, Taiwan, Outer Mongolia, the India frontier, and the offshore islands, were shared by the KMT government on Taiwan, which, on these issues was fully supportive of PRC claims.⁴³

The failure of the US policy of isolating and containing China was pointed out by Morgenthau. On containment, he asserted that any potential PRC threat would not be military in nature but rather political and/or cultural. The possibility of the US engaging in a war against China in order to restrain its cultural/political influence was not taken seriously. On the policy of isolation, Morgenthau argued:

This policy has obviously failed. Chiang Kai-Shek will not return to the mainland and his government survives only by virtue of the presence of the 7th Fleet in the Straits of Taiwan. The Communist government of China enjoys diplomatic, cultural, and commercial relations with many nations, among which are many allies of the United States, and it is the United

⁴¹ Ibid., p 439.

⁴² Ibid., pp 551-552.

⁴³ Ibid., p 552.

States rather than Communist China which has been isolated in consequence of its policy of isolation.⁴⁴

During the late 1960s the demands of US security interests in the ongoing conflict in Vietnam made any changes in US policy towards China difficult. China was perceived by the US as an active participant in the conflict, with President Johnson declaring in April 1965 that "the rulers of Hanoi are urged on by Peking" and that "the contest in Vietnam is part of a wider pattern of aggressive purpose".⁴⁵ As the US strategic involvement in Vietnam escalated, so did the opportunities for US-PRC military clashes. A number of US warplanes were shot down over the PRC's territory after straying during sorties against targets in North Vietnam. Between 1965 and 1968, Beijing sent approximately 50,000 soldiers to assist the North Vietnamese with anti-aircraft weapon systems as well as communication facilities, partly as a warning to the US not to repeat the mistakes of Korea.⁴⁶

In the late 1960s, partly due to the realisation that US strategic interests in Vietnam could be furthered by better relations between the US and the PRC, and partly due to the realisation that the PRC would remain a political reality, the US began to soften its stance towards the PRC. In July 1969, the US allowed tourist purchases of PRC goods to the value of US\$100, while relaxing travel restrictions to the PRC. By late 1969, the patrolling of the Taiwan Strait by the 7th Fleet was virtually eliminated. In December of the same year, the US\$100 limit was removed and unlimited non-commercial purchases were allowed. At the same time, restrictions on US controlled foreign subsidiaries were also removed, and trade in non-strategic goods was allowed. April 1970 saw the lifting of sanctions

⁴⁴ Ibid., p 558.

⁴⁵ M. Schaller, *The United States and China in the Twentieth Century*, Oxford University Press, Oxford, 1979, p 154.

⁴⁶ Ibid., p 157.

from selective US-made components and spare parts for non-strategic goods. In August 1970, the ban on US company's selling of oil to non-communist ships bearing non-strategic cargo to China was lifted.⁴⁷

While the Nixon Administration had many pressing strategic and political problems during its first term—Vietnam, the state of the Western Alliance, disagreement with Japan over Okinawa, the situation in the Middle East—Nixon was adamant that the US policy towards China needed to be modified.⁴⁸ With a Harris Poll in the Washington Post on 31 May 1971 indicating that 48% of respondents favoured United Nations admission and 55% favoured US recognition of the PRC, Nixon had tenuous popular support for a change in policy.⁴⁹ Events in the United Nations also pressed on Nixon to re-adjust US policy towards China.

Support to admit the PRC to the United Nations increased, and by 1970 the Albanian resolution calling for the admission of the PRC received majority support for the first time. However, because the resolution was phrased as an "important question" due to US insistence, it required two-thirds majority which it failed to get in 1970.⁵⁰

Realising that the voting trend in the United Nations would mean a US defeat within a few years, the Nixon Administration played with the idea of dual-representation—as for East and West Germany. However, Chou En-lai told Kissinger that dual representation would not be acceptable to the PRC. Eventually, in 25 October 1971 the vote on the important question resolution was defeated,

⁴⁷ E. C. Ravenal (Ed.), *Peace with China?: U.S. Decisions for Asia*, Liveright, New York, 1971, p 191.

⁴⁸ Ogata, *Normalization with China*, p 17.

⁴⁹ J. A. Cohen, E. Friedman, H. C. Hinton and A. S. Whiting, *Taiwan and American Policy: The Dilemma in U.S.-China Relations*, Praeger Publishers, New York, 1971, p 9.

⁵⁰ Barnett, *A New U.S. Policy Toward China*, p 83.

thus allowing the Albanian resolution calling for the admission of the PRC and the expulsion of the KMT to be passed with an overwhelming majority.⁵¹

In the early 1970s the US found compelling strategic and political reasons to view its relationship with the PRC in a new light. Nixon and Kissinger realised that although Washington could no longer impose its will on East Asia, with China having lost its major political and economic ally, the PRC would be vulnerable to pressure from both the US and the Soviet Union. Therefore, the Administration's reasoning was as follows: China might be willing to make concessions in return for a reduction of tension on one side of its border. At the same time, Washington would be able to play off the PRC against the Soviet Union and vice versa for US benefits. The two immediate benefits that the Administration expected were both strategic: first Soviet willingness to engage in arms reductions and other political discussions in order to circumvent a possible US-PRC alliance aimed against it, and second the expectation that Beijing might agree to influence Hanoi to allow a settlement with honour for the US in Vietnam.⁵²

The first concrete indication that a change in US-PRC relations was possible came from the PRC, and took the guise of a PRC invitation of the US Ping-Pong team to play on the mainland, as well as allowing a number of short term visits by US journalists. However, the issue of Taiwan remained a major stumbling block in the road to normalisation of relations. There were three interlinked issues, affecting US security and political interests, that the PRC wanted resolved before any improvement in relations commenced. These were the

⁵¹ Ogata, pp 29-30.

⁵² Schaller, *The United States and China in the Twentieth Century*, pp 158-165.

insistence that the US abandon the 1954 Mutual Defense Treaty, the removal of all US forces from Taiwan and the severing of diplomatic ties with the KMT regime.

Nixon, before his historic trip to the PRC in 1972, was aware that any improvement of relations with the PRC would mean a infringement on US security interests in Taiwan. Nevertheless, US security and political interests in Vietnam as well as US interests in the containment of the Soviet Union took precedence over interests in Taiwan. Therefore, in return for the PRC's invitation for Nixon to visit and thus fulfilling US security interests globally and in Vietnam, the Administration made it clear that Taiwan would not be a stumbling block, that "some enunciation of a "one-China" policy would be forthcoming".⁵³ The Administration also made it clear to the PRC that at the summit the withdrawal of US troops would be agreed to. In return for US concessions on Taiwan, the PRC would be asked for help in achieving the US strategic and political goal of "peace with honour" in Vietnam. As Hersh points out: "each side was asking the other to betray an ally".⁵⁴

President Nixon visited the PRC between the 21st and 27th of February, 1972. This historic meeting concluded with the signing of the Joint US-PRC Communiqué⁵⁵ in Shanghai. In the Communiqué, the foundations of the "one China" policy was enshrined. In effect the "one China" policy is the "acknowledgment that all Chinese on either side of the Taiwan strait maintain that there is but one China and that Taiwan is a part of China. The United States Government does not challenge that position".⁵⁶ The US also committed itself to

⁵³ S. M. Hersh, *The Price of Power-Kissinger in the Nixon White House*, Summit Books, New York, 1983, p 367.

⁵⁴ *Ibid.*, p 367.

⁵⁵ See Shanghai Communiqué. (footnote 27)

⁵⁶ *Ibid.*,

the progressive reduction of its military forces in and around Taiwan, as tension in the area diminishes.

Unlike the early 1950s when US foreign policy was strongly influenced by anti-Communist ideological and security considerations, the late 1960s and early 1970s were more influenced by Machiavellian Realpolitik. On the international front, the debacle in Vietnam brought the China factor to the forefront of US security interests. Domestically, many China scholars, as well as policy makers, came to accept that the PRC was not a short term phenomenon but political reality, which the US could only ignore to the detriment of its own interests. All these factors contributed to the thawing of relations, and the ability to make concessions in return for the beginning of the process of normalisation of relations between the US and PRC.⁵⁷

Nixon to Official Recognition, 1972-1979

The years between 1972 and 1979 signaled a change in US interests towards the PRC. Besides the strategic imperatives that led to the recognition of the PRC, the economic reforms started by Deng Xiaoping began to open up the PRC's market for US companies, thus introducing a growing economic interest into US-PRC relations. This section examines the events that led to the delaying of US recognition of the PRC during this time, as well as the interaction of US interests between 1972 and 1979.

⁵⁷ T. K. Chang, *The Press and China Policy: The Illusion of Sino-American Relations, 1950-1984*, Ablex Publishing Corporation, Norwood, New Jersey, 1993, p 53.

“The United States recognises the Government of the People’s Republic of China as the sole legal government of China”⁵⁸, with these words President Carter on the 15th of December, 1978 formally ended a turbulent 30 years of US-PRC relations.⁵⁹ Official recognition of the PRC began on the 1 January 1979, with the signing of the Joint Communiqué⁶⁰ between the US and the PRC. Almost eight years had passed since Nixon’s historic visit. While Nixon’s 1972 visit did not end in the formal recognition of the PRC by the US, the President did “express his hope of completing the ‘normalization’ process during his second term”.⁶¹ After Nixon’s visit, bilateral ties between the US and the PRC increased rapidly, trade barriers were lifted, exchange programs for people were implemented and official contacts were increased. According to State Department estimates, some 1,500 Americans visited the PRC in 1972, with approximately twice that many Americans being granted visas by the middle of 1973.⁶²

With the lifting of trade barriers between the two countries, the flow of goods increased significantly in the years between Nixon’s visit and official recognition in 1979. The table below shows the overall trade trend between the US and the PRC from 1971 and 1979.

In 1972, the PRC purchased, among other items, a number of Boeing 707’s and US telecommunications equipment.⁶³ In 1973 and 1974, the PRC increasingly relied on large injections of foreign capital in order to expand domestic industrial

⁵⁸ DuPre Jones, (Ed.), *China-U.S. Policy Since 1945*, Congressional Quarterly, Washington D.C., 1980, p vii.

⁵⁹ *Ibid.*, p vii.

⁶⁰ *Joint Communiqué of the United States of America and the People’s Republic of China*, 1 January 1979. From the US Information Agency web site - <http://www.usia.gov/regional/ea/uschina/jtcomm3.html>. Date last accessed: 4 July 1997.

⁶¹ Ogata, *Normalization with China*, p 33.

⁶² Liu, *U.S.-China Relations*, p 308.

⁶³ Liu, *U.S.-China Relations*, p 309.

production—for example the Wuhan steel plant. That it would not be possible for the PRC to continue this type of spending is clearly seen in the trade figures for 1975—the year when US exports to the PRC declined sharply. A clear trend that emerges from the figures, something that is still applicable today, is the yearly increase in US imports from the PRC. This has led to problems in relations and will be discussed in more detail later. It is also worthwhile to note that throughout this time the importance of the PRC market to overall US trade was negligible, whereas by 1979 almost 10% of overall PRC trade was with the United States.

Table 2.1—Trade Between the United States and the PRC, 1971-1979⁶⁴
(US\$ Million and % of total)

Year	US Imports	US Exports	Total Trade	US Trade Balance	% of US ⁶⁵	% of PRC ⁶⁶
1971	4.7	0.0	4.7	- 4.7	0.0	...
1972	32.2	60.2	92.4	28.0	0.1	...
1973	63.5	689.1	752.6	625.6	0.5	...
1974	114.4	806.9	921.2	692.5	0.4	...
1975	157.9	303.6	461.6	145.7	0.2	...
1976	201.5	134.4	335.9	- 67.1	0.1	...
1977	200.7	171.3	372.1	- 29.4	0.1	2.5
1978	324.0	820.7	1,144.6	496.7	0.3	5.4
1979	592.3	1,724.0	2,316.3	1,131.7	0.6	7.9

Despite the growing trade relationship, political moves towards normalisation of relations had begun to slow down by the end of 1973. Trade declined, and Americans involved in the academic exchange programs were becoming increasingly frustrated with the restrictions placed on them by the PRC authorities.

The improvement in the global strategic interests of the US, due to agreements and summit meetings with the Soviet Union in 1974 and 1975, together with domestic problems for Nixon and a lack of progress with the PRC

⁶⁴ H. Harding, *A Fragile Relationship: The United States and China Since 1972*, The Brookings Institution, Washington, D.C., 1992, p 364.

⁶⁵ % of total US trade

⁶⁶ % of total PRC trade

over the issue of Taiwan all contributed to the deterioration of relations.⁶⁷ The Watergate crisis for Nixon meant that he was not in a position to alienate conservative Members of Congress—who tended to be KMT supporters—by abandoning Taiwan. In the words of Cohen:

recognition of the People's Republic was not quite equal in importance to the preservation of Richard Nixon's Presidency.⁶⁸

In 1975, the fall of Saigon removed the immediate strategic interest underpinning the need for good relations with the PRC, and with the upcoming US Presidential elections in 1976, President Ford was in no position to initiate a serious change in US policy. Ford's visit to the PRC in 1975 produced no substantial results, with not even a joint communiqué being issued. Improving US-Soviet relations further pressed the US strategic interests, that were prevalent in the US decision to recognise the PRC, into the background. At the same time, the defeat of the US in Vietnam led to an increase in the PRC's doubts regarding US strength in the region, as well as the willingness of the US to confront Soviet encroachments in Asia.

The main reason for the improvement in US-PRC relations in 1972 was, for both sides, strategic. For the US, the ending of the Vietnam war and improving relations with the Soviet Union meant that the strategic interests underpinning the push for better relations were removed. With PRC perceptions of the US as a potential anti-Soviet ally in question, the justification for both to make concessions on Taiwan was removed.⁶⁹

⁶⁷ J. J. Chang, *United States-China Normalization: An Evaluation of Foreign Policy Decision Making*, Occasional Papers/Reprint Series in Contemporary Asian Studies, Number 4, 1986 (75), School of Law, University of Maryland, 1986, p 37.

⁶⁸ W. I. Cohen, *America's Response to China: A History of Sino-American Relations*, (3rd Ed.), Columbia University Press, New York, 1992, p 199.

⁶⁹ Chang, *United States-China Normalization*, p 37.

In 1976, a new President was in the White House, who had the goal of “normalization of relations with mainland China”⁷⁰ very much on the foreign policy agenda. At the same time the new Administration had promised to make “human rights a hallmark of its foreign policy.”⁷¹ Although the Carter Administration’s focus on human rights begun to unravel by the later part of 1978⁷², even in the first two years of office the Administration “scrupulously avoided public reference to China’s human right practices”.⁷³

At the beginning of Carter’s term as President, his National Security Adviser—Zbigniew Brzezinski—presented a memorandum to Carter outlining Nixon’s five “pledges” to the PRC, which were presumed to be the starting point for any progress towards official recognition. These were as follows:

(1) we would acknowledge the Chinese position that there is one China and that Taiwan is part of it; (2) we will not support a Taiwan independence movement; (3) as we leave Taiwan, we will ensure that Japanese do not come to replace us; (4) we will support any peaceful solution to the Taiwan situation; we will not support Taiwan in any military action against the People’s Republic of China; and (5) we will seek normalization and try to achieve it.⁷⁴

In his memoirs, Brzezinski indicates that President Carter accepted these starting points. However, on Secretary of State Vance’s suggestion, it was decided that there would be no contact with the PRC on this issue, yet. The Carter Administration at the time was heavily involved in more pressing matters

⁷⁰ J. Dumbrell, *The Carter Presidency: A Re-Evaluation* (2nd Ed.), Manchester University Press, Manchester, 1995, p 110.

⁷¹ R. Cohen, *People’s Republic of China: The Human Rights Exception*, Occasional Papers/Reprint Series in Contemporary Asian Studies, Number 3-1988 (86), School of Law, University of Maryland, 1988, p 3.

⁷² Dumbrell, *The Carter Presidency*, p 185.

⁷³ Cohen, *People’s Republic of China*, p 3.

⁷⁴ Z. Brzezinski, *Power and Principle: Memoirs of the National Security Adviser, 1977-1981*. Farrar, Straus and Giroux, New York, 1983, p 198.

involving US strategic interests, including SALT negotiations with the Soviets, as well as a Middle East initiative. It was not until a speech in May, 1977 that President Carter made explicit references to the PRC:

We see the American-Chinese relationship as a central element of our global policy, and China as a key force for global peace. We wish to cooperate closely with the creative Chinese people on the problems that confront all mankind, and we hope to find a formula which can bridge some of the difficulties that still separate us.⁷⁵

Brzezinski argued that US interests in the PRC could be pursued by concentrating on three essentially independent aspects of relations. First, bilateral contacts, which should be expanded as fast as possible; second the common strategic interest in containing Soviet aggression. Brzezinski advised that this common interest should be pursued by quiet consultations; and third, the normalisation process which should be "moved forward whenever opportune".⁷⁶

There were three serious issues that infringed on US security and political interests in the Greater China region that prevented normalization of relations between the US and the PRC. These issues were regarded by the PRC as non-negotiable, and were viewed by the PRC as "matters of principle". They were the withdrawal of all US military forces from and around Taiwan, the termination of the 1954 Mutual Defense Treaty, and the establishment of diplomatic relations with the PRC government while breaking off diplomatic relations with the government in Taipei. The dilemma that faced the Carter Administration was expressed by the President as follows:

⁷⁵ Ibid., p 199.

⁷⁶ Ibid., p 199.

The...question...remains how to establish diplomatic relations with the People's Republic of China and preserve the guarantee of a peaceful life for the Chinese on Taiwan.⁷⁷

To Carter, the solution to reconcile both his dilemma and the PRC's "matters of principle" eventually emerged as the US breaking off the Mutual Defense treaty on one year's notice as provided for in the treaty, but continuing the selling of defensive armaments to Taiwan. The breaking off of diplomatic relations with Taiwan would be on the understanding that unofficial ties would be maintained and cultivated, and the US would be able to state publicly and without contradictions from the PRC that the dispute between the two Chinese states should be resolved peacefully.⁷⁸

Secretary of State Vance arrived in Beijing on the 22nd of August, 1976 for three day of talks with the PRC, with the proposal that US-PRC negotiations be modeled on the Japanese formula, that is that the US would establish diplomatic ties with the PRC while maintaining non-official ties with Taiwan. Vance re-iterated the US position that the Mutual defence treaty would only be abrogated if the PRC gave clear assurances that force would not be used to "liberate" Taiwan. The PRC refused these terms. One of the reasons for the PRC's hard line towards these US proposals was the ongoing power struggle between Deng Xiaoping and the remains of Mao's supporters.⁷⁹ With the death of both Mao Zedong and Chou En-lai in 1976, the emerging leaders of the PRC had too many internal problems to face, without the added burden of appearing to compromise on sovereignty issues. In reference to Vance's August visit to the

⁷⁷ J. Carter, *Keeping Faith: Memoirs of a President*, Bantam Books, New York, 1982, p 186.

⁷⁸ *Ibid.*, pp 190-191.

⁷⁹ Liu, *U.S.-China Relations*, pp 326-327.

PRC, in 1977, Vice-Premier Deng Xiaoping told a correspondent that the reason for the PRC's rejection of Vance's proposals was that he:

proposed upgrading the U.S. liaison office in Peking to embassy status, while downgrading the U.S. embassy in Taipei to a liaison office. He [Deng Xiaoping] had no choice but to reject this proposal. Teng [Deng] claimed, since it meant that government-to-government relations between Washington and Taipei would continue.[sic]⁸⁰

After the relative failure of the Vance effort to advance the process of normalisation, the PRC turned to Brzezinski, "the official whose views more closely corresponded to their own", with repeated invitations for the National Security Adviser to visit the PRC. The planned trip to the PRC by Brzezinski was delayed by Carter as it turned into a controversy, due to Secretary of State Vance's objections. As Brzezinski became more and more involved in the formulation of US policy towards the PRC, he drew the whole Carter Administration deeper into the issues with him.⁸¹ Carter's decisions were influenced by Leonard Woodcock, the US Ambassador to Beijing, who convinced Carter that the opposition between Taiwan and the PRC was "neither sharp nor imminent". Therefore, the only issue at hand was to obtain a reasonable assurance from the PRC for the security of Taiwan. Since the PRC could not reasonably be expected to deny their right to liberate Taiwan by force, and the US could not be expected to abandon Taiwan, Woodcock argued that:

the only course left to the United States, therefore, was to recognise the People's Republic and make a unilateral reservation to take action, including the provision of arms, to protect the security of Taiwan if threatened.⁸²

⁸⁰ Ibid., p 328.

⁸¹ Ogata, *Normalization with China*, pp 64-65.

⁸² Ibid., p 65.

Having aired this view to officials of the PRC without receiving an adverse reaction, the Administration decided to continue the negotiations for normalisation along these lines. In preparation for Brzezinski's visit to the PRC in mid May, in early May Secretary of State Vance presented a memorandum to Carter, in which he outlined the terms for normalisation. In general, earlier recommendations were followed, including detailed steps to be followed in relations with Taiwan. Before the National Security Adviser's visit, the decision was made by the Administration to focus on common strategic goals during negotiations with the PRC. The Presidential instructions to Brzezinski instructed him to:

stress that we see our relationship with China as a central facet of the U.S. global policy. The United States and China share certain common interests and we have parallel, long-term strategic concerns. The most important of these is our common opposition to global or regional hegemony by any single power.⁸³

Events in the PRC during this time assisted the attainment of US interests in Greater China. Deng Xiaoping, having already consolidated his power, had two main objectives for the PRC, both of which involved the need for better relations with the US. One was economic modernisation, the rebuilding of the PRC after the excess of the Cultural revolution, and secondly the consolidation of the PRC's strategic position. With the PRC-Soviet border issue still unresolved, and with increasing Vietnamese militancy on the PRC's southern flank, Deng was willing to compromise on the Taiwan issue to the extent that an implicit assurance would be given that force would not be used in the reunification of Taiwan. US arms sales would be objected to, but Deng stated that this issue would not be of sufficient magnitude to derail negotiations. Deng's decision was made easier by a self-

⁸³ Ibid., p 66.

imposed one year moratorium on arms sales by the Carter Administration.⁸⁴ At the same time a CIA estimate regarding the ability of Taiwan to defend itself, and the ability of the PLA to launch, let alone maintain an amphibious assault on the island, served to allay US fears over the future security of Taiwan.⁸⁵

After about six months of negotiations, the final announcement between the US and the PRC was embodied in three documents. A Joint Communiqué, a unilateral statement by the US government and a unilateral statement by the PRC government. The Joint Communiqué essentially encompassed the main idea behind the “one China” policy of the United States, which could be summarised as:

the establishment of diplomatic relations between the United States and the People’s Republic of China...the ending of U.S. diplomatic relations with Taiwan and the maintenance of cultural, commercial, and unofficial relations between the people of the United States and the people of Taiwan.⁸⁶

With the signing of the Joint Communiqué of the United States of America and the People’s Republic of China on the 1st of January, 1979 over 30 years of diplomatic isolation by the US of approximately 800 million people came to an end. However, the main problem that separated the two countries for so long, the issue of Taiwan, remained. With a new Republican President approaching the White House, one with publicly expressed sympathies for Taiwan, new disagreements over the interpretation of the “one China” policy were bound to rise.

The hierarchy of US interests during the timeframe examined above remained focused mostly on interests relating to security, although the slight opening up of the PRC's economy by Deng Xiaoping starting in 1978 brought, for

⁸⁴ Q. Tan, *The Making of U.S. China Policy: From Normalization to the Post-Cold War Era*, Lynne Rienner Publishers, Boulder, Colorado, 1992, p 4.

⁸⁵ Cohen, *America’s Response*, pp 201-203.

⁸⁶ Ogata, *Normalization with China*, p 73.

the first time, US economic interests into focus. Despite President Carter's rhetoric emphasising US political interests in US foreign policy, in the case of the PRC, US political interests were not raised during this time period.

Recognition to Tiananmen, 1979-1989

Although official recognition took place on the 1 January 1979, problems related to recognition continued to exist between the US and the PRC. Despite the common strategic outlook that existed towards the Soviet Union, the two countries were separated by deep difference in economics, ideology, and approaches to Soviet containment. Nevertheless, in the time period between official recognition and the 1989 Tiananmen incident, the issue that was the most disruptive in US-PRC relations was Taiwan. With the ending of the Cold War in 1989, and the psychological effects that the Tiananmen square incident had on the US collective psyche, US interests in the PRC changed significantly. Strategic interests, except those relating to Taiwan, shrank to the background, and economic and political interests began to take center stage. With the shrinking of the strategic interests that defined the common US and PRC interests towards the Soviet Union, long dormant disagreements over human rights, intellectual copyrights and economic issues came to the forefront of US relations with the PRC.

This section will examine events that had a significant effect on US interests in the PRC and Taiwan from the 1st of January 1979, until the Tiananmen incident on the 4th of June, 1989. This timeframe also encompasses

the emergence of Hong Kong as an issue for the US, and some time will be devoted to examining US interests in Hong Kong during this time.

The first threat to newly defined US interests in the Greater China region after the normalisation of relations in January 1979 was the passing of the Taiwan Relations Act, which became US law on the 10 April 1979. The object of the Taiwan Relations Act was to provide a legal framework for the continuation of US-Taiwan ties, by the creation of the American Institute in Taiwan, which would be entrusted to unofficially represent US interests in Taipei⁸⁷. However, the Bill that President Carter submitted to Congress was seen by the Senate Committee on Foreign Relations as “woefully inadequate to the task, ambiguous in language, and uncertain in tone”.⁸⁸

In Congress, a sense of outrage was prevalent at the apparent betrayal of Taiwan, and US interests in Taiwan, by the Carter Administration, and the conviction that the US should at least have required Beijing to renounce the use of force against Taiwan.⁸⁹ Thus Congress insisted that the Bill be re-written in precise and definite language. The re-written Act, that eventually became Public Law 96-8 on 10 April 1979, had two important policy provisions as far as relations with the PRC were concerned, summarised by Tan as follows:

First, the act declared that the peace and security of the Western Pacific were in the interests of the United States and that any nonpeaceful efforts against Taiwan...would be considered a threat...and of grave concern to the United States. Second, it provided for arms sales to Taiwan.⁹⁰

⁸⁷ Liu, *U.S.-China Relations*, p 336.

⁸⁸ *Ibid.*, p 336.

⁸⁹ J. A. Gregor, *The China Connection: U.S. Policy and the People's Republic of China*, Hoover Institution Press, Stanford University, Stanford, 1986, p 131.

⁹⁰ Tan, *The Making of U.S. China Policy*, p 25.

The final form of the Taiwan Relations Act was interpreted by the PRC as incompatible with the agreements reached and expressed in the Joint Communiqué on 1 January 1979. The Taiwan Relations Act implied that the US would treat Taiwan as a separate country, under US protection for the foreseeable future. The US promised to continue selling arms to Taiwan, grant diplomatic privileges to its government representatives, recognise its passports and continue to lend it money.

A serious breakdown in US-PRC relations was avoided by President Carter immediately promising that as President, he would interpret the law in a manner consistent with the agreements reached during normalisation. Carter had also already imposed a one year moratorium on arms sales to Taiwan during the negotiations for normalisation. However, with Carter's presidency at an end, and the pro-Taiwan Republican candidate soon to be President, the differences brought forward by the Taiwan Relations Act were soon to be exacerbated.

The rise of Reagan coincided with the strengthening of anti-Communist ideology in the United States. International relations, especially in the early years of the Reagan era, were viewed in an ideological context, the fight being between "Good" and "Evil". At a news conference in 1981, Reagan explicitly implied that the reason for the Soviets being dangerous was because they were communists. As Chen quotes:

He [Reagan] made this point more clear: the Communists "don't subscribe to our sense of morality; they don't believe in [an] afterlife; they don't believe in God or a religion. And the only morality they recognize, therefore, is what will advance the cause of socialism in the world."⁹¹

⁹¹ J. Chen, *Ideology in U.S. Foreign Policy: Case studies in U.S. China Policy*, Praeger Publishers, Westport, 1992, p 101.

Reagan came to office with “an obligation to the people of Taiwan”⁹², which he intended to keep. At the same time, Reagan’s aggressive anti-Soviet rhetoric and his call for the return of a militaristic containment policy was well heeded in Beijing. Despite Reagan’s campaign rhetoric, his cabinet appointments gave the PRC some encouragement, especially the appointment of Alexander Haig to the post of Secretary of State. Haig, in his confirmation hearing, “combined a tough anti-Sovietism with a pragmatic view towards the rest of the world”. He further affirmed that his department “would continue to pursue the normalisation process with China”.⁹³

At the time of Reagan’s election, US-PRC relations were in a fragile state, mostly due to what Alexander Haig refers to as the PRC’s “Three Disappointments”. First, there was the PRC’s disappointment over US passivity in the post-Vietnam period. The second related to the “fruits of...relationship” with the US. Instead of credits and loans, which it wanted, the PRC had received “an influx of American businessman seeking profits”. By 1982 the PRC had a US\$2.8 billion trade deficit and had not yet received anything that it expected to receive. Third, the PRC was disappointed that her relations with the US had not produced any substantive improvements in the Taiwan question.⁹⁴

During Reagan’s campaign, he repeatedly expressed his desire to upgrade relations with Taiwan to the level they were before the normalisation agreement.

While campaigning:

⁹² R. Reagan, *An American Life*, Simon and Schuster, New York, 1990, p 361.

⁹³ R. Garson, *The United States and China Since 1949: A Troubled Affair*, Pinter Publishers, London, 1994, pp 170-171.

⁹⁴ A. M. Haig, *Caveat: Realism, Reagan, and Foreign Policy*, Weidenfeld and Nicolson, London, 1984, p 196.

Reagan made no secret of his friendly feelings for Free China, and had more than once faulted Jimmy Carter for the way in which he had established diplomatic relations with Peking.⁹⁵

With the start of the Reagan Presidency on the 20 January 1981, relations between Taiwan and the US improved immediately. While the Nationalist government did not expect diplomatic relations to be re-established, it did hope that the sale of advanced weapon systems would be authorised by the new Administration. The PRC viewed these developments with some angst and after much diplomacy, which included the veiled threat by PRC foreign Minister Huang Hua that US-PRC relations would be unilaterally downgraded by the PRC if advanced weapon systems were sold to Taiwan. On the 11 January 1982 the Reagan Administration informed the Taiwanese government that the advanced aircraft would not be available—however Taiwan’s aging fighters would be replaced by “comparable aircraft”.⁹⁶

On the 17th of August, in an effort to “foreclose a predictable deterioration of US-PRC relations” the Reagan Administration issued a Joint Communiqué with Beijing.⁹⁷ In the Communiqué, the US government reiterated that it “attaches great importance to its relations with China” and that it had “no intentions of infringing on Chinese sovereignty” or “pursuing a policy of “two Chinas”. The US also stated that it “does not seek to carry out a long-term policy of arms sales to Taiwan” and that “arms sales to Taiwan [would] not exceed...the level of those supplied...since the establishment of diplomatic relations”, and

⁹⁵ Liu, *U.S.-China Relations*, p 343.

⁹⁶ *Ibid.*, pp 344-345.

⁹⁷ Gregor, *The China Connection*, p 134.

furthermore, that the US intended to “gradually reduce its sale of arms to Taiwan, over a period of time”.⁹⁸

The US-PRC 1982 Communiqué established a general framework for the sale of weapons to Taiwan that was acceptable to the PRC. In the Communiqué, Reagan, who during his campaign accused Carter of selling out to the PRC, re-affirmed the terms of the normalisation accord, and went further towards resolving the problem of arms sales.⁹⁹ It is an irony of history that the United States normalisation process with the communist People’s Republic was started by Nixon and finished by Reagan, the two most fervently anti-Communist leaders of the US in the 20th Century.

After Reagan’s re-election in 1984, little attention was paid to issues affecting US interests in the PRC, as the Administration devoted its energies to US global strategic interests, especially the ongoing arms limitation talks with the Soviets.¹⁰⁰ Overall, in dealing with the PRC, “despite some early ideological rumbles and despite the baggage accumulated during decades of a deep Republican commitment to Taiwan, the Reagan Administration acted prudently and professionally”.¹⁰¹ The next time that the US would focus on its interests in the PRC would be under the Bush Administration in June of 1989.

After the normalisation of relations between the US and the PRC in 1979, bilateral trade between the two countries gradually developed. U.S. trade with the PRC, “driven largely by imports of Chinese goods” grew rapidly while US

⁹⁸ *Joint Communiqué of the United States of America and the People’s Republic of China*, 17 August 1982. From the US Information Agency web site - <http://www.usia.gov/regional/ea/uschina/jtcomm2.htm>. Date last accessed: 4 July 1997.

⁹⁹ Ogata, *Normalization with China*, p 77.

¹⁰⁰ Liu, *U.S.-China Relations*, p 354.

¹⁰¹ W. G. Hyland, (Ed.), *The Reagan Foreign Policy*, Meridian Book, New York, 1987, p 79.

investment in the PRC expanded significantly.¹⁰² This can be seen in the table below which summarises US-PRC trade statistics from 1979 until 1989.

The fluctuations in trade figures are due mostly to the wide variety of demands that the PRC had for US agricultural products, as well as changes in the PRC's economic and foreign exchange policies.

Grain, machinery and transport shipment goods made up for the majority of commodities that the PRC bought. The leading exports in transport shipment goods purchased by the PRC were aircraft, power generating equipment, and office and automatic data processing machines, among others. Unlike the constant fluctuation in US export figures, US imports from the PRC have grown almost constantly since 1979.

Table 2.2—Trade Between the United States and the PRC, 1979-1989¹⁰³
(US\$ Million and % of total)

Year	US Imports	US Exports	Total Trade	US Trade Balance	% of US¹⁰⁴	% of PRC¹⁰⁵
1979	592.3	1,724.0	2,316.3	1,131.7	0.6	7.9
1980	1,058.3	3,754.4	4,812.7	2,696.1	1.0	12.7
1981	1,865.3	3,602.7	5,195.8	1,737.4	1.1	12.7
1982	2,283.7	2,912.1	5,195.8	628.4	1.1	12.7
1983	2,244.1	2,176.1	4,420.2	- 68.0	0.9	10.2
1984	3,064.8	3,004.0	6,606.8	- 60.8	1.1	11.8
1985	3,861.7	3,851.7	7,713.4	- 9.9	1.4	10.9
1986	4,770.9	3,105.4	7,876.3	- 1,665.5	1.3	10.5
1987	6,293.5	3,488.4	9,781.8	- 2,805.1	1.4	11.8
1988	8,512.2	5,022.9	13,535.1	- 3,489.3	1.7	13.2
1989	15,223.9	5,807.4	17,795.9	- 6,181.1	2.1	16.1

Despite the 1989 Tiananmen incident, and following US sanctions, trade figures for 1989 show an increase of 41% in US imports from the PRC in that year.

¹⁰² Joint Economic Committee, Congress of the United States, (Ed.), *China's Economic Dilemmas in the 1990s: The Problems of Reforms, Modernization, and Interdependence*, M. E. Sharpe, New York, 1993, p 895.

¹⁰³ Harding, *A Fragile Relationship*, p 364.

¹⁰⁴ % of total US trade

¹⁰⁵ % of total PRC trade

Commodity composition of US imports from the PRC has changed significantly over the years. In the early 1980s the focus was on textiles and petrochemicals, but by the late 1980s PRC exports to the US had diversified into toys, light manufactures, telecommunications equipment, travel goods and footwear.¹⁰⁶

The growing disparity between US exports and imports have led to a greatly increased trade deficit for the United States in its trade relationship with the PRC. As shown above, the US has accrued a trade deficit with the PRC in every year since 1983, with the deficit increasing each year. There are however, some problems with the above statistics, as Nicholas Lardy points out:

neither country counts as export to the other the goods that are initially exported to Hong Kong and then re-exported to either the United States or China...in recent years from two-thirds to three-quarters of all Chinese goods sold to the United States have first been exported to Hong Kong ... [and] one-fifth to one-fourth of all United States goods sold to China in recent years first were exported to Hong Kong and were not recorded as exports to China.¹⁰⁷

Thus, Lardy argues that both the PRC and US trade statistics suffer, with a tendency in the statistics to underestimate US imports from the PRC. The role of Hong Kong as the entrepôt market between the US and the PRC will be discussed in Chapter 4.

As with trade, normalisation of relations in 1979 allowed for US investment in the PRC. US investment has taken a variety of forms since 1979, including equity joint ventures, contractual joint ventures, and wholly-owned subsidiaries. By the end of 1989, total US investment in the PRC was over US\$4

¹⁰⁶ Joint Economic Committee, Congress of the United States, (Ed.), *China's Economic Dilemmas*, pp 897-898.

¹⁰⁷ Metzger, T. A., Myers, R. H., *Greater China and U.S. Foreign Policy: The Choice Between Confrontation and Mutual Respect*, Hoover Institution Press., Stanford University, Stanford, 1996, p 69.

billion, distributed among about 950 projects. Through joint ventures, the PRC wanted to gain first hand experience in modern production as well as gaining access to advanced technologies.¹⁰⁸ The American partners in joint ventures hope to make a profit.

In 1979, while US and PRC relations were being normalised, the question of the future of Hong Kong arose between the PRC and Great Britain. With the 99 year treaty leasing the New Territories to Britain set to expire in 18 years, the British government approached the PRC in order to begin negotiations as to the future of Hong Kong. The British argued that Hong Kong Island and Kowloon were ceded in perpetuity and therefore Britain was not obliged to return them, but would be willing to cede sovereignty to the PRC in return for an administrative role after 1997. The PRC leadership refused to accept this, and it quickly became clear that all of the territory would return to the PRC's administration and sovereignty in 1997. In the early 1980s, Deng Xiaoping stated that the PRC would pursue a "one country, two systems" policy towards Hong Kong after 1997, a policy which was initially developed for Taiwanese reunification. Thus the PRC's view in the early 1980s was that reunification along the "one country, two system" framework would be a priority, "both for its own sake and in the hope that it would provide an example sufficiently encouraging to embolden Taiwan to follow suit".¹⁰⁹ All Taiwan was expected to do was to drop its claim for the government of the PRC and accept the status of "special administrative region"(SAR). This was further emphasised in 1984, when Deng Xiaoping met Brzezinski in February

¹⁰⁸ Joint Economic Committee, Congress of the United States, (Ed.), *China's Economic Dilemmas*, pp 898-899.

¹⁰⁹ R. Cottrell, *The End of Hong Kong: The Secret Diplomacy of Imperial retreat*, John Murray Publishing, London, 1993, p 66.

of 1984, insisting that:

Taiwan can still practice capitalism after China's reunification, while the mainland keeps to socialism. Neither side will harm the other.¹¹⁰

Taiwan continuously rejected the PRC's proposals, ruling out direct government-to-government contacts with Beijing.¹¹¹ The PRC viewed the return of Hong Kong as an opportunity to prove to the US and Taiwan that the PRC was capable of turning "one country, two systems" into working practice.

US trade and investment with Hong Kong in the mid 1980s was booming. In 1984 Hong Kong imported US\$3.1 billion worth of goods from the US and the US was Hong Kong's largest market. There were approximately 14,000 American citizens residing in Hong Kong, with at least another 500,000 visiting annually. Over 800 US firms had operations in Hong Kong. US investment ranged between US\$4-5 billion in the mid 1980s, the second largest in Asia, after Japan. Thus it was surprising that the US took the part of a "interested bystander" during the negotiations between Britain and the PRC in the 1980s. The US response to the Joint Declaration between the British and the PRC governments, outlining the future of Hong Kong, was "pleasure at the deal" with the declaration taken to be the basis "for sustained confidence in the future of Hong Kong".¹¹²

On 20 January 1989 George Bush was inaugurated as President of the United States. He brought impressive foreign policy credentials to the job, having been Ambassador to the United Nations, Director of the Central Intelligence Agency, the first permanent representative in the PRC after the Korean war and

¹¹⁰ Liu, *U.S.-China Relations*, p 358.

¹¹¹ *Ibid.*, p 359.

¹¹² G. Segal, *The Fate of Hong Kong*, St. Martin's Press, New York, 1993, p 116.

Vice-President under Reagan for eight years. The transition from Reagan to Bush was effortless, as Bush had been intricately involved in major foreign policy decisions during the Reagan Administration.¹¹³ With Bush's impeccable credentials US-PRC relations were expected to encounter no major problems during his term in office. This proposition held true until the events of the 4th of June, 1989.

The hierarchy of US interests in the period between normalisation in 1979 and the Tiananmen Square incident in 1989 underwent substantial evolution. With the collapse of the Soviet Union, the strategic interests of the US changed from global interests of Soviet containment to local interests of war avoidance. At the same time, the increasing economic interaction between the US and the PRC had begun to elevate US economic interests to the forefront of the focus of US policymakers. The removal of global strategic interests also played a significant part in the elevation of US political interests in Greater China. With the handover of Hong Kong already agreed to, and the first visible signs of democratisation in Taiwan, US political interests were bound to rise in prominence.

Tiananmen to the Lee Visit, 1989-1995

The normalisation of relations in 1979 and the Communiqué of 1982 that overcame the problem of arms sales to Taiwan established the basis for long-term US-PRC relations. However, in the mid 1990s Taiwan again emerged as a serious problem between the US and the PRC, as the balance of interests that were

¹¹³ D. M. Hill, P. Williams, (Eds.), *The Bush Presidency: Triumphs and Adversities*, St. Martin's Press, New York, 1994, pp 162-166.

previously established were disturbed by events in Hong Kong and Taiwan. With democratic reforms on Taiwan leading to nation wide elections for government positions, it became much harder for the US to justify the 'abandonment' of Taiwan in favour of the PRC, especially in the wake of the Tiananmen incident. US policy towards its own interests was inconsistent during this time. Strategic, economic and political interests interacted in US PRC policy more than ever before. Strategic issues posed by the PRC's military stance against Taiwan in 1995 and 1996 had to be reconciled with economic interests that US businesses had (and have) in the mainland. At the same time, the incident on Tiananmen Square still sat fresh in American minds, elevating political interests to the forefront of US-PRC policy, generally to the detriment of economic and strategic interests.

This section will examine the effects of the Tiananmen incident on US relations, as well as Clinton's adherence to the "one China" policy in the face of Congressional pressures.

President Bush's actions after the events in Tiananmen Square were regarded by Nixon as representing a "proper, measured"¹¹⁴ response. At first, Bush's response included the suspension of military relations, governmental or civilian arms sales to the PRC and the exchanges of US and PRC military officials. However, this was not perceived as enough by Congress, and soon after Bush further cancelled all high-level government contacts and suspended US multilateral loans to the PRC. As Hsüeh argues:

The...executive branch fully appreciated that China and the United States share long-term interests and understood the complexity of the Chinese internal situation. The United States House of Representatives, by contrast, disregarded the potential

¹¹⁴ R. Nixon, *Seize the Moment: America's Challenge in a One-Superpower World*, Simon & Schuster, New York, 1992, p 169.

serious damage to Sino-American relations and on June 19, 1989 unanimously passed a sanctions resolution.¹¹⁵

While Bush publicly joined in the denunciation of the PRC's leadership, he worked secretly to limit damage to US-PRC relations. In July, only a month after the incident on Tiananmen Square, Bush sent his National Security Adviser and Deputy Secretary of State to the PRC on a secret mission to attempt to identify matters of common concern and possible agreement. Bush “believed that memories were short, and that the PRC could be kept on the course of reform”.¹¹⁶

As the greatest convergence of interests between the PRC and the US was in the area of trade, and this is where the fight over the PRC in the US government moved to. The main issue was the granting of Most Favoured Nation (MFN) status to the PRC. Under a 1974 amendment, a communist country can only be granted MFN status if it permits free immigration, or is at least improving its immigration practices. Congress has the power to reject the President’s recommendation by a joint resolution, although that is subject to a Presidential veto.¹¹⁷ Nevertheless, Congress was especially active in the formulation of US PRC policy during the Bush Administration, somewhat to the detriment of relations:

Apart from the threat of removing MFN...Congress passed a spate of resolutions—independence for Tibet, policy diktats for Hong Kong, an alteration of Taiwan policy, the creation of Radio Free China.¹¹⁸

¹¹⁵ C. T. Hsüeh, “Reflections on United States-China Relations”, in P. Roberts, (Ed.), *Sino-American Relations Since 1900*, Centre of Asian Studies, University of Hong Kong, 1991, pp 419-420.

¹¹⁶ Garson, *The United State and China Since 1949: A Troubled Affair*, Pinter Publishers, London, 1994, p 198.

¹¹⁷ *Ibid.*, p 200.

¹¹⁸ R. A. Manning, “Clinton and China: Beyond Human Rights”, *Orbis*, Spring 1994, Pages 193-205, p 195.

All of these measures were viewed by the PRC as an effort to overthrow the regime, if not pull the PRC apart, province by province.

During the Bush Administration US political and economic interests came to the forefront of US policy, nevertheless, US security interests were not disregarded altogether. Perhaps the biggest disagreement with the PRC that occurred during the Bush Administration was over the sale of arms to Taiwan. On the 2nd of September, 1992, the Bush Administration approved the sale of 150 F-16 fighter jets to Taiwan. While the PRC objected to the sale, two factors influenced the final decision. Firstly, in the aftermath of Tiananmen and the Gulf War, the PRC began its military modernisation program. Since the PRC never explicitly rejected the use of force to re-unify China, Taiwan also felt the need to upgrade its military capabilities. Secondly, Liu argues that Bush's decision had more to do with vote winning in his home state of Texas, in preparation for the upcoming elections.¹¹⁹

During the 1992 Presidential campaign, candidate Clinton severely criticised President Bush's handling of the PRC, especially the President's decision to approve the PRC's MFN status despite the PRC's human rights record. At the July Democratic Convention, Clinton "promised that if he were elected, America would not coddle tyrants, from Baghdad to Beijing".¹²⁰ However, once in office, Clinton found himself "torn between his emotional responses and his domestic imperative",¹²¹ domestic imperative, in the guise of US economic interests in the PRC tended to prevail over emotional responses. In May

¹¹⁹ Liu, *U. S.-China Relations*, p 380.

¹²⁰ C. Campbell, B. A. Rockman, (Eds.), *The Clinton Presidency: First Appraisals*, Chatham House Publishers, New Jersey, 1996, p 308.

¹²¹ *Ibid.*, p 309.

1994, Clinton announced that he would renew the PRC's MFN status, and more importantly, that in the future renewals would no longer be linked to human rights conditions in the PRC. With this decision, Clinton removed the most contentious issue in bilateral relations in the early 1990s.

The early 1990s also saw the emergence of US interests in political order in the Greater China region. During the late 1980s and early 1990s Taiwan had become "economically advanced, increasingly well educated and cosmopolitan, and politically democratic".¹²² Along with popular participation in the political process, and Taiwan's increasing economic clout, the call for more international recognition for Taiwan increased. This, together with the PRC's perception that the US was actively attempting to weaken the PRC, culminated in the breakdown of relations that followed the private visit by Taiwan's President, Lee Teng-hui, to the US.

For the United States, the 1989 repression of dissent in Tiananmen Square altered the way the PRC was perceived; simultaneously, the end of the Cold War removed the strategic rationale "for US deference to the PRC on issues like human rights".¹²³ For the PRC, the US agreement with the PRC over Taiwan was perceived to be under threat, due to the sale of sophisticated F-16 fighter jets in 1992. In September of 1994, the Clinton Administration reviewed its Taiwan policy for the first time in almost 20 years. While the general principle of "one China" was retained and reiterated, the US also committed itself to the upgrading of Taiwan's security. Clinton also allowed the upgrading of Taiwan's

¹²² G. Austin, *Missile Diplomacy and Taiwan's Future: Innovations in Politics and Military Power*, Strategic and Defence Studies Centre, Research School of Pacific and Asian Studies, Australian National University, Canberra, 1997, pp 57-58.

¹²³ *Ibid.*, p 241.

representative offices in Washington from “Coordinating Council for North American Affairs” to the more official sounding “Taipei Economic and Cultural Representative Office”. The Administration further announced that:

US officials could thereafter visit Taiwan and meet in an official setting; while officials from Taiwan, other than the president, the vice president, the premier and the vice premier, would be allowed to visit the United States.¹²⁴

While these changes were largely cosmetic, and simply allowed the US to catch up in practice with other countries in Asia and Europe, due to the shaky relationship at the time between the US and the PRC, these steps were interpreted by the PRC as “warning signs” that the US is preparing to drift away from its “one China” commitments.¹²⁵

Taiwanese President Lee Teng-hui viewed his US visit as part of an overall strategy for dealing with the PRC:

He aimed to strengthen Taiwan’s armed forces, consolidate his position as president and then make visits to the United States and Japan. At that point, Lee calculated, he would be in a strong position to visit Beijing for possible negotiations on the future of Taiwan.¹²⁶

Although the US State Department tried to maintain its no-visa policy, in this case Congressional pressure was overwhelming. On the 6th of April, 1995, the House of Representatives passed H.R.1460, a Bill amending the Taiwan Relations Act, to include the following:

The Congress further finds and declares that there are no legitimate foreign policy grounds for preventing members of the government chosen by the people of Taiwan from making

¹²⁴ Ibid., p 242.

¹²⁵ Ibid., pp 241-242.

¹²⁶ Ibid., p 244.

private visits to the United States.¹²⁷

Also in early May, the US Congress passed majority resolutions urging Clinton to approve a visa for Lee Teng-hui to pay a private visit to Cornell University. On 22 May 1995 the Clinton Administration—despite repeated assurances to the contrary—approved a visa for Lee to visit the US, in a private capacity.¹²⁸

Few people in Beijing fully understood the complexities of the US political system, and most thought the worst of both the US and Lee Teng-hui. However, despite the great differences in opinions, neither Clinton nor Jiang Zemin wanted a total breakdown in US PRC relations. Clinton rushed to reaffirm the Administration's "one China" policy, emphasising that Lee's US visit was unofficial and totally private.¹²⁹ Nevertheless, the PRC perceived the US as unreliable. The PLA's missile exercises near Taiwan in July and August 1995 and March 1996 had a strong influence on US-PRC relations, and will continue to do so in the near future.

The period covered in the last section saw US political interests in the region come to the forefront of US focus, much to the detriment of relations between the US and the PRC. While US economic interests in Greater China remained important, the security interests of the United States were reduced in overall influence.

¹²⁷ *To amend the Taiwan Relations Act to permit visits to the United States by the elected leaders of the people of Taiwan or their elected representatives*, United States House of Representatives, 104th Congress, 1st Session, H. R. 1460., 6 April 1995. From the Library of Congress web site - <http://thomas.loc.gov>. Date last accessed: 4 July 1998.

¹²⁸ Austin, *Missile Diplomacy and Taiwan's Future*, pp 244-245.

¹²⁹ *Ibid.*, pp 245-249.

Conclusion

The US-PRC Joint Communiqués of 1979 and 1982 effectively provided the US with the framework for a "one China" policy that was acceptable to both the PRC and the US. However, in the late 1980s and early 1990s the framework designed to work under the strategic atmosphere of the Cold War was showing signs of old age.

The Cold War played a dominant role in US calculations of its interests in Greater China. As long as the Soviet Union presented a credible threat to US and PRC interests, compromises over the most complex and important questions could be found. With the collapse of the Soviet threat, US economic and political interests no longer had to be subjugated to global strategic interests. Thus these differences over economic and political issues—such as the trade deficit and human rights—came to the forefront of relations.

The Tiananmen Square incident, along with the imminent handover of Hong Kong, and the increasing democratisation of Taiwan raised the prominence of US political interests in Greater China. With no global strategic imperative to restrain these interests, both the US government and the general public in the United States were prepared to confront the PRC more aggressively in order to pursue these interests in the political order in Greater China.

Thus, the hierarchy of US interests in Greater China has evolved from an almost purely strategic focus in 1949 to a point where it is increasingly difficult to separate the three arenas of interest. By the early 1990s, US strategic interest had become sufficiently subdued for US political and economic interests to be seen as almost more important. The trend in US public opinion was for the US to place

political order in the PRC at a higher priority than any imagined long term strategic or economic relationship with the PRC. Meanwhile, the US Administration was trying to keep more of a balance between short term political goals and long term US interests, be they strategic, economic or political.

PART 2

UNITED STATES POLITICAL AND ECONOMIC

INTERESTS IN HONG KONG

1995-1997

Chapter 3

US Political Interests in Hong Kong, 1995-1997

This Chapter will examine US political interests in Hong Kong in the period 1995 to 1997. The first section of the Chapter will provide background on US political interests in the territory, starting from the 1984 signing of the Sino-British Joint Declaration until the release of the third Hong Kong Policy Act report in March 1997. The second section will present three issues that the US perceives to be critical to the maintenance of Hong Kong's future—and therefore to US interests in Hong Kong. The three issues are: the rule of law; freedom of information (press and free speech); and electoral representation in Hong Kong. The third, and final, section of the Chapter will examine the US response to Governor Chris Patten's proposals, and the subsequent dissolution of the fully elected Legislative Council (LegCo) in 1997 by the People's Republic of China.

US Involvement, 1984-1997

This section of the Chapter will be used to examine US involvement in Hong Kong from 1984 until 1997, and is meant to provide a background for further analysis in the later sections. There are four serious events that occurred in this timeframe, that greatly influenced US thinking and policy towards Hong Kong, as well as towards Greater China. Instead of a historical overview of US involvement with Hong Kong during this timeframe, this section will instead focus

overwhelmingly on these four events. The first was the promulgation of the Sino-British Joint Declaration in 1984; the second the Hong Kong response to events in Tiananmen Square in 1989; the third was the passing of the 1992 Hong Kong Policy Act by the US Congress; and finally the US response to the dissolution of the elected Legislative Council in 1997. This part of the Chapter will focus mostly on the first three issues, as the final section of the Chapter will take a more in-depth view of the US response to the demise of the elected LegCo.

Gerald Segal describes the United States as the “Inactive Superpower” in Hong Kong affairs.¹ Since the early Post-World War Two years, the US had never tried to actively affect British policy towards Hong Kong, nor did the British seek US involvement in the running of the territory. It was not until the PRC’s opening up in the late 1970s that the US began to actively follow political developments in Hong Kong. During the negotiations for the return of Hong Kong between the PRC and Great Britain, the US attitude was one of an ‘interested bystander’.² As Segal states:

The United States was clearly watching events, but basically seemed to leave it to its ally Britain to look after Western interests.³

The result of the Sino-British negotiations was the 1984 Sino-British Joint Declaration. The Declaration was greeted warmly by the US, with both the Administration and Congress accepting it as the document that would guide the return of Hong Kong to the PRC’s sovereignty. Alan Romberg, a US State Department spokesman, expressed US feelings on the Joint Declaration by stating

¹ G. Segal, *The Fate of Hong Kong*, St. Martin’s Press, New York, 1993, p 112.

² *Ibid.*, p 116.

³ *Ibid.*, p 116.

that it created the basis for “sustained confidence in the future of Hong Kong”.⁴ The US also signaled that it would support Hong Kong’s future participation in international bodies, as well as accepting the travel documents to be issued by the future Hong Kong government.⁵ Segal argues that the:

American pronouncement was vital, and indicated the Americans’ leading role in any issue affecting the international status of the territory.⁶

The Sino-British Joint Declaration encapsulated the basic framework of the “one country, two systems” idea, and was subsequently registered as a treaty between two sovereign states with the United Nations (UN), under Article 102 of the UN Charter.⁷ In the Declaration, the PRC pledged to create a “Special Administrative Region” upon resuming sovereignty over Hong Kong. The PRC further pledged that the Hong Kong Special Administrative Region (SAR) would enjoy a high degree of autonomy, except in the area of defence and foreign affairs, which would be the responsibilities of the Central PRC government.

The Declaration further set out the PRC's plans in a number of areas that the US considered (and still considers) important. Annex I (I), states that the “legislature of the Hong Kong Special Administrative Region shall be constituted by elections”; Annex I (II) declares that all laws previously in force in Hong Kong, except for those that contravene the Basic Law, would remain in force; Annex I (III) affirms that the current Hong Kong system of justice would remain unchanged and that the power of final adjudication would be carried out by the

⁴ Ibid., p 116.

⁵ M. Roberti, *The Fall of Hong Kong: China’s Triumph and Britain’s Betrayal*, John Wiley & Sons, Inc., New York, 1994, p 116.

⁶ Segal, *The Fate of Hong Kong*, p 117.

⁷ B. B. de Mesquita, D. Newman, and A. Rabushka, *Red Flag Over Hong Kong*, Chatham House Publishers, Inc., New Jersey, 1996, p 56.

Court of Final Appeal in Hong Kong; Annex I (V) and (VI) state that Hong Kong's financial affairs would not be interfered with by Beijing, with no taxes levied on the territory. Hong Kong would also retain its status as a free port and could continue a free trade policy.⁸ Lastly, Annex I (XIII) asserts that the Hong Kong SAR:

shall maintain the rights and freedoms as provided for by the laws previously in force in Hong Kong, including freedom of the person, of speech, of the press, of assembly, of association, to form and join trade unions, of correspondence, of travel, of movement, of strike, of demonstration, of choice of occupation, of academic research, of belief, inviolability of the home, the freedom to marry and the right to raise a family freely.⁹

Since the proclamation of the Joint Declaration in 1984, the US has repeatedly reminded the PRC of its obligation towards Hong Kong, as set out in the Declaration. All PRC actions in Hong Kong have been (and are being) measured up to the standard set out in the Declaration.

The promulgation of the Joint Declaration in 1984, and the positive international response to it, meant that a general air of confidence returned to the territory. In early 1989, Hong Kong was caught up in the “innocence” and “optimism” of the Beijing protests. On 21 and 28 May a million people marched through Hong Kong, showing support and collecting money for the demonstrators in Beijing. The events of the night of 4th June changed Hong Kong overnight. There was another million people marching on the streets on 5 June, this time in mournful silence.¹⁰ Hardliners in Beijing turned on Hong Kong, with PRC state

⁸ *Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China on the Question of Hong Kong*, Pamphlet from the Information Office of the State Council of the People's Republic of China, No date given, pp 1-9.

⁹ *Ibid.*, p 9.

¹⁰ Cottrell, *The End of Hong Kong*, p 190.

television describing Hong Kong as a “hostile foreign force”, and blasting the territory for backing “unlawful activities” with the aim of toppling the PRC government. PRC television accused the territory and the US of exploiting “the patriotic sentiment of the students to create turmoil”.¹¹

The events of June 1989 are of vital importance to Hong Kong. The emergence of a strong pro-democracy movement, as well as the roots of the Patten proposal can all be found in the events of that one night. 4 June 1989 also signals the beginning of serious US interests in the territory’s political future.

Although in the scope of Chinese history, when comparing to the casualties caused by the Taiping Rebellion (approx. 20 million), the disastrous Great Leap Forward and Mao’s Cultural Revolution to name just a few, the incident in Tiananmen Square seems almost minor, however, there are two important differences that make this incident stand out in history. Firstly, the fact that the whole incident played out on the television screens of the world, and secondly as Rafferty explains:

In the league table of Chinese violence Tian’anmen Square stands out for stupidity rather than brutality. Twice just when the protest movement seemed to be running out of steam, Deng and his gerontocratic colleagues helped to fuel the popular anger, first by declaring martial law, then by sending in the troops. Having murdered, they then pretended that no massacre happened yet revelled in the ‘bravery’ of the ‘heroic’ soldiers. This was stupidity compounded by savagery.¹²

Although the scenes on Hong Kong televisions were frightening for a population that was soon to be governed by the rulers responsible for the bloody events that occurred, in reality the chance of a similar event occurring in Hong Kong was (and

¹¹ K. Rafferty, *City on the Rocks: Hong Kong’s Uncertain Future*, Viking Penguin, New York, 1989, pp 4-9

¹² *Ibid.*, p 475.

is) slight. As Welsh explains, a prolonged demonstration in the heart of the capital city of the PRC, posing a direct challenge to the authorities, was impossible to ignore. A similar protest in a far away province would be much less threatening and much less difficult to deal with decisively. During the same time as the Beijing protests were unfolding, in Shanghai similar protests were handled by the local authorities without any bloodshed.¹³

The US feelings regarding the incident is perhaps best summarised by the following quote from the then President Bush:

It is clear that the Chinese Government has chosen to use force against Chinese citizens who were making a peaceful statement in favour of democracy. I deeply deplore the decision to use force against peaceful demonstrators and the consequent loss of life. We have been urging—and continue to urge—nonviolence, restraint, and dialogue.¹⁴

During the same time that the Beijing protests were being played out on the television screens of the world, the second draft of the Basic Law, Hong Kong's mini-constitution, was published. The Basic Law Drafting Committee was made up of fifty-nine members from the PRC and twenty-three members from Hong Kong. They were charged in 1985 with the task of drawing up Hong Kong's post 1997 constitution, based on the principles and policies of the Sino-British Joint Declaration.¹⁵ The final version of the Basic Law was released in April 1990. Some of the more important aspects of the Basic Law are as follows: First, Article 2, states that the Hong Kong SAR would enjoy a high degree of autonomy as well

¹³ F. Welsh, *A Borrowed Place: The History of Hong Kong*, Kodansha International, New York, 1993, p 535.

¹⁴ G. Bush, *Statement on the Chinese Government's Suppression of Student Demonstrations*, June 3 1989, From the George Bush Presidential Library web site - <http://www.csd.tamu.edu/bushlib/papers/1989/89060300.html>. Date last accessed: 4 July 1998.

¹⁵ Cottrell, *The End of Hong Kong*, p182.

as judicial independence, including final adjudication. However, Article 19 states that the Hong Kong SAR judiciary would have no jurisdiction over acts of state “such as defence and foreign affairs”. Article 27 reaffirms Hong Kong’s residents right to free speech and press among others. Chapter IV of the Basic Law focuses on the role and responsibilities of the Chief Executive (who will replace the Governor), the Executive branch and the Legislature (LegCo). Article 68 states that the LegCo would be constituted by elections. Annex II sets out the method for the formulation of the Hong Kong SAR LegCo.¹⁶

The Joint Declaration, the Basic Law, the events of June 4th together with the increased economic and political links between Hong Kong and the US meant that some form of legal recognition for Hong Kong’s future status was evident. On 20 September 1991, Senator Mitch McConnell from Kentucky introduced the United States-Hong Kong Act into the US Senate. The Act enjoyed widespread support in both houses of Congress and was signed into law by President Bush on the 5th of October, 1992.¹⁷ Beijing expressed displeasure over the legislation claiming that the Act attempted to internationalise the issue of Hong Kong, which was an internal PRC matter.¹⁸

The 1992 Hong Kong Policy Act states that the US should play an active role, both before and after, the handover of sovereignty in maintaining confidence and prosperity in Hong Kong. The Act calls for increased bilateral ties, especially

¹⁶ *The Basic Law of the Hong Kong Special Administrative Region of the People’s Republic of China*, The Consultative Committee for the Basic Law of the Hong Kong Special Administrative Region of the People’s Republic of China, Hong Kong, 1990.

¹⁷ Postiglione, et al., *Hong Kong’s Reunion*, p 28.

¹⁸ J. M. Brown., *Hong Kong’s Transitions, 1842-1997*, St Anthony’s College, Oxford, 1997, p 97.

in the areas of trade, finance, aviation and communication among others.¹⁹ Furthermore, the Act allows for stern US measures against the PRC, without any disruption of US-Hong Kong ties, in the event of a serious disagreement between the US and the PRC. The Act reaffirms the Joint Declaration as the document providing the framework for Hong Kong's unification, but also allows for the President to make the judgement as to whether Hong Kong's autonomy is being maintained, and empowers the President to suspend the Hong Kong Policy Act if the President "determines that Hong Kong is not sufficiently autonomous".²⁰

The Hong Kong Reversion Act, passed by the House on 11 March 1997 reiterates the main points of the 1992 Hong Kong Policy Act, and again emphasises that the US supports and expects Hong Kong's autonomy to be respected by the PRC. It further directs the President:

to consider the performance of the Hong Kong Government and the actions of the Chinese Government when determining whether Hong Kong is not sufficiently autonomous to justify treatment under a particular U.S. law differently from that accorded China as required under the United States-Hong Kong Policy Act of 1992.²¹

The year 1992, besides the proclamation of the Hong Kong Policy Act, also saw the arrival of the last Governor, Chris Patten, to Hong Kong. Patten, influenced partly by the Tiananmen incident, unilaterally introduced democratic reforms into Hong Kong, much to the malaise of the PRC. The US generally supported Patten, and was much disappointed when the PRC, announced that upon handover the

¹⁹ *United States-Hong Kong Policy Act of 1992*, Public Law 102-383, 102nd Congress, S. 1731., 3 January 1992. From the US Congress Library web site - <http://thomas.loc.gov>. Date last accessed: 4 July 1998. Sec.101.(2) and (4)

²⁰ *Ibid.*, Sec. 202.

²¹ See Introductory Remarks, *Hong Kong Reversion Act*, H. R. 750, 105th Congress, 1st Session. Passed by House 11 March 1997. From US Information Agency web site - <http://www.usia.gov/regional/ea/ushk97/hr750.htm>. Date of last accessed: 4 July 1998.

elected LegCo would be disbanded and replaced with a Provisional Legislature. These events will be further examined in the final section of this Chapter.

Three Critical Issues

The 1998 Hong Kong Policy Act report states US interests in political order in the territory after 1997. The Act points out that the US has:

strong interests in the protection of human rights, the promotion of democratic institutions, the freedom of people to worship the religion of their choice, and the development of civil societies where the rule of law prevails and individual freedoms are guaranteed.²²

The Report further points out that the protection of US interests is best served by the continuation of Hong Kong's stability and prosperity, the continued protection of civil liberties and the "preservation of Hong Kong's legal system" after the resumption of the PRC's sovereignty.²³

This section aims to examine three issues that are constantly surfacing in both official and unofficial US documents as the three most vital areas of interest for the US. The US Consul General in Hong Kong, Richard Boucher, outlined the five pillars which the United States considers vital to the continual prosperity of Hong Kong. The five pillars referred to by Boucher were as follows:

- (1) a commitment to the rule of law;
- (2) the free flow of information;
- (3) an acting legislature;
- (4) a clean civil service

²² *United States Hong Kong Policy Act Report*, Released by the Bureau of East Asian and Pacific Affairs, US Department of State, 2 April 1998. From US State Department web site - http://www.state.gov/www.regions/eap/980401_us-hk_pol_act_rpt.html. Date last accessed: 4 July 1998. Section II (A).

²³ *Ibid.*, Section II (A).

and strong Commission against Corruption, and; (5) Hong Kong's separate participation in international organization.²⁴

As in the Hong Kong Policy Act report, the rule of law, commitment to the free flow of information (freedom of speech and press), and an active legislature (electoral representation) are highlighted, among others. A closer examination of these three is essential to the understanding of US political interests in the territory.

1) **Rule of Law**

The United States has a grave interest in the maintenance of the rule of law in post 1997 Hong Kong for two reasons. First, the rule of law is essential in safeguarding basic human freedoms and rights, and to protect an individual from the power of the state. Second, because reliable rule of law is fundamental to the way business is done. Law removes uncertainty about government requirements in the fields that are important to business, such as investment regulations, taxes, company registrations, and labour permits.²⁵

The weight that the US places on the continuation of the rule of law can be seen from the number of times it is mentioned by a large number of influential people, both within Congress and the Administration. Vice President Al Gore, Secretary of State Madeleine Albright, US Consul General in Hong Kong Richard Boucher, Deputy Assistant Secretary of State Jeffrey Bader, Foreign Relations

²⁴ *U.S. Consul General 12/10 Speech on Hong Kong Transition*, E-Mail message from "owner-usis-security@spice.com", Received on Thursday, 12 December 1996.

²⁵ *The Rule of Law and the Free Flow of Information*, Speech by Mr Chau Tak-hay, Secretary for Broadcasting, Culture and Sport, 27 June, 1996, Grand Hyatt Hotel, Hong Kong.

Committee Chairman Jesse Helms, and Speaker of the US House of Representatives Newt Gingrich have all spoken publicly regarding the need to maintain the rule of law in Hong Kong after 1997.²⁶

In this section three issues relating to the rule of law and the transfer of sovereignty will be examined. First, a quick overview of the major differences between the legal system in Hong Kong and the PRC. The following two issues will be the independence of the judiciary and the issues surrounding the Court of Final Appeal.

The legal systems of Hong Kong and the PRC differ in the most fundamental way, Hong Kong pursues a system of “fa zhi” (rule of law) whereas the PRC pursues a system of “ren zhi” (rule by man). To further this point, the Hong Kong legal system had inherited the characteristics of common law from Britain, a system that operates with relative autonomy from the state. Lawyers in Hong Kong are educated and organised like their British counterparts, following the same procedures, and proclaiming the same values.²⁷ Conversely, in the PRC,

²⁶ See (1) White House Press Release, *Statement by the Press Secretary*, 7 May 1996. From the White House web site - <http://www.whitehouse.gov>. Date last accessed: 4 July 1998.; (2) M. K. Albright, (Secretary of State), *Remarks at the American Consulate General to the Hong Kong Special Administrative Region of the People's Republic of China*, Hong Kong, 1 July 1997. From the State Departments web site - <http://www.secretary.state.gov/www/statements/970701.html>. Date last accessed: 4 July 1998.; (3) R. A. Boucher, (Hong Kong Consul General), *The United States and Hong Kong's Future*, 27 February 1997. From the US Information Agency web site - <http://www.usis.gov/regional/ea/ushk97/bouch227.htm>. Date last accessed: 4 July 1998.; (4) J. A. Bader, (Deputy Assistant Secretary of State), Bureau of East Asian and Pacific Affairs, Statement Before the House International Relations Committee, Subcommittee on Asia and the Pacific, 13 February 1997. From the US Information Agency web site - <http://www.usia.gov/regional/ea/ushk97/baderhk.htm>. Date last accessed: 4 July 1998.; (5) J. Helms, (Chairman Foreign relations Committee), *Martin Lee: An Insider's Democratic Perspective on Hong Kong*, 10 April 1997. From the US Information Agency web site - <http://www.usis.gov/regional/ea/ushk97/helms410.htm>. Date last accessed: 4 July 1998.; (6) P. Hu, (Staff Writer), *Gingrich: U.S. Committed to Preserving Democracy in Hong Kong*, From the US Information Agency web site - <http://www.usis.gov/regional/ea/ushk97/gingrich.htm>. Date last accessed: 4 July 1998.

²⁷ P. Wesley-Smith, “Law in Hong Kong and China: The Meshing of Systems”, *Annals of the American Academy of Political and Social Science*, 547, September, 1996, pp 104-117, p106.

the legal system is viewed as an instrument of government, to be used in the furthering of the class struggle, serving revolutionary socialism. Legal statutes are employed in an arbitrary way, with political interference in court cases institutionalised.²⁸

It is clear, as argued by Wesley-Smith that the present systems in existence in Hong Kong and the PRC are incompatible, and that the only reason that they have coexisted was due to Hong Kong's status as a British Crown Colony. However, the buffer that existed between the two systems is to be removed with the handover of Hong Kong and the buffer is to be replaced by the Basic Law. The question that Wesley-Smith asks, is whether the "Basic Law can operate so as to isolate the SAR from interference from Beijing".²⁹ Article 8 of the Basic Law provides that:

The laws previously in force in Hong Kong, that is, the common law, rules of equity, ordinances, subordinate legislation and customary law shall be maintained, except for any that contravene this Law, and subject to amendment by the legislature of the Hong Kong Special Administrative Regions.³⁰

While the above article seemingly provides for the continuation of legal tradition, as Wacks points out, both the power to interpret and to amend the Basic Law is in the hands of the Standing Committee of the National People's Congress.³¹ In effect "the viability of the Basic Law is subject to Chinese whim".³²

²⁸ Ibid., pp 106-108.

²⁹ Ibid., p106.

³⁰ Article 8, *The Basic Law of the Hong Kong Special Administrative Region*.

³¹ R. Wacks, "One Country, Two Grundnormen?: The Basic Law and the Basic Norm", in Wacks, R., (Ed.), *Hong Kong, China and 1997: Essays in Legal Theory*, Hong Kong University Press, Hong Kong, 1993, p152.

³² B. B. de Mesquita, D. Newman, and A. Rabushka, *Red Flag Over Hong Kong*, Chatham House Publishers, Inc., New Jersey, 1996, p57.

Whether all will be equal before the law in Hong Kong remains to be seen. As the Far Eastern Economic Review reports, the decision of the Hong Kong SAR government not to prosecute two cases involving ties to the mainland, does not seem to be in line with the common law expectation that all are equal before the law. To complicate matters more, the Provisional Legislature (the body installed by the PRC in 1997) recently passed a measure that replaced the word “crown” with “state” in all Hong Kong legislation.³³ While this measure was in some part necessary to remove the last vestiges of British colonialism, the question remains as to what exactly is meant by the word “state”? For example, if a PRC state owned enterprise breaks a Hong Kong law, would they be able to, in effect, claim extraterritoriality? If yes, confidence in Hong Kong’s ability to engage in business would be severely damaged.

In a reply to the above Far Eastern Economic Review article, the acting Secretary for Justice of Hong Kong, Ian Wingfield stated that:

the legislation passed on April 7 only places Chinese state organs in the same position as British Crown authorities before Hong Kong’s transition. Chinese state-owned enterprises which perform commercial functions have been explicitly excluded from the definition of “State”.³⁴

Nevertheless, the Hong Kong’s governments decision not to prosecute cases with a mainland connection did shake public confidence in the territory’s legal and political system. Whether the merits of the cases were such that prosecution would probably have failed is immaterial, if overseas investors and the general public believe that the law is not equal, that will spell the end of Hong Kong, along with

³³ “The Worm Turns”, *Far Eastern Economic Review*, 23 April, 1998, p 86.

³⁴ I. Wingfield, “Not Above the Law”, *Far Eastern Economic Review*, 7 May, 1998, p 69.

US interests in the territory.

The second issue to be examined in this section is the independence of the judiciary after the handover of sovereignty. In a recent meeting of Chief Justices from many different jurisdictions in Washington, the question as to what is the most fundamental right that is essential for a just legal order arose. The US judge argued for the freedoms guaranteed in the First Amendment of the US Constitution—the freedom of speech and press. However, the Canadian Chief justice argued that the unimpeded access to a judicial officer, independent of any other branches of government is the most important right.³⁵ Kirby argues that:

The judiciary provides an occasional break on the resolute action of the other branches of government. The agenda of the judiciary tends to be longer term. Although not entirely impervious to popular opinion, aspirations and moods the judiciary is often deflected from passion by the instruction of forebears, who remind current office-holders of the need to protect the individual, defend minorities and uphold proper procedures.³⁶

The need for an independent judiciary is deeply enshrined in the tradition of common law. It is viewed as essential to the maintaining of confidence in the territory's legal system. The basis for the continuation of independence for the judiciary in the post-97 legal system was enshrined in the 1984 Sino-British Joint Declaration and the 1990 Basic Law.

However, there is some concern due to the legal system that exists in Hong Kong. Although Article 85 of the Basic Law promises the “exercise of judicial power independently, free from any interference”,³⁷ in reality approximately 90

³⁵ M. Kirby, (The Hon Justice), *The Rule of Law in Hong Kong After 1997*, Macquarie Studies in Chinese Political Economy, Number 3, Macquarie University, Sydney, 1992, pp 8-9.

³⁶ *Ibid.*, p 9.

³⁷ Article 85, *The Basic Law of the Hong Kong Special Administrative Region*.

percent³⁸ of cases are tried by magistrates, who are not considered to be judges under the Hong Kong legal system. Article 92 of the Basic Law makes a clear distinction between “Judges and other members of the judiciary”.³⁹ Before 1997, magistrates were employed under the same rules as civil servants on “contract terms”, and this is set to continue, as Article 91 of the Basic Law states that the “previous system of approval” for magistrates will remain after 1997.⁴⁰ The implication is, that as magistrates are employed by the government as civil servants, with no tenure available, magistrates might be more susceptible to government pressure during trials of importance.⁴¹

The final issue to be examined in relation to the 1997 handover and the rule of law is the issue of the Court of Final Appeal. Until the reunion of Hong Kong with the PRC, the highest appeals Court available to the territory was the Judicial Committee of the Privy Council. On average there were about 5 appeals from Hong Kong to the Privy Council each year, with all decisions handed down by the Privy Council being binding on Hong Kong Courts. The retaining of the Privy Council as Hong Kong’s final Court of Appeal after 1997 was politically unacceptable, thus both the Joint Declaration and the Basic Law call for the creation of a new Court of Final Appeal in the Hong Kong SAR.⁴²

Article 3 (3) of the Sino-British Joint Declaration states that “The Hong Kong Special Administrative Region will be vested with...independent judicial

³⁸ B. Howlett, *Hong Kong 1997*, Information Services Department, Government Printer, Hong Kong, 1997, p32.

³⁹ Article 92, *The Basic Law of the Hong Kong Special Administrative Region*.

⁴⁰ Article 91, *The Basic Law of the Hong Kong Special Administrative Region*.

⁴¹ M. K. Chan, G. A. Postiglione, (Eds.), *The Hong Kong Reader: Passage to Chinese Sovereignty*, M. E. Sharpe, New York, 1996, pp78-79.

⁴² J. Y. S. Cheng, S. S. H. Lo, (Eds.), *From Colony to SAR: Hong Kong’s Challenges Ahead*, The Chinese University Press, Hong Kong, 1995, p 83.

power, including that of final adjudication”,⁴³ and the Basic Law, in Article 82 reaffirms the principle laid down in the Joint Declaration by declaring that:

The power of final adjudication of the Hong Kong Special Administrative Region shall be vested in the Court of Final Appeal of the Region, which may as required invite judges from other common law jurisdictions to sit on the Court of Final Appeal.⁴⁴

The rationale behind the creation of an independent Hong Kong Court of Final Appeal was to maintain stability in the territory, while at the same time ending the politically unthinkable link to the British Privy Council.

The provision for overseas judges to serve on the Court of Final Appeal was clearly intended to lend that court greater stature, so that domestic and foreign investors would continue to have confidence in the judicial system, thus ensuring the territory’s prosperity.⁴⁵

The Sino-British discussion on the Court of Final Appeal begun in 1988. An agreement was reached in 1991, with the understanding that the Court of Appeal would be made up of five Judges—a Chief Justice, who must be a Chinese national with no right of abode elsewhere, three permanent Hong Kong Judges and 1 non—permanent Judge “drawn from either a list of serving or retired local Judges of Appeal or from a list of Judges from other common law jurisdictions”.⁴⁶ This agreement, which was arrived at without public consultations, attracted immense criticism from the legal profession, as well as the public. The problem, as argued by the legal profession, was that Article 82 of the Basic Law gives the

⁴³ *Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People’s Republic of China on the Question of Hong Kong*, p 1.

⁴⁴ Article 82, *The Basic Law of the Hong Kong Special Administrative Region*.

⁴⁵ F. Ching, *The Vienna Convention on the Law of Treaties and the Joint Liaison Group’s Agreement on Hong Kong’s Court of Final Appeal*, a paper presented at a Zonta Club Forum on the Court of Final Appeal, 21 October, 1994. As cited in G. A. Postiglione, J. T. H. Tang, (Eds.), *Hong Kong’s Reunion with China: The Global Dimensions*, p159.

⁴⁶ Cheng, et al., *From Colony to SAR*, p 84.

power to decide on the number of overseas judges to the Court itself, therefore the agreement is an attempt to “interfere with the discretionary powers vested in the Court of Final Appeal”.⁴⁷ More importantly, the agreement “damages the real and perceived independence of the Court of Final Appeal and therefore the whole judiciary”.⁴⁸ In a surprising show of defiance, the Hong Kong LegCo passed a motion by 34-11 requesting Britain and the PRC to reconsider their agreement on the Court of Final Appeal,⁴⁹ and on the 4th of December, 1991 the LegCo rejected the Sino-British agreement by a vote of 34-11. The PRC launched a severe attack on the LegCo the next day, maintaining that it had no power or right to veto any agreements between two sovereign states. Although both the Hong Kong and British governments maintained that the agreement was valid, despite the LegCo vote, in order to avoid a possible constitutional crisis and to allow for the cooling of tempers, the issue was held in abeyance for the next three years.⁵⁰

The Hong Kong Chief Justice raised the issue of the Court of Final Appeal again in 1994, due to the importance of setting up the Court before the handover, in order for the legal system to function without interruptions. In April of 1994, the Hong Kong government announced its intention to introduce a bill, along the lines of the 1991 agreement to the LegCo. Although the Bill offered by the government for consultation within the legal community was rejected overwhelmingly by the Bar Association, the Law Society Council changed its

⁴⁷ Ibid., p 84.

⁴⁸ Ibid., p 84.

⁴⁹ Segal, *The Fate of Hong Kong*, p 73.

⁵⁰ Cheng, et al., *From Colony to SAR*, p 84-85.

view regarding the viability of the Bill, and without any explanation decided to support the government Bill despite the objection of many of its members.⁵¹

The solution, agreed to by both the British and the PRC governments in June 1995 was (and is) far from perfect. The PRC wanted (and did) limit the role of the Court by removing political and constitutional issues from its purview—a clear breach of the Joint Declaration.^{52 53} In the rather pessimistic words of de Mesquita:

it should be clear that here, as in other aspects of the Joint Declaration and Basic Law, Chinese authorities do as they please.⁵⁴

The above sentiments were voiced in the US Congress by Senator Mack, when he berated the British government for failing to “meet its commitments regarding the rule of law” in Hong Kong. Senator Mack believes that the commitments that the PRC and Britain made to Hong Kong in the Joint Declaration were not fulfilled in the final analysis. He argues that:

China has made its intentions regarding those commitment crystal clear: it will not honor them. Britain has been more

⁵¹ Ibid., p 85-86.

⁵² See Annex I (III) of the Sino-British Joint Declaration—“The power of final judgement of the Hong Kong Special Administrative Region shall be vested in the court of final appeal in the Hong Kong Special Administrative region...”. There are no restrictions mentioned in the Joint Declaration regarding the purview of the Court of Final Appeal. The Basic Law, in article 19 states that the Hong Kong courts will have no jurisdiction over “acts of state, such as defence and foreign affairs”. Under common law, the “acts of state” doctrine refers to actions involving two sovereign states, actions such as a declaration of war—the last case in Hong Kong involving acts of state was in 1947. The problem is that the wording of the Basic Law is extremely ambiguous, and therefore the possibility arises that Beijing would be able to deny the Hong Kong Courts rights to hear cases which involve challenges to the authority of a Beijing appointed government. Summary from C. Mack, (US Senator, Florida, (R.)), *The Agreement by Great Britain and China on the Establishment of Hong Kong’s Court of Final Appeal*, In the Senate, 13 June 1995. From the Library of Congress web site - <http://thomas.loc.gov>. Date last accessed: 4 July 1998.

⁵³ de Mesquita, et al., *Red Flag Over Hong Kong*, p 63.

⁵⁴ Ibid., p 63.

subtle, styling itself as a defender of Hong Kong while engaging in diplomatic backsliding.⁵⁵

The fact that both the US Congress and the Administration paid serious attention to developments regarding the post-97 legal system in Hong Kong emphasises the importance that is attached to an independent judiciary after Hong Kong's reunion with the PRC. Whether for the maintenance of business confidence or as a guarantee against human rights abuses, the US views the judiciary as, arguably, the most important element of post-97 Hong Kong.

2) Freedom of Information (Press and Speech)

This section will investigate some of the issue that the United States finds contentious in relation to freedom of information in Hong Kong. The section will first look at why freedom of information issues are important to the US, and then will present some general statistics regarding the media in Hong Kong in order to give the reader an appreciation of media activity in the territory. Thirdly, the two main dangers to freedom of information will be detailed, one being Hong Kong government legislation (past, present and future) and secondly self-censorship.

Freedom of information, as elucidated in Chapter 1, is taken to refer to freedom of the press and free speech, the two being closely inter-related. US interest in this issue, as with the rule of law, is due to two reasons. Firstly, as US Senator Pell points out, the freedom of the press is one of the "fundamental tenets

⁵⁵ C. Mack, (US Senator, Florida, (R.)), *The Agreement by Great Britain and China on the Establishment of Hong Kong's Court of Final Appeal*, In the Senate, 13 June 1995. From the Library of Congress web site - <http://thomas.loc.gov>. Date last accessed: 4 July 1998.

of a free society”;⁵⁶ and secondly as Hsu explains, the freedom of the press is a “powerful check in support of the Rule of Law”.⁵⁷ As with the continued and independent legal system, unabridged freedom of information is essential both to business as well as to the maintaining of a civil society. In an effort to emphasise the importance of a free press in Hong Kong, the United States Congress passed legislation that gives special immigration status to ethnic Chinese journalists working in Hong Kong, if their “welfare or safety is likely to be subject to threats or harassment due directly to the journalist’s work in the news media in Hong Kong”.⁵⁸ In summary, both the economic and humanitarian interests of the United States are best served by the maintaining of the freedom of the press and speech in Hong Kong after 1997.

In 1996, the Hong Kong news media included 58 daily newspapers—38 in Chinese⁵⁹ and 12 in English—625 periodicals, two commercial television companies, a subscription television service, a regional satellite television service, as well as one government and two commercial radio stations. Hong Kong also serves as a base for *Asiaweek*, *The Far Eastern Economic Review*. The *Asian Wall Street Journal* and the *International Herald Tribune* are also printed in Hong Kong.⁶⁰

⁵⁶ C. Pell, (US Senator, Rhode Island, (D.)), *Press Freedom in Hong Kong*, In the Senate, 7 February 1996. From the Library of Congress web site - <http://thomas.loc.gov>. Date last accessed: 4 July 1998.

⁵⁷ M. K. Chan, G. A. Postiglione, (Eds.), *The Hong Kong Reader*, p76.

⁵⁸ *To provide for special immigrant status for certain aliens working as journalists in Hong Kong*, United States Senate, 105th Congress, 1st Session, S. 968., 26 June 1997. From the US Information Agency web site - <http://www.usia.gov/abtusia/posts/HK1/wwwhhb07.html>. Date last accessed: 4 July 1998.

⁵⁹ Note: of the 38 Chinese language dailies, 31 cover local and overseas news, 4 focus on finance, the rest covering entertainment news in the territory. From B. Howlett, *Hong Kong 1997*, Information Services Department, Government Printer, Hong Kong, 1997, p 321.

⁶⁰ *Ibid.*, p 321-322.

Before embarking on an investigation into the problems that threaten the freedom of the press in Hong Kong, a quick detour into what was promised in the Joint Declaration and the Basic Law regarding press freedoms. The two most relevant Articles of the Basic Law are Articles 27 and 30. Article 27 states that:

Hong Kong residents shall have freedom of speech, of the press and of publication; freedom of association, of assembly, or procession and of demonstration.⁶¹

While Article 30 asserts that:

The freedom and privacy of communication of Hong Kong residents shall be protected by law. No department or individual may, on any grounds, infringe upon the freedom and privacy of communication of residents except that the relevant authorities may inspect communication in accordance with legal procedures to meet the needs of public security or of investigations into criminal offences.⁶²

Despite these very firm assertions from the PRC that current freedoms associated with speech and the press will remain after the change of sovereignty, there are reasons to be pessimistic. In spite of the above promises, Lu Ping, the PRC's Hong Kong and Macao Affairs Office Director, has made it clear that newspapers would not be able to publish articles calling for the independence of Taiwan, Tibet or Hong Kong. Furthermore, Qian Qichen, the PRC's Foreign Minister, stated that journalists would not be able to publish personal attacks on the leaders of the PRC. As Goldman pointedly states:

P.R.C. leaders vow to maintain Hong Kong's freedom of expression and the press, but because they do not allow such freedoms at home, they are unlikely to fully understand such liberties.⁶³

⁶¹ Article 27, The Basic Law of the Hong Kong Special Administrative Region.

⁶² Article 30, The Basic Law of the Hong Kong Special Administrative Region.

⁶³ Oksenberg, et al., *The Hong Kong Transition and U.S.-China Relations*, p40.

Unfortunately for Hong Kong, the mere pointing out of the above restrictions indicates that Goldman is correct in his analysis.

There are two main avenues from which the destruction of these freedoms can arrive. Draconian colonial laws that are still in force in Hong Kong. Although the British Administration has rarely taken advantage of these laws, there are no guarantees that the incoming PRC Administration will not do so. The irony of the situation is, that if the post-97 Administration does take advantage of these laws to suppress information, they will be able to claim that it is indeed Britain that is responsible for these measures, not the PRC. The second threat comes from self-censorship, a practice that has been increasingly noticeable in the run-up to the change in sovereignty.

In 1992, the Hong Kong Journalists Association and ARTICLE 19 submitted a list of 17 laws to the Hong Kong government for review, 11 related to press freedoms and 6 others that were concerned with freedom of expression issues.⁶⁴ One of the examples of legislation, and how it can be used to restrict freedoms associated with the press, is the press-gag provisions of the Prevention of Bribery Ordinance. Since the enactment of the Ordinance in 1970, there have been nine prosecutions under Section 30, which prohibits any disclosure of ICAC (Independent Commission Against Corruption) investigations without authority, even after the conclusion of the investigation in question.⁶⁵

⁶⁴ *Freedom of Expression in Hong Kong: 1994 Annual Report*, Joint Report of The Hong Kong Journalists Association and ARTICLE 19 (International Centre Against Censorship), 30 June, 1994, Hong Kong, p 6.

⁶⁵ Cheng, et al., *From Colony to SAR*, pp 458-460.

In recognition that laws such as the Prevention of Bribery Ordinance pose a grave threat to post-97 freedoms, on 26 February 1996, LegCo Councillor Emily Lau moved a motion stating that:

this council recognizes the vital importance of protecting freedom of the press in Hong Kong and urges the administration to demonstrate its positive commitment to this principle by undertaking to initiate without delay the repeal of all legislation which is in breach of press freedom⁶⁶

She further pointed out a number of laws that were, in some way, restrictive of basic press freedoms. These included the Emergency (Regulations) Ordinance, the Broadcasting Authority Ordinance, and the Official Secrets Act among others. The response of the Hong Kong government was far from enthusiastic. Some legislation was amended, but in general the government maintained that “freedom of the press is secure under Hong Kong law”,⁶⁷ despite clear evidence to the contrary. It seems that the Hong Kong government was reluctant to carry out a major reform of laws relating to press freedoms partly in order to avoid antagonising the PRC and partly due to civil service resistance.⁶⁸

The second threat to press freedoms in Hong Kong comes from self-censorship. This is potentially an even more dangerous threat than that from legislation. With censorship through legislation, the journalist or newspaper being censored can apply to the courts, and pointing to Article 27 of the Basic Law, can claim that their rights are being subverted. However, in the event of self-censorship, this redress procedure is not available. As George Shen, Chief Editor of the Hong Kong Economic Journal elucidates:

⁶⁶ Ibid., p 462.

⁶⁷ *Freedom of Expression in Hong Kong: 1994 Annual Report*, p 6.

⁶⁸ Cheng, et al., *From Colony to SAR*, p 465.

destruction often starts from within. Should any member of the media, for selfish reasons, exercise self-discipline or self-censorship before or after 1997, he or she would be doing a disservice to Hong Kong, because this would signal the beginning of the end of press freedom.⁶⁹

de Mesquite et al, hypothesise that immediately after the handover the PRC government will not attempt to regulate the press, it will instead rely on the media to censor itself. The expectation is that the media would indeed police itself, however, after some time the media would begin to exert independence, which would result in the imposing of limits by Beijing on the press. de Mesquite's assumption is that "self-censorship by the press will not be sufficient to satisfy the Chinese authorities".⁷⁰

The PRC government uses varying tactics to pressure the media establishment to achieve self-censorship. The PRC applies pressure to all levels involved in the media in order to stop stories that it finds unpalatable—pressure is applied to the journalist, the editor and the publication as a whole. Pressure is easiest to apply to individual journalists. The case of the Hong Kong reporter, Xi Yang, imprisoned by the PRC for 12 years for "selling state secrets" is a case that is in the minds of all Hong Kong reporters when covering events in the PRC. Xi Yang's crime—reporting information regarding gold sales and interest rate moves by the People's Bank of China. Furthermore, his source was the deputy director of external affairs in the People's Bank.⁷¹

⁶⁹ G. Shen, *Press Freedom Prospects in Hong Kong After 1997*, Session on Free Flow of Information and the Rule of Law, FEER's Third Annual Countdown to 1997, 27 June 1996. No further information available.

⁷⁰ de Mesquita, et al, *Red Flag Over Hong Kong*, p 102-103.

⁷¹ Sciutto, J. E., "China's Muffling of the Hong Kong Media", *The Annals of the American Academy*, 547, September 1996, Pages 131-143, p 132.

Other methods of intimidation by the PRC, of individual reporters, include directly criticising stories by the journalist, contacting the editor of the newspaper and expressing dissatisfaction, threatening arrest and punishment for reporting information, refusing visas to blacklisted reporters and imposing serious restrictions on journalists working in the PRC. One of the restrictions now imposed on all journalists is the prohibition on reporting on any issues other than those that were specified on the reporters visa application. For reporters who are considered to be friendly to the PRC, tactics such as bribery, or making reporters feel like “they are on the inside”, are powerful weapons in ensuring that only reports favourable to the PRC will be published.⁷²

Besides threatening individual reporters, the PRC uses its economic power to threaten and cajole favourable reporting out of newspapers. For example, in 1992 an anonymous source in the Bank of China sent a list of newspaper publications, in which the Bank had been directed not to advertise in, to the Hong Kong Journalists Association. Threatening the loss of business opportunities in the PRC is another method for influencing editorial content. As explained by Sciutto:

when faced with the threat of losing advertising customers or damaging valuable China investments, local publications have a very powerful incentive to watch their reporting.⁷³

One of the best defences against such an economic attack by the PRC would be a large circulation for a newspaper, so that it could rely on finances from readers to avoid such economic pressures. Ironically, the large number of publications in Hong Kong competing against each other plays directly into the PRC's hands.

⁷² Ibid., pp 133-138.

⁷³ Ibid., p 139.

On International Press Freedom Day (3rd May, 1998), 13 media and human right organisations expressed serious concerns over the erosion of press freedoms in Hong Kong since the 1997 handover of sovereignty. The Hong Kong Journalists Association claims that a series of legal challenges, including the putting of the PRC's state bodies above Hong Kong law, have adversely affected basic freedoms in the territory. They also point out that the PRC's planned new laws for sedition and subversion would “cast a severe threat to the freedom of expression”.⁷⁴ The erosion of the freedom of information in Hong Kong has serious consequences, not just for the territory, but also for US interest there—both economic and political.

3) **Electoral Representation**

Unlike the previous two parts dealing with particular issues of importance, this part is designed to provide a background to the final section. As that section deals with the Patten proposals and the US reaction to the events surrounding the proposals, this part will be used to elucidate on why full electoral representation never came to Hong Kong.

The importance that the United States attaches to the development of democratic institutions need not be reiterated here in great detail. Suffice to say that both the Administration and Congress, and both Republicans and Democrats view the spreading of democratic institutions as a primary foreign policy objective

⁷⁴ *Groups Criticize Erosion of Press Freedom in Hong Kong*, Article 6 in *China News Digest*, 6 May, 1998. Received via e-mail from cnd-editor@cnd.org, 6 May, 1998.

for the United States. As Campbell et al. explicates, the US, especially Democrats, “...are drawn to a Wilsonian ardor for democracy and human rights.⁷⁵” Senator Helms clearly stated that, in the case of Hong Kong, the US view is that:

the autonomy of Hong Kong cannot exist without a legislature that is elected freely and fairly according to rules approved by the Hong Kong people or their democratically elected representatives.⁷⁶

Clearly, the evolution and continuation of democratic institutions in Hong Kong are in the interests of the United States, both for ideological and practical reasons.

The first time that democratic reform for Hong Kong was suggested was right after the Second World War, by the first post-war Governor of Hong Kong, Sir Mark Young. Young’s proposals in 1947 for the introduction of limited electoral representation into the territory were modest in reach, suggesting the introduction of elections for officials on a municipal level—officials in charge of public health and planning among others. In the post-World War Two atmosphere of de-colonisation and self-government the British government was seriously considering such reforms. Surprisingly, the largest obstacle in the way of reform was that Hong Kong citizens were opposed to any changes, as were the unofficial members of the Hong Kong LegCo and ExCo.⁷⁷

Roberts argues that during the 157 years of British rule, Hong Kong underwent three distinct styles of government. He refers to these as the colonial

⁷⁵ C. Campbell, B. Rockman, (Eds.), *The Clinton Presidency: First Appraisals*, Chatham House Publishers, New Jersey, 1996, p 342.

⁷⁶ *Expressing the sense of Congress regarding elections for the legislature of the Hong Kong Special Administrative Region*, Senate Con. Res. 51., 105th Congress, 1st Session, 8 September 1997. From the Library of Congress web site - <http://thomas.loc.gov>. Date last accessed: 4 July 1998.

⁷⁷ S. Y. S. Tsang, *Democracy Shelved: Great Britain, China, and Attempts at Constitutional Reform in Hong Kong, 1945-1952*, Oxford University Press, Hong Kong, 1988, pp vii-viii.

model, the consultative model and the transitional model. Roberts also outlines a post-97 Basic Law model, which falls outside the purview of this section, and therefore will not be examined. The first, the colonial model, lasted from the beginning of the British Administration, with minor modifications, until about 1967. In essence the colonial model of government was government by an expatriate business and political elite. Almost all power was invested in the Governor (always appointed by London, with no consultations) and his (for the Governor was always male) Executive Council. The Legislative Council was made up largely of government officials and others with known sympathies for the government.⁷⁸ Roberts argues that there was a:

remarkable consensus [that] developed between the ruling expatriate elite and the local Chinese emerging elite. Both agreed on the rules of the game and were happy with the freewheeling capitalist system, strong central government, minimum intervention, and lack of any initiative towards representative government.⁷⁹

Following World War Two, the colonial model of government came under increasing pressure. Two major events⁸⁰ in the mid 1960s forced change in the style of government in Hong Kong. The consultative model that emerged from the turbulence of the mid 1960s, did not include any attempts at introducing electoral

⁷⁸ E. V. Roberts, "Political Developments in Hong Kong: Implications for 1997", *The Annals of the American Academy of Political and Social Science*, Volume 547, September, 1996, pp 24-36, pp 24-26.

⁷⁹ *Ibid.*, p 26.

⁸⁰ The first event occurred in April 1966 in Hong Kong, when the rise of the ticket price for the Star Ferry led first to protests, then to hunger strikes and eventually to riots. According to Welsh, the reason behind the riots was most likely not the ticket rises—since only first class prices were increased—but the relative deprivation and endemic boredom of Hong Kong's youth. At that time almost no communal facilities were available for the people of Hong Kong, thus the street was the center of social intercourse. The second event that occurred during 1967 was due to the situation in China at the time, as Red Guards ran amuck in Hong Kong, attacking the police with axes, planting bombs, as well as signing petitions and holding mass rallies. Walsh argues that the disturbances were caused by Red Guard factions in Canton, and was not orchestrated by Beijing. See F. Welsh, *A Borrowed Place: The History of Hong Kong*, pp 465-470.

representation into the territory, instead it focused on rationalising and expanding the Civil Service, and the setting up of advisory bodies that monitored public opinion on issues. At the same time, social spending by the government increased rapidly. Between 1967 and the beginning of the negotiations for Hong Kong's transition, the territory grew increasingly prosperous, with average GDP growth of about 10 percent, at the same time the localisation of business and the Civil Service was also slowly gathering pace.⁸¹

The transitional model of government saw the influence of Britain wane, and the influence of the People's Republic increase. Ultimate power remained with the Governor and with his appointed Executive Council, but the responsibility for approving laws and expenditure rested with the Legislative Council, which until 1985 was appointed entirely by the Governor⁸². In 1985, 12 elected seats were introduced into the Legislative Council. Elections for these seats were not held on a "one man one vote" basis, but rather legislators for six seats were to be indirectly elected by an electoral college board composed of all members of the District Boards, and Urban and Rural Councils. The remaining six candidates were directly elected by functional constituencies, consisting of members from various professional and industrial organisations.⁸³

There were three main reasons for Hong Kong's general resistance to democracy, which worked together to resist calls for further democratisation in the territory. First, strenuous objections from the PRC to any moves that would have led to an increase in the input from the population regarding how Hong Kong

⁸¹ Roberts, "Political Developments in Hong Kong: Implications for 1997", pp 26-27.

⁸² Cottrell, *The End of Hong Kong*, p 177.

⁸³ K. Cheek-Milby, M. Mushkat, (Eds.), *Hong Kong: The Challenge of Transformation*, Centre of Asian Studies, University of Hong Kong, Hong Kong, 1989, p 20.

should be run. Second, the lack of a strong, broadly based democracy movement in Hong Kong meant that very little pressure was applied to the Hong Kong government or Britain to democratise. Third, neither the Civil Service, nor the appointed members of LegCo and ExCo were particularly eager to have to fight in an open election for their privileged place in society⁸⁴.

The incident of 1989 proved to be pivotal in the emergence of a broad based democracy movement in Hong Kong, the change of attitude on behalf of the British government and the mobilisation of the Hong Kong population behind democratic reform. As Nathan summarises:

A democracy movement developed in Hong Kong in response to the 1989 Tiananmen incident. Led by the English-trained barrister Martin Lee, it won a strong victory in elections for Hong Kong's LegCo in 1991.⁸⁵

In the 1991 Legislative Council elections, only 18 of the total 60 seats were filled by direct elections. Appointed Hong Kong government officials had 4 seats, while Functional Constituencies were allocated 21 seats, the remaining 17 seats were filled by Members appointed by the Governor.

The appointment of Chris Patten to the post of Governor in 1992 brought to Hong Kong populism that was hitherto unexperienced and unthinkable in Hong Kong. With his democratic reforms, Patten infuriated the PRC, but endeared himself both to the population of Hong Kong, as well as to the United States. US calls in support of democracy in Hong Kong were not welcome in the PRC. Indeed, there was a danger that:

⁸⁴ Cottrell, *The End of Hong Kong*, p 178.

⁸⁵ A. J. Nathan, R. S. Ross, *The Great Wall and the Empty Fortress: China's Search for Security*, W. W. Norton & Company, New York, 1997, p 201.

Americans...[would]...imagine a Hong Kong that never existed and then demand that China maintain—or more precisely help create—that idealised version of Hong Kong.⁸⁶

What exactly were the Patten proposals, and what was the US and the PRC's reaction to them is the subject of the next section.

The Patten Proposals

The democratic changes to the way Hong Kong was governed, introduced by Governor Patten in 1992, had far reaching implications. The Tiananmen Square incident aroused both the US and Britain to the fact that, in effect, a vibrant and free (but not democratic) capitalist society was about to be handed over to a repressive authoritarian state, that followed an economic model based on socialism. Democratic reforms were viewed by the US and Britain as the only way of ensuring that Hong Kong would be able to maintain some of its promised autonomy. This section will examine the reforms that Patten introduced, the PRC's reaction to these reforms, the 1995 elections, the setting up of the Provisional Legislature by the PRC, and finally the events of the 1997 handover with regards to the LegCo. The US reaction to events will be interlaced throughout the Case Study, and summarised in the Chapter Conclusions.

The appointment of Chris Patten to the Governorship of Hong Kong can be traced back to the British Tory revolt against the then Prime Minister Margaret Thatcher, when Chris Patten was one of the architects of the elevation of John Major to power. Patten's reward for his involvement was his appointment to be the

⁸⁶ Oksenberg, et al., *The Hong Kong Transition and U.S.-China Relations*, p7.

chairperson of the Conservative Party. During the 1992 election campaign, Patten “worked so diligently that he neglected his own reelection bid and lost his seat in Parliament”.⁸⁷ Rather than taking a seat in the House of Lords, Patten decided to accept the post of Governor in Hong Kong, especially as he was told that he would be given “a free hand to establish Britain’s policy during the final five years of its rule”.⁸⁸ Patten, who had little or no knowledge of the PRC or the Chinese, believed that his leadership could win concessions for Hong Kong from the PRC. One of his first announcements, before even leaving Britain, was that his first order of business would be to examine ways of increasing electoral representation in Hong Kong. Upon arriving in Hong Kong, he dispensed with the usual formal Governor’s attire, and declined the Knighthood that was usually a part of the package. Patten’s populist approach to the Governorship was highly unusual for the politically conservative Hong Kong establishment, although the local Chinese did appreciate it, as Patten’s approval ratings clearly showed.⁸⁹

Patten, when formulating his reforms was able to take advantage of the ambiguities present in both the Joint Declaration and the Basic Law. The Joint Declaration refers to elections⁹⁰, while the Basic Law describes the composition of the post-97 LegCo⁹¹. However, the exact meaning of elections is not defined. At the time of signing the Joint Declaration, the British realised that ‘elections’ does not necessarily imply direct elections by universal suffrage, but could be referring

⁸⁷ Roberti, *The Fall of Hong Kong*, pp 294-195.

⁸⁸ *Ibid.*, p 294.

⁸⁹ *Ibid.*, p 295.

⁹⁰ *Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People’s Republic of China on the Question of Hong Kong*, see Annex I (I).

⁹¹ Annex II, *The Basic Law of the Hong Kong Special Administrative Region*.

to indirect elections or elections through a restricted franchise.⁹² Although this was explicitly understood by the British in 1984, the events of 1989 and the 1992 rejuvenation of Britain's Tory party meant that the Hong Kong government, led by Chris Patten was able to take advantage of the ambiguity present in the Joint Declaration.

The Basic Law, in Annex II, clearly describes the composition of the post-97 LegCo for the first and second full term after the handover, with the composition of the 1995-99 LegCo described in Annex III, in an attachment to the Basic Law, entitled "Decision of the National People's Congress on the Method for the Formulation of the First Government and the First Legislative Council of the Hong Kong Special Administrative Region".⁹³ The attachment promulgates that the first Legislative Council will be composed of "60 members, with 20 members returned by geographical constituencies through direct elections, 10 members returned by an election committee, and 30 members returned by functional constituencies".⁹⁴ The attachment further declares that if the last Hong Kong legislature is established following the above description, then those legislators would be able to continue serving after the change of sovereignty.

The ambiguity in the exact definitions of "geographical constituencies", "election committee" and "functional constituencies" is what Governor Patten seized on to make the LegCo more representative. Patten proposed a number of measures, including the lowering of the voting age from 21 to 18, redefining the existing functional constituencies and adding 9 new ones, so that almost everyone

⁹² Cottrell, *The End of Hong Kong*, p 180.

⁹³ Annex III, Attachment to the Basic Law, *The Basic Law of the Hong Kong Special Administrative Region*.

⁹⁴ *Ibid.*

employed would be eligible to vote. In addition, that all District Board members should be directly elected, and then these elected officials would constitute the electoral college that was to choose 10 legislators⁹⁵. Patten also proposed the demotion of ExCo to a minor constitutional role, while enlarging the role of the LegCo.

Although technically none of these measures could be taken to be in direct contravention of the Sino-British Joint Declaration, or even the Basic Law, the PRC was not gladdened by these proposed reforms. At first the PRC's position, as expressed by the PRC's Premier Li Peng, was that the Patten proposals were a British attempt to "create disorder and to impede the smooth transition of power"⁹⁶ in Hong Kong. Roberti argues that the reason behind abandoning a strategy of cooperation with the PRC and the introduction of reforms that were certain to upset the transfer of sovereignty was that:

Prime Minister Major and Foreign Secretary Hurd felt it had to be seen by history as having done—or having tried to do—right by Hong Kong. No matter how genuine Patten's concern for Hong Kong was and no matter how admirable his zeal was in trying to implement his reforms, the policy change had more to do with British honor than with helping the people of Hong Kong.⁹⁷

The PRC issued a statement saying that all contracts and leases that were approved by the Hong Kong government without the PRC's approval would be viewed as invalid after the handover. This threw a number of major infrastructure projects into disarray, including the new airport and Container Terminal No.9—both being vital for the future prosperity of Hong Kong.

⁹⁵ Roberti, *The Fall of Hong Kong*, p 295.

⁹⁶ *Ibid.*, p 296.

⁹⁷ Roberti, *The Fall of Hong Kong*, p 299.

In early 1993 the PRC changed their position on the issue by agreeing to enter into negotiations over the proposals, an option that was previously shunned. Roberti argues that there were three overriding reasons for the PRC's change. First, the PRC realised that the disagreement was having a negative effect on confidence in Hong Kong, and that by entering into negotiation they might be able to achieve two objectives—either delay the process until it is too late for the 1995 elections (the last to be held under British rule), or if that is not possible then at least to be able to have some input into the reforms. Second it was at this time that the PRC was bidding for the 2000 Olympics, and did not want her image tarnished by the ongoing dispute in Hong Kong. Third, and possibly the most important reason, was the upcoming MFN debate in the US. Meanwhile, in the United States, the Patten proposals for more democracy in soon to be Chinese Hong Kong was welcomed by the new Administration. To quote President Clinton:

I think that the democracy initiative in Hong Kong is a good thing...I think that the idea of trying to keep it [Hong Kong] an open and free society after 1997 is in the best interest of the Chinese.⁹⁸

After countless rounds of negotiations on this issue with the PRC, with no results, Governor Chris Patten submitted to the Legislative Council a Bill with his proposals. In February, 1994 the Legislative Council passed Patten's reforms, while the PRC indicated that the reforms in question would be reversed after 1997.⁹⁹

The September, 1995 Legislative Council elections were the first ever

⁹⁸ *Remarks by the President in Photo Opportunity with Governor Chris Patten of Hong Kong*, 3 May, 1993.

⁹⁹ R. Buckley, *Hong Kong: The Road to 1997*, Cambridge University Press, Cambridge, 1997, p 140-145.

when almost every ordinary person had the chance to vote. Of the 20 seats (out of 60) that were open to general suffrage, the Hong Kong Democratic Party—the largest Democratic party led by Martin Lee QC—won 12 seats, with over 40% of the total votes. Another 4 seats were also won by parties with strong democratic leanings. Pro-China parties only managed to win 2 seats, receiving about 28% of the total votes. The US viewed the election, and the election success enjoyed by the Democrats, as a positive step for Hong Kong, and expressed regret that the PRC had vowed to reverse the outcome of the elections.

On the 11th of December, Tung Chee-hwa, a Hong Kong shipping magnate, was elected by a 400-member Selection Committee¹⁰⁰ as the first post-97 Chief Executive. Tung's election was widely condemned in the US as a "rigged election" despite the running of two other likely candidates, Peter Woo (a well known Hong Kong business personality) and Yang Ti-liang (the then Chief Justice of Hong Kong), that is not to imply that the election was open and fair but as Ching points out:

Certainly Tung was the clear favourite from the beginning, but no one can say that Yang and Woo entered the race simply to make it appear that there was a real race.¹⁰¹

The same Selection Committee also selected the 60 Legislative Councillors who would take over from the 1995 elected LegCo after 1997. This group became known as the Provisional Legislature, and it included 33 out of the 60 LegCo members elected in 1995.

¹⁰⁰ The Selection Committee was made up of a group of 400 Hong Kong residents appointed by Beijing's advisory Preparatory Committee. The Preparatory Committee was a Beijing appointed body charged with overseeing the handover process. Summary From: J. A. Bader, [http:// www.state.gov/www/regional/eap/970424_bader_hong_kong.html](http://www.state.gov/www/regional/eap/970424_bader_hong_kong.html). Date last accessed: 4 July 1998.

¹⁰¹ F. Ching, "Misreading Hong Kong", *Foreign Affairs*, Volume 76, Number 3, May/June, 1997, pp 53-66, p 53.

With the change of sovereignty on the 1st of July, 1997 the Legislature that was elected in 1995 was disbanded, and the appointed Provisional Legislature took over in the LegCo building. In a gesture of disapproval, both Britain's Prime Minister Tony Blair and US Secretary of State Madeleine Albright boycotted the swearing in ceremony for the Provisional Legislature¹⁰².

Conclusion

The two events that had the most profound impact on US political interests in the territory were the 1989 Tiananmen Square incident and the arrival of the openly pro-democracy Governor, Chris Patten. Before the events of 1989, the US was content for Britain to negotiate with the PRC for Hong Kong's political future, expecting that the British government's political interests in Hong Kong would coincide with US political interests. The 1984 Joint Declaration, the agreement that resulted from British negotiations with the PRC over the future of Hong Kong, was accepted by the US as a workable framework for the political future of the territory.

The Patten proposals, following just a few years after the events of Tiananmen and the end of the Cold War, caused a shift in the hierarchy of US interests in Hong Kong. The end of the Cold War, having removed the need for a coherent global strategy based on security interests, allowed the emergence of political interests hitherto dormant in the hierarchy of US interests in the territory.

¹⁰² "Hong Kong Prepares for a Party", *The Economist*, 21 June 97. From the Economist web site - <http://www.economist.com>. Date last accessed: 4 July 1998.

With the emergence of a vocal local pro-democracy lobby—in sharp contrast to the political atmosphere on the mainland—the US felt that it was in its interest to encourage the maintenance of democracy in Hong Kong after the handover and that it could do so with little risk to its strategic interests in the future of the PRC.

It is clear though that the US was not prepared to support full self-determination for the people of Hong Kong. Thus, while US security interests in Greater China might not have been as visible in its Hong Kong policy as its encouragement of democracy, the failure of the US to support full self-determination reminds us that other interests must have been at play.

Chapter 4

US Economic Interests in Hong Kong, 1995-1997

The aim of this Chapter is to examine US economic interests in Hong Kong between 1995 and 1997. These interests in Hong Kong stem from many sources: Hong Kong's status as a free port and a regional trading center; US investment and trade with Hong Kong; the territory's role in PRC-Taiwan trade; as well as Hong Kong's role in Sino-US trade. All of these factors contribute to making the territory an important factor for US economic policy in North-East Asia. The Chapter deals with four factors in succession, taking the first three together in one section, and the fourth in the following section. The last section will examine the role of Hong Kong in the Sino-US Most Favoured Nation (MFN) disputes. The Chapter Conclusion will relate the findings of this Chapter to those in the previous Chapter.

Hong Kong as a Regional Economic Center

US trade policy, in global terms, has one simple overriding aim—"to raise standards of living in the U.S. and around the world".¹ In the US view, the key to prosperity in an interdependent world is engagement and competition. These aims, according to the Clinton Administration, can best be achieved through reducing

¹ *The World Trade Organization and U.S. Trade Policy*, Fact Sheet prepared by the Bureau of Economic and Business Affairs, 14 June 1996. From the US State Departments web site - <http://www.state.gov/www/issues/economic/fswtopol.html>. Date last accessed: 4 July 1998.

trade barriers and promoting sustainable development.² The US interest in the promotion of sustainable development can be linked directly to the overriding political interest that the US has in the world today, that being the spreading of democratic ideals. The US argument is that with sustainable development comes an increase in productivity which in turn leads to a rise in standards of living and the development of a more affluent middle class.³ Historically, as demonstrated by events in South Korea and Taiwan, the formation of an affluent middle class, tends to be followed by the development of democratic institutions.⁴

The modern history of economic relations between the US and Hong Kong has its beginnings with the victory of the Communists on the Mainland, and the establishment of an economic embargo against the PRC. With the beginning of the Korean war, the dilemma facing the US was how to pursue the economic embargo against the PRC without destroying the economy of the “Berlin of the East”⁵, Hong Kong. By 1951, the territory's collapse was viewed as imminent, and American personnel were evacuated—with an influx of over 1 million refugees, anti-foreign riots in Kowloon and no hope for an early lifting of the economic embargo against the PRC, the situation in Hong Kong indeed looked grim.

Ironically, it was the economic embargo against the PRC that led to the emergence of closer US-Hong Kong economic ties. As the US Consulate General was responsible for enforcing the embargo in Hong Kong, the Consulate began a thorough research of Hong Kong industries, with a special focus on furniture

² Ibid.

³ Ibid.

⁴ Roth, S. O., (Assistant Secretary for East Asian and Pacific Affairs) *U.S.-China Relations and the China Policy Act of 1997*, Statement on U.S.-China Relations and the China Policy Act of 1997, Before the Senate Committee on Foreign Relations, 17 September 1997, Washington D. C. From the US State Departments web site - http://www.state.gov/www/policy_remarks/970917_roth_china.html. Date last accessed: 30 July 1998.

⁵ A. Grantham, *Via Ports: From Hong Kong to Hong Kong*, Hong Kong University Press, Hong Kong, 1965, p 171.

made from rattan. The “Americanisation” of the rattan industry—the adaptation of designs suitable for the US market by Hong Kong businesses—encouraged other Hong Kong businesses to also concentrate on the US market. By the mid 1950s Hong Kong was exporting everything from plastic flowers to imitation jewellery and textiles to the US. Between 1953 and 1957, Hong Kong exports to the US market reached US\$19 million, and this was to double every year from then on.⁶

It was exactly the ability of Hong Kong businesses to produce goods for export cheaply and effectively that led to calls for voluntary restraints from the US, especially in the area of textiles. Hong Kong was warned that:

...if Hong Kong continues to abuse its privileges in the US market and did not refrain from damaging its best customer by “disorderly marketing”, it would almost certainly lose the greater part of that market in the near future.⁷

It seemed that in the late 1950s and early 1960s Hong Kong was the only place which believed in free trade.⁸ Both the US State and Commerce departments agreed that the easiest way of diffusing the situation would be for Hong Kong firms to diversify their export lines. As the total amount of Hong Kong exports to the US was not large, the problem was that Hong Kong’s exports were restricted to a few lines of goods. As Henry Kearns⁹ explained:

concentration of shipment in a relatively few items displaces...production in domestic industries. For instance, Hong Kong brassieres take up a total of 25% of the domestic consumption. The public then becomes convinced that this is the general pattern of exports from Hong Kong.¹⁰

⁶ M. Turner, “Hong Kong Design and the Roots of Sino-American Trade Disputes”, *The Annals of the American Academy of Political and Social Science*, Volume 547, September, 1996, pp 37-53. pp 37-41.

⁷ R. Buckley, *Hong Kong: the Road to 1997*, Cambridge University Press, Cambridge, 1997, p 64.

⁸ *Ibid.*, p 65.

⁹ at that time Assistant Secretary of Commerce for International Affairs.

¹⁰ Turner, “Hong Kong Design and the Roots of Sino-American Trade Disputes”, p 51.

Turner argues that the diversification of the same products—always the same, always new—allowed Hong Kong businesses to largely avoid excessive duties and quotas.¹¹

By the early 1970s, the United States was Hong Kong's most important trading partner followed by Britain. Japan and the PRC constituted the two biggest importers of goods to Hong Kong. By 1986, the PRC had become the undisputed leader in imports to the territory. The PRC had also displaced Britain as the second most important market for Hong Kong, after the US. The restructuring of the Hong Kong economy in the mid 1980s renewed the territory's role as an entrepôt between the PRC and the rest of the world.¹² By the late 1980s and early 1990s, Hong Kong had become “the nexus for a large and complicated the PRC trade in which the principal players are the PRC, the US and Taiwan”.¹³

Before entering into an in-depth examination of the reasons why Hong Kong is important to the US in the 1990s, it should be emphasised that their relationship is not equal by any means. Table 4.1 and Table 4.2 below show the percentages of exports/imports to/from the US and Hong Kong in the 1990s.

Table 4.1 - US Exports/Imports to/from Hong Kong, as Percentage of Total US Exports/Imports, 1991-1997¹⁴

Year	1991	1992	1993	1994	1995	1996	1997
Ex ¹⁵	1.92	2.02	2.12	2.23	2.43	2.23	2.19
Im ¹⁶	1.89	1.83	1.64	1.46	1.38	1.24	1.18

¹¹ Ibid., pp48-53.

¹² M. K. Chan, G. A. Postiglione, (Eds.), *The Hong Kong Reader: Passage to Chinese Sovereignty*, M. E. Sharpe, New York, 1996, pp 56-57.

¹³ J. M. Brown, R. Foot, (Eds.), *Hong Kong's Transitions, 1842-1997*, St Anthony's College, Oxford, 1997, p 176.

¹⁴ Raw data from the US Department of Commerce, International Trade Administration web site - <http://www.ita.gov/industry/otea/usfth/t06.prn>. Date last accessed: 13 May 1998. Calculations mine.

¹⁵ US Exports to Hong Kong, as percentage of TOTAL US Exports 1991-97.

¹⁶ US Imports from Hong Kong, as percentage of TOTAL US Imports 1991-97

Table 4.2 - Hong Kong Exports/Imports to/from the US, as a Percentage of Total
Hong Kong Exports/Imports, 1991-1997¹⁷

Year	1991	1992	1993	1994	1995	1996	1997
Ex ¹⁸	23.42	23.07	23.07	23.23	21.74	29.05	26.06
Im ¹⁹	7.55	7.39	7.41	7.14	7.71	7.88	7.76

What both Tables clearly show is the importance of access to the US market for Hong Kong—with an average of 23 percent of all Hong Kong goods exported to the US; and the relative insignificance of the Hong Kong market for US goods—with an average of 2.1 percent of total US exports heading for the Hong Kong market in the 1990s. As Tucker elucidates:

In reality, the ruin of Hong Kong, if annoying and damaging for selected businesses, would hardly undermine the United States economy. More generally, the actual percentage of American trade passing through Hong Kong markets remained small even as it grew rapidly. The US stake in the territory might be lucrative but not vital²⁰

Taking the above point into consideration, the question remains—why is Hong Kong important to the US? There are four general reasons: first because of what Hong Kong is; second because of the need to protect and promote US trade and investment; third because of the potentially pacifying role that trade between the PRC and Taiwan—that Hong Kong promotes—has on general US interests in Asia; and fourth, because of the entrepôt role that Hong Kong plays in facilitating access for US businesses to the PRC's 1.2 billion customers. The following part will provide a closer examination of the above points.

First, Hong Kong is important to the US because of what Hong Kong is.

¹⁷ Raw data from the Hong Kong Trade Development Council (<http://www.tdc.org.hk>) and the Hong Kong SAR Governments Census and Statistics Departments (<http://www.info.gov.hk/censtatd>). Calculations mine.

¹⁸ Hong Kong Exports to the US, as percentage of TOTAL Hong Kong Exports 1991-97.

¹⁹ Hong Kong Imports from the US, as percentage of TOTAL Hong Kong Imports 1991-97

²⁰ N. B. Tucker, *Taiwan, Hong Kong and the USA, 1945-1994: Uncertain Friendships*, Twayne Publishers, New York, 1994, p 222.

The territory is the freest economy in the world, the 2nd least corrupt in Asia, and the 8th largest trading economy.²¹ Hong Kong provides the world's 4th largest source of foreign direct investment, and has Asia's highest per capita income in terms of domestic buying power.²² Hong Kong also contains the world's busiest container port, as well as the world's busiest airport in terms of international cargo. The Hong Kong stock exchange is the 5th largest in the world, and the territory is the 4th largest banking center.²³ In 1998, with a population of just 6.6 million people, Hong Kong's Gross Domestic Product (GDP) is estimated to grow to US\$181.3 (billion), that is a real GDP growth of 3.5²⁴ percent from the 1997 fiscal year. The projected figure for inflation is 4.8 percent (from January until March, 1998) and projected unemployment figures for the same timeframe is estimated at 3.5 percent. In 1997, Hong Kong total trade amounted to US\$393.72 billion, which represented a 4.7 percent growth from 1996. Hong Kong's fiscal surplus for the fiscal year ending in March, 1998 was HK\$77 billion, and total fiscal reserves at the end of March, 1998 was estimated to be HK\$446 billion (approximately US\$57.2 billion).²⁵ The territories eminent economic position in the Asia region means that US economic interests are "substantial", and that the US has a "significant stake in promoting economic and business relationships".²⁶

²¹ 5th largest if the European Union is regarded as one entity. *Scoreboard for Economic Success of Hong Kong*, 30 April 1998. From the Hong Kong Trade Development Council web site - <http://www.tdc.org.hk/beyond97/scoreboard.htm>. Date last accessed: 4 July 1998.

²² Ibid.

²³ Ibid.

²⁴ Note: this figure most likely did not take into account the effects of the growing Asian financial crisis, for the first quarter of 1998, Hong Kong posted a -2% contraction in its GDP—the first time in over a decade that the economy exhibited signs of negative growth. See article "Gloomy: Hong Kong's Economy" in *The Economist*, June 6th-12th, 1998, pp76-77. The Hong Kong Trade Development Councils (web site updated on the 4 June, 1998) has not posted any new GDP forecasts for 1998 at the time of writing.

²⁵ *Economic and Trade Information on Hong Kong*, 6 May, 1998. From the Hong Kong Trade Development Council web site - <http://www.tdc.org.hk/main/economic.htm>. Date last accessed: 4 July 1998.

²⁶ J. A. Bader, (Deputy Assistant Secretary for East Asian and Pacific Affairs), Statement submitted for the record to the Senate Foreign Relations Committee, Subcommittee on East Asian

Second, the US has economic interests in Hong Kong because of the need to protect and promote US trade and investment in the region. There are three issues that are relevant to this part, namely—the size of US investment and trade in Hong Kong; the US views on guarantees given by the PRC over Hong Kong's economic independence; and US views on Hong Kong's participation in international trade regimes to which the PRC is not a party to.

Despite the statement by Tucker above, regarding the insignificance of Hong Kong in total US trade, there is a substantial amount of trade between the two entities as well as a sizeable US investment in Hong Kong, which is in the US interest to protect. In 1997 there were over 1,100 American businesses operating in Hong Kong²⁷, employing over 250,000 Hong Kong workers—almost 10% of the total Hong Kong workforce²⁸, while the Hong Kong American Chamber of Commerce was the largest in the world.²⁹ During the last visit to Hong Kong by the Deputy Secretary of the Treasury Lawrence Summers, he noted that as “Hong Kong is the nerve center of Asian finance” the US had decided to send a special envoy of the Treasury to work in the US Consulate General in Hong Kong, making Hong Kong the second place in Asia, after Japan, where a special envoy

and Pacific Affairs, Washington D.C., 24 April 1997. From the State Departments web site - http://www.state.gov/www/regional/eap/970424_bader_hong_kong.html. Date last accessed: 4 July 1998.

²⁷ W. J. Clinton, *Radio Address of the President to the Nation*, 14 June 1997. Saturday Radio Address. From the White House web site - <http://www.whitehouse.gov>. Date last accessed: 4 July 1998.

²⁸ Bader, Statement submitted for the record to the Senate Foreign Relations Committee, From the State Departments web site - http://www.state.gov/www/regional/eap/970424_bader_hong_kong.html. Date last accessed: 10 May 1998.

²⁹ J. Bader, *Sino-American Relations and U.S. Policy Options*, Statement before the House International Relations Committee, Subcommittee on East Asian and Pacific Affairs, Washington, D.C., 23 April 1997. From the State Departments web site - http://www.state.gov/www/regions/eap/970423_bader_china.html. Date last accessed: 4 July 1998.

of the US Treasury is to be stationed³⁰.

In 1996, the US was the third largest investor in Hong Kong with US\$14.2 billion, while Britain remained the biggest investor with US\$21.6 billion, with the PRC in second place with US\$14.6 billion. Japan remained the fourth largest investor, with these four making up 81% of the total foreign investment in Hong Kong in 1996.³¹ Almost one-third of all US investment (US\$5 billion) in 1996 went into wholesale trade related businesses. Another third of US investment (US\$4.6 billion) was directed at the finance, insurance and real estate business. The remaining third was distributed between the manufacturing (approximately US\$2.2 billion), banking (US\$1.5 billion) and services sectors (US\$815 million).³²

Hong Kong is America's 13th largest trading partner, with two way trade in 1996 worth over US\$24 billion.³³ In 1997, the US exported goods worth US\$15.1 billion to Hong Kong³⁴. In 1996, the last year for which detailed figures were available for, the biggest categories of goods exported to Hong Kong by US firms included telecommunication equipment (US\$851 million), data processing equipment (US\$713 million), aircraft and associated equipment (US\$693 million), electrical machinery (US\$295 million), and motor cars (US\$167 million) among

³⁰ See Section I (A) of the *United States Hong Kong Policy Act Report*, Released by the Bureau of East Asian and Pacific Affairs, US Department of State, 2 April 1998. From US State Department web site - http://www.state.gov/www.regions/eap/980401_us-hk_pol_act_rpt.html. Date last accessed: 4 July 1998.

³¹ *UK Top Overseas Investor in Hong Kong*, Article 7 in China News Digest, 6 May, 1998. Received via e-mail from cnd-editor@cnd.org, 6 May, 1998.

³² "Extent of U.S. Investment in Selected Industries: U.S. Direct Investment Position Abroad on a Historical Cost Basis, 1996". in *Hong Kong: Economic Policy and Trade Practices Report (1997)*, Department of State Report to the Senate. From the US State Departments web site - http://www.state.gov/www/issues/economic/trade_reports/eastasia97/hongkong97.html. Date last accessed: 4 July 1998.

³³ Bader, Statement submitted for the record to the Senate Foreign Relations Committee, From the State Departments web site - http://www.state.gov/www/regional/eap/970424_bader_hong_kong.html. Date last accessed: 10 May 1998.

³⁴ From the US Department of Commerce, International Trade Administration web site - <http://www.ita.doc.gov/industry/otea/usfth/t10.prn>. Date last accessed: 25 May 1998.

others³⁵. US imports from Hong Kong in 1997 were worth US\$10.2 billion³⁶, as with exports, for 1996, the largest categories included articles of apparel from textile fabrics (US\$1.4 billion), women/girls coats, capes etc., (US\$1.1 billion), cold cathode, photocathode valves etc., (US\$1 billion), and jewellery, goldsmiths & silversmiths wares (US\$389 million).³⁷ Table 4.3 below, shows the US trade balance with Hong Kong between the years 1991-1997.

Table 4.3 - US Trade Balance with Hong Kong, 1991-1997³⁸
(US\$ Million)

Year	1991	1992	1993	1994	1995	1996	1997
TB³⁹	- 1,141	- 716	319	1,745	3,940	4,102	4,818

There are two general observations that can be made from the data presented above. Firstly, that US exports to the territory tend to be low labour intensive, high technology goods—such as airplanes, while US imports from the territory tend to be high labour intensive, low technology goods—such as textiles. The main reason behind this is that most Hong Kong exports to the US tend to be re-exports from the PRC—that is goods manufactured in the PRC, usually by Hong Kong owned factories, exported first from the PRC to Hong Kong to be packaged or labelled (or for some other value-added process) and then re-exported to the US market from Hong Kong. This process will be further examined in the second section of this chapter which focuses on Hong Kong's role in US-PRC economic relations. The second general observation is that Hong Kong has, for most of the last decade, run a trade deficit with the US. Together with Hong Kong's low

³⁵ Ibid., Table can be found at <http://www.ita.doc.gov/industry/otea/usfth/hongkong.e-i>. Date last accessed: 25 May 1997.

³⁶ From the US Department of Commerce, International Trade Administration web site - <http://www.ita.doc.gov/industry/otea/usfth/t11.prn>. Date last accessed: 25 May 1998.

³⁷ Ibid., Table can be found at <http://www.ita.doc.gov/industry/otea/usfth/hongkong.e-i>.

³⁸ Raw data from the US Department of Commerce, International Trade Administration web site - <http://www.ita.doc.gov/industry/otea/usfth/t08.prn>. Date last accessed: 13 May 1998.

taxes, minimal restrictions on entry to the market and its continuous trade deficit means that the US is eager to see the maintaining of Hong Kong as an autonomous trade entity after 1997.

Both the US Congress and Administration have repeatedly stated that they view the promised autonomy of Hong Kong as essential, not only to the continuation of Hong Kong's way of life, but also to the continuation of favourable US trade with the territory. The United States-Hong Kong Policy Act of 1992, re-emphasises the US view of the Joint Declarations as the framework for post-1997 Hong Kong. The Act goes on to establish US domestic legal authority to treat Hong Kong as a separate entity from the PRC for some purposes.⁴⁰

The Sino-British Joint Declaration of 1984, in Sections 3 (5)-(10) establishes the post-97 economic future of Hong Kong. The main PRC promises include the retaining of Hong Kong's economic system after 1997; the territory remaining a free port and a separate customs entity; independent finances; and that:

Using the name "Hong Kong, China", the Hong Kong Special Administrative Region may on its own maintain and develop economic and cultural relations and conclude relevant agreements with states, regions and relevant international organizations.⁴¹

The US response to the PRC's promises is perhaps best summarised by the then Secretary of State, George Shultz:

³⁹ "- " sign indicates deficit.

⁴⁰ *United States-Hong Kong Policy Act of 1992*, Public Law 102-383, 102nd Congress, S. 1731., 3 January 1992. From the US Congress Library web site - <http://thomas.loc.gov>. Date last accessed: 4 July 1998.

⁴¹ Section 3 (10), *Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China on the Question of Hong Kong*, Pamphlet from the Information Office of the State Council of the People's Republic of China, No date given.

We expect the American business communities, both in the United States and Hong Kong, will see in this agreement good reason for sustained confidence in the future of Hong Kong as an attractive and thriving commercial center.⁴²

The Basic Law, Hong Kong's post-97 mini-Constitution, promulgated by the National People's Congress in 1990, reiterates the economic freedoms promised by the PRC in the Joint Declaration. Chapter V, Section 1 and 3 of the Basic Law⁴³ are the most relevant to economic freedoms.

The 1992 United States-Hong Kong Policy Act further describes the foundation on which post-97 US-Hong Kong trade would be build upon. The Congressional emphasis is on the maintenance and recognition of Hong Kong's economic autonomy after 1997. Section 103, (3) states that:

The United States...after June 30, 1997, should treat Hong Kong as a territory which is fully autonomous from the People's Republic of China with respect to economic and trade matters.⁴⁴

The Act encourages US businesses to "continue to operate" in Hong Kong, and instructs US Customs to "recognize certificates of origin for manufactured goods" that are to be issued by the Hong Kong SAR. The Act also supports the continuation of Most Favored Nation status for Hong Kong, independently of the status accorded to the PRC. Section 202, (a), requires the President, after 1997, to make the determination as to whether Hong Kong is sufficiently autonomous to "justify treatment" that is "different from that accorded" to the PRC. If the President were to find that Hong Kong's economic autonomy had been eroded by

⁴² G. P. Shultz, (US Secretary of State), *New York Times*, 27 September 1984, p. 12. As cited in S. Shipp, *Hong Kong, China: A Political History of the British Colony's Transfer to Chinese Rule*, McFarland & Company, Inc., North Carolina, 1995, p49.

⁴³ *The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China*, The Consultative Committee for the Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, Hong Kong, 1990. See Chapter V, Section 1, Articles 105-119; Section 3, Articles 124-127.

⁴⁴ *United States-Hong Kong Policy Act of 1992*, Public Law 102-383, 102nd Congress, S. 1731., 3 January 1992. From the US Congress Library web site - <http://thomas.loc.gov>. Date last accessed: 4 July 1998. Section 103.

interference from the PRC, the President has the right to terminate or suspend the preferential treatment that Hong Kong receives. Section 202, (d) authorises the President to lift the suspension authorised by Section 202, (a), provided that Hong Kong has regained autonomy over its economy.⁴⁵

The last issue to be examined regarding actual US economic interests in Hong Kong is the US view on the continuation of Hong Kong's memberships in International Trade Organisations that the PRC is not part of, specifically Hong Kong's continued membership in the World Trade Organisation⁴⁶ (WTO) after the change of sovereignty. The US view of the role of the WTO is that by working to reduce barriers to global trade, the opportunities for US trade are expanded, with a corresponding increase in US competitiveness and a raise in real wages and living conditions.⁴⁷ Hong Kong has been a full member of the GATT (and therefore the WTO) since 1986. The PRC, both in the Joint Declaration⁴⁸ and the Basic Law⁴⁹ promised that the territory would be able to maintain independent membership after 1997, regardless of whether the PRC is allowed to join or not.⁵⁰

⁴⁵ Ibid., Section 202, (a), (d).

⁴⁶ Although there are some clear differences between the WTO and the General Agreement on Tariffs and Trade (GATT), for the purpose of this thesis they will be viewed as one. The WTO is in fact the product of the GATT Uruguay Round negotiations, and it is intended to cover not only trade but services and intellectual property as well. Unlike the GATT, the WTO is a permanent institution with a sound legal basis. The WTO was established on the 1st of January, 1995. All countries that were parties to GATT automatically became members of the WTO on that date. In October, 1997 the WTO had 132 members with 31 applicants negotiating membership. See (1) *Membership, Alliances and Bureaucracy*, Fact Sheet, from the World Trade Organisation web site - <http://www.wto.org/wto/about/organsn3.htm>. Date last accessed: 4 July 1998.; (2) *WTO and GATT-Are They the Same?*, Fact Sheet, from the World Trade Organisation web site - <http://www.wto.org/wto/about/facts6.htm>. Date last accessed: 4 July 1998.

⁴⁷ *The World Trade Organization and U.S. Trade Policy*, 14 June 1996.

⁴⁸ See Annex 1, Article VI, of the *Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China on the Question of Hong Kong*.

⁴⁹ See Chapter V, Article 116, and Chapter VII, Articles 151, *The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China*.

⁵⁰ P. Hartland-Thunberg, *China, Hong Kong, Taiwan and the World Trading System*, MacMillan Ltd., London, 1990, pp 6-7.

The US view of Hong Kong's continual membership in the WTO is perhaps best expressed in the 1992 United States-Hong Kong Policy Act. Section 102 (3) clearly states that the:

United States should respect Hong Kong's status as a separate customs territory, and as a contracting party to the General Agreement on Tariffs and Trade, whether or not the People's Republic of China participates in the latter organisation.⁵¹

As with trade in goods and services, the US assurance that Hong Kong would be treated as separate from the PRC is conditional on the maintaining of economic autonomy for the territory. The US emphasis on autonomy for Hong Kong serves a dual purpose. Firstly, it assures that Hong Kong maintains access to the privileges that as an open economy it deserves—while keeping the PRC's closed state run economy largely out. Secondly, it discourages political meddling by the PRC in the territory, as even perceived interference in the territory could lead to the US suspending Hong Kong's trading privileges, an action that would deprive the PRC of a large percentage of its foreign currency income.

The third reason mentioned for Hong Kong's importance to the US is the role that Hong Kong plays in the Taiwan-PRC trade, which has a potentially pacifying role in the dispute between the two parties. Although technically this should be classified as an US strategic goal (the prevention of war) as the US does not actually profit from the PRC-Taiwan trade, however, as the post 1997 economic role of Hong Kong is vital to the continuation of PRC-Taiwan trade, this issue will be discussed here. The underlying theory is that a multiplying of economic ties would lead to a symmetrical increase in personal ties between the PRC and Taiwan, which would require some form of government-to-government

⁵¹ See Section 102, (3) of the *United States-Hong Kong Policy Act of 1992*, Public Law 102-383, 102nd Congress, S.1731, 3 January 1992.

interaction between the two sides, leading to a better understanding between the two parties and thus reducing the chance of outright hostilities in the region. In effect, trade between the PRC and Taiwan raises the cost of hostile action for both sides. Another reason for the importance of the Hong Kong-Taiwan-PRC trade triangle is that the World Bank has predicted that if the PRC's economy would keep growing at the same rate as in the early 1990s, the combined economies of Taiwan, the PRC and Hong Kong could overtake the US economy in size by early next century.⁵² Although there are obvious obstacles that have emerged since this particular prediction was made in 1994, the future potential still exists for the three Chinese economies to become the biggest economy in the world at some later date. Despite Taiwan banning all trade with the mainland until 1988, small amounts of trade between the 'warring' states was exchanged through Hong Kong.⁵³ According to Hsia's study of Hong Kong's entrepôt trade, in 1968 the balance of trade between the Mainland and Taiwan, through Hong Kong, amounted to HK\$3 million. This sum steadily increased to reach HK\$1.7 billion by 1981. Until 1979 the trade balance was in favour of the Mainland, whereas after 1979 (the first full year of Deng Xiaoping's economic reforms) the trade balance turned in favour of Taiwan.⁵⁴ This was probably an effect of the PRC beginning to import materials and goods required to modernise its economy. By 1993 the indirect trade between the PRC and Taiwan passing through Hong Kong was estimated at US\$8,500 million.⁵⁵ The official estimate of investment by

⁵² D. A. Rondinelli, *Expanding Sino-American Business and Trade: China's Economic Transition*, Quorum Books, Westport, Connecticut, 1994, p 7.

⁵³ P. Hartland-Thunberg, *China, Hong Kong, Taiwan and the World Trading System*, p 120.

⁵⁴ R. Hsia, *The Entrepôt Trade of Hong Kong with Special Reference to Taiwan and the Chinese Mainland*, Chung-Hua Institution for Economic Research, Taipei, Taiwan, 1984, p 74.

⁵⁵ G. A. Postiglione, J. T. H. Tang, (Eds.), *Hong Kong's Reunion with China: The Global Dimensions*, M. E., Sharpe, New York, 1997, p 61.

Taiwanese businesses in Southern China by 1996 was approximately US\$20 billion, however, Brown argues that the real figure is probably much higher.⁵⁶

The continuation and future expansion of economic ties between the PRC and Taiwan is in the direct interest of the US. As stated before, the expectation is that increased economic contact would lead to a decrease of tensions between the two parties. The only foreseeable casualty of better economic relations between the PRC and Taiwan would be Hong Kong, whose entrepôt services would no longer be required as Taiwanese businesses would be able to access the Mainland market directly.

Hong Kong's Role in US-PRC Economic Relations

The second section of this Chapter, as foreshadowed before, deals with the role of Hong Kong in US-PRC economic relations. The importance of good economic relations between the US and the PRC for the continual prosperity of Hong Kong cannot be emphasised enough. Additionally, the territory plays an important role in easing the entry of US goods into the PRC market and vice versa.

This section is broken into three parts: the first will briefly examine the clout of the PRC in the world economy. The second part will present some insight into US-PRC trade, briefly examining investment, import/export and the PRC's participation in international trade regimes (the WTO). The third and final part will build on the above in order to position and highlight the essential role that Hong Kong plays in US-Sino trade. The last part will also take a closer look at the issue of re-exports, an issue that has a large part to play in the one consistent

⁵⁶ Brown, et al., *Hong Kong's Transitions, 1842-1997*, p 12.

major issue of contention between the US and the PRC—that is the ever growing US trade deficit with the PRC.

1) China in the Global Economy

There are many reasons for US economic interests in the PRC. One of the most compelling is simply the potential that a market the size of the PRC has to offer in the long run. For US policy makers, the PRC “is already a country of critical significance”, and it is expected that the PRC will “become still more important in the years ahead”.⁵⁷ For a nominally socialist country, largely languishing in self-imposed economic isolation for the most part of the last 50 years, the question arises, why is the PRC economically important to the USA?

At the time of Deng’s consolidation of his power in 1978, the PRC’s economy was in tatters. In the late 1970s, almost 80 percent of the population of the PRC was living on an income of less than US\$1 per day⁵⁸. Highly inefficient state enterprises, workers who were employed regardless of performance, the expectation that the state would provide not only full employment but an “iron rice bowl” from the cradle to the grave to every citizen of the PRC, together with the serious political turmoil that was Mao’s Cultural revolution, meant that the PRC’s economy was in need of serious reform.

Reform is exactly what Deng Xiaoping had in mind when he launched his economic modernisation plans in 1978. A number of factors, according to the

⁵⁷ Eizenstat, S., (Under Secretary of State for Economic and Business Affairs) *Normal Trade with China*, Remarks before the House Ways and Means Subcommittee on Trade, Washington, D.C., 17 June 1997. From the US State Departments web site - <http://state.gov/www/issues/economic/china970617.html>. Date last accessed: 4 July 1998.

World Bank, have contributed to the success of Deng's economic reforms. The factors that the Bank emphasises are: a high rate of savings—resulting in significant capital accumulation; an emphasis on education, especially in the fields of engineering and technology; as well as knowledge and capital transfers from foreign companies and governments.⁵⁹ In 1997, the expected inflows of direct foreign investment into the PRC were expected to reach around US\$42 billion, which is similar to the 1996 figures for investment.⁶⁰ However, perhaps the most important reform introduced by Deng, has been the introduction of the concept of competition into the PRC's economy. This has led to almost 95 percent of all industrial output in the PRC today being sold at market prices.⁶¹

Since 1979, the PRC's economy has grown by an average of 9 percent each year⁶², in some of the Special Economic Zones on the southern coast of the PRC annual growth has run at about 20 percent—meaning that the economic output of the Special Economic Zones has doubled every four years.⁶³ During the 1992-1993 financial year, the PRC as a whole recorded a 13 percent growth in its GDP. Overall, if inflation is removed, the PRC's GDP growth between 1978 and 1992 has increased by 233 percent.⁶⁴ Although it is generally accepted that the official PRC figures tend to overestimate growth, available data tends to confirm

⁵⁸ *China*, Country Brief Issued by the World Bank Group, No Date Given. From the World Bank Group web site - <http://www.worldbank.org/html/extdr/offrep/eap/china.html>. Date last accessed: 4 July 1998.

⁵⁹ J. Stiglitz, (Senior Vice-President and Chief Economist, The World Bank), *The Future of China*, Speech at the International Monetary Fund Annual Meeting, Hong Kong SAR, China, 22 September 1997. From the World Bank Group web site - http://www.worldbank.org/html/extdr/am97/amsp_003.htm. Date last accessed: 4 July 1998.

⁶⁰ *China: Economic Policy and Trade Practices Report (1997)*, Department of State Report to the Senate. From the US State Departments web site - http://www.state.gov/www/issues/economic/trade_reports/eastasia97/china97.html. Date last accessed: 4 July 1998.

⁶¹ Stiglitz, *The Future of China*, From the World Bank Group web site - http://www.worldbank.org/html/extdr/am97/amsp_003.htm.

⁶² *China: Economic Policy and Trade Practices Report (1997)*, From the US State Departments web site - http://www.state.gov/www/issues/economic/trade_reports/eastasia97/china97.html.

⁶³ de Mesquita, B. B., Newman, D., and Rabushka, A., *Red Flag Over Hong Kong*, Chatham House Publishers, Inc., New Jersey, 1996, p 38.

the general trend of growth in the PRC's economy.⁶⁵ During a 1997 speech in Hong Kong, the Chief Economist of the World Bank, Joseph Stiglitz predicts:

China's GDP to grow at a 7 percent annual rate through 2020. Although this is a slowing from the double digit growth rates of the last decade, it is still extraordinary—if it happens China's GDP will double every decade.⁶⁶

Despite the PRC's impressive growth, it is still under-represented in world trade statistics. For example, in 1992 “only 3 percent of the world's trade was with China”, although the World Bank hypothesises that by 2020 this could rise to 10 percent.⁶⁷

Another measure of national wealth, recently adopted by the World Bank and other international organisations is known as purchasing power parity (PPP). The PPP measure attempts to overcome one of the weaknesses that relying on GDP figures usually entails. In the case of the PRC, according to the World Bank GDP estimates fails to take into account that:

in the 10 years since embarking on a program of economic reform aimed at rapid development, China has been one of the fastest growing economies in the world.⁶⁸

It is argued that PPP gives a better estimate of the status of an economy, which in the case of the PRC, is important “not only for measuring the size of the PRC's economy but for assessing its growth performance”.⁶⁹

Ng et al, quote a 1995 Beijing commissioned PPP study of the mainland's income accounts. The results were, in the words of Ng, “eye-catching”.⁷⁰ The

⁶⁴ Ibid., p 38.

⁶⁵ *China: Economic Policy and Trade Practices Report (1997)*, From the US State Departments web site - http://www.state.gov/www/issues/economic/trade_reports/eastasia97/china97.html.

⁶⁶ Stiglitz, *The Future of China*, From the World Bank Group web site - http://www.worldbank.org/html/extdr/am97/amsp_003.htm.

⁶⁷ Ibid.

⁶⁸ *China's GDP in U.S. Dollars Based on Purchasing Power Parity*, From the World Bank Group web site - <http://www.worldbank.org/html/dec/Publications/Workpapers/wps1415-abstract.html>. Date last accessed: 4 July 1998.

⁶⁹ Ibid.

study indicated that the correct US dollar-RMB conversion rate should be 1.25 RMB to 1 US dollar—as opposed to the official exchange rate of about 8 RMB to 1 US dollar—the study further elucidates that the above conversion rate would place the 1990 GDP estimate at about US\$1.4 trillion. That gives a figure of US\$1,220 for per capita income—which is somewhat higher than the official figure of US\$350.⁷¹

The emerging maturity of the PRC's economy, and the power that it wields, is perhaps best demonstrated by the PRC actions throughout the 1997-1998 Asian financial crisis. It is widely reported and accepted that a devaluation of the *Renminbi* (People's Money or RMB) would most likely re-ignite the fiscal crisis that some Asian nations are currently facing. As the Japanese Yen crumbles, the pressure on the PRC to devalue will increase, as the high RMB will cut into the PRC's exports, which will in turn have a negative effect on the PRC economy, especially on employment figures—high unemployment would almost certainly lead to social unrest, a situation that the PRC's government would like to avoid.

As US Trade Representative, Charlene Barshefsky notes:

I think China wants to act responsibly in Asia, and I think China understands that if it devalues, it will spark another round of devaluations.⁷²

In a speech to the National Geographic Society in Washington, President Clinton praised the PRC for resisting the pressures for devaluation of the RMB, as well as

⁷⁰ Ng, L. F. Y., Tuan, C., (Eds.), *Three Chinese Economies: China, Hong Kong and Taiwan: Challenges and Opportunities*, The Chinese University Press, Hong Kong, 1996, p 3.

⁷¹ *Ibid.*, p 3.

⁷² P. Blustein, K. B. Richburg, (Washington Post Staff Writers), "Fears About Asia Hit World Stocks", *Washington Post*, 16 June 1998, Page A01. From the Washington Post web site - <http://www.washingtonpost.com/wp-srv/business/longterm/asiaecon/asiaecon.htm>. Date last accessed: 4 July 1998.

for contributing to the rescue packages for affected countries.⁷³

Whether the PRC's actions are a true sign of the PRC taking its place among the world's leading economies or is simply a ploy to elicit "sympathy in the hope of being rewarded"⁷⁴ is currently up to individual interpretation, and as always, history will be the final judge. Nevertheless, what is certain is that the PRC's continued modernisation and economic expansion do make it impossible for the rest of the world to ignore or downplay the economic importance of the PRC, especially if the PRC manages to convince Taiwan to re-unite with the Mainland. The combine economies of the PRC, Hong Kong and Taiwan would be one of the, if not the, biggest in the world.

2) Sino-US Trade and Investment

With the largest population base on earth, the PRC offers unmatched future potential for US businesses. From the time of the arrival of the first US trade ship just after the American Civil War, the PRC has been in the minds of many US businesses. As the Imperial British tailors dreamed of adding an extra inch to every Chinese shirt, modern day American businesses dream of an US made microwave and television in every PRC home. Having acknowledged the long-term potential of the PRC market in the first part of section 2, how have US businesses fared in this market is the question that this part of section 2 is trying to answer.

⁷³ B. Clinton, *Remarks by the President on U.S.-China Relations in the 21st Century*, Speech at the National Geographic Society, 11 June 1998, Washington D.C. From the US State Departments web site - http://state.gov/www/regions/eap/980611_clinton_china.html. Date last accessed: 4 July 1998.

⁷⁴ Ibid.

After the mutual granting of Most Favoured Nation (MFN) status in the early 1980s, US-Sino trade increased substantially.⁷⁵ Total trade, which stood at US\$4.8 billion in 1980⁷⁶ grew to US\$75.3 billion by 1997.⁷⁷ Overall, as the table below demonstrates, US-PRC trade has increased by 199.2⁷⁸ percent between 1991 and 1997—which is impressive growth by any standards. Table 4.4 below shows total trade (exports plus imports) between the US and the PRC in the 1990s.

Table 4.4 - US Exports/Imports to/from the PRC and Total Trade Between the US and the PRC, 1991-1997 (US\$ Billion)⁷⁹

Year	1991	1992	1993	1994	1995	1996	1997
Ex ⁸⁰	6.2	7.4	8.7	9.2	11.7	11.9	12.8
Im ⁸¹	18.9	25.7	31.5	38.7	45.5	51.5	62.5
TT ⁸²	25.1	33.1	40.2	47.9	57.2	63.4	75.3

There are a number of issues that flow from the above table that need to be addressed. First, as the figures clearly show, the balance of trade has been one-sided all through the 1990s. US imports from the PRC clearly make up for the larger part of total trade between the two countries. There are two serious implications of the lop-sided trade exhibited above. The first is that, like in the case of Hong Kong, the US market is much more important to the PRC than the PRC market to the US. As table 4.5 below shows, the PRC, as a market, takes less than 2 percent of US total exports, whereas the PRC's exports to the US make up a fast increasing percentage of US imports.

⁷⁵ Joint Economic Committee, Congress of the United States, (Ed.), *China's Economic Future: Challenges to U.S. Policy*, M. E. Sharpe, New York, 1997, p 473.

⁷⁶ Joint Economic Committee, *China's Economic Future: Challenges to U.S. Policy*, p 473.

⁷⁷ See Footnote for Table 4.4

⁷⁸ Statistics from Table 4.4—Calculations mine.

⁷⁹ Raw data from the US Department of Commerce, International Trade Administration web site - <http://www.ita.gov/industry/otea/usfth/t06.prn> and <http://www.ita.gov/industry/otea/usfth/t07.prn> Date last accessed: 13 May 1998. Calculations mine.

⁸⁰ US Export to China.

⁸¹ US Imports from China.

⁸² Total Trade

Table 4.5 - US Exports/Imports to/from the PRC, as Percentage of Total US Exports/Imports, 1991-1997⁸³

Year	1991	1992	1993	1994	1995	1996	1997
Ex ⁸⁴	1.48	1.65	1.88	1.81	2.01	1.91	1.85
Im ⁸⁵	3.88	4.83	5.43	5.84	6.12	6.47	7.18

The second related implication stemming from the distribution of trade between the two countries is the issue of the ever growing US trade deficit with the PRC. Lardy considers the trade deficit between the US and the PRC as the driving force for the emergence into eminence of the issue of trade between the two countries in the 1990s.

The US has had a trade deficit with the PRC since 1983, almost since the beginning of normalisation of relations. By 1991, the trade deficit with the PRC had become the second largest, only exceeded by Japan's.⁸⁶ Currently, the US trade deficit with the PRC stands at US\$39.5 billion.⁸⁷ This imbalance in trade relations is a constant source of friction between the two countries, with some groups in the US attempting to use this problem to 'punish' the PRC by denying MFN and preventing it from joining the World Trade Organisation. The most common rationale for this argument is that the PRC trade is a threat to American jobs.⁸⁸ This argument ignores the US governments own estimates which show that in 1998, US exports to the PRC kept approximately 170,000 Americans

⁸³ Raw data from the US Department of Commerce, International Trade Administration web site - <http://www.ita.gov/industry/otea/usfth/t06.prn> and <http://www.ita.gov/industry/otea/usfth/t07.prn> Date last accessed: 13 May 1998. Calculations mine.

⁸⁴ US Exports to China, as percentage of TOTAL US Exports 1991-97.

⁸⁵ US Imports from China, as percentage of TOTAL US Imports 1991-97

⁸⁶ N. R. Lardy, *China in the World Economy*, Institute for International Economics, Washington, D. C., 1994, p 73.

⁸⁷ *China and the U.S. Trade Deficit*. From the US-China Education Foundation web site - <http://www.uschinatrade.org/issues/articles2.html>. Date last accessed: 4 July 1998.

⁸⁸ Ibid.

employed.⁸⁹

Both the Administration and Congress agree that the continuation of the large trade deficit cannot be sustained. This view has been clearly expressed to the PRC. Most recently, Eizenstat—Under Secretary for Economic and Business Affairs—in remarks to a Senate Committee stated that:

I have personally raised...our profound concerns with the trade deficit...I stressed that it was not sustainable.⁹⁰

Eizenstat further stressed that it is believed that the PRC is acutely aware of this problem, and is prepared to work towards resolving it. The question is how? Both the Administration and most Members of Congress realise that cutting off trade with the PRC is not an option to be considered seriously. The method that the US has chosen to combat the US-Sino trade deficit, is to use US trade laws to attack the PRC's barriers and tariffs and to help US exporters compete in the PRC market.⁹¹ The continuing renewal of MFN status and the pressuring of the PRC to comply with the requirements for WTO entry all contribute to the US Administration's strategy for opening up the PRC's markets to US goods and services. This strategy appears to be working, so far the PRC has eliminated over 1,000 quotas and licensing requirements for some categories of US goods, although there are still many institutional barriers present that unnecessarily restrict trade. The main factor that underlies the cause of the trade deficit can be traced back to the type of goods that the US imports and exports from (and to) the PRC.

⁸⁹ S. Eizenstat, (Under Secretary of State for Economic and Business Affairs) *United States Trade with Asia*, Remarks before the Senate Commerce, Science, and Transportation Committee, Washington, D.C., 18 June 1997. From the US State Departments web site - <http://state.gov/www/issues/economic/asia970618.html>. Date last accessed: 4 July 1998.

⁹⁰ Eizenstat, *United States Trade with Asia*, From the US State Departments web site - <http://state.gov/www/issues/economic/asia970618.html>. Date last accessed: 22 June 1998.

This leads to the second issue to be discussed that stems from Table 4.4 above—that is the type of goods that the US exports/import to/from the PRC. It is perhaps not surprising that, similarly to Hong Kong, most US exports to the PRC are low labour intensive, high-technology products, while products imported from the PRC are high labour intensive, low technology goods. US exports to the PRC in 1996, the last year that the US Department of Commerce has detailed information for, amounted to US\$12 billion, the three largest categories of goods exported were 1) machinery and transport equipment—worth US\$5.6 billion; 2) crude materials (except fuels)—worth US\$1.9 billion; and 3) chemicals and related products—worth US\$1.7 billion. When the categories of exports are broken down into actual commodities, aircraft and associated equipment (US\$1.7 billion), fertilisers (US\$891 million), cotton textile fibres (US\$730 million) and telecommunication equipment (US\$643 million) were the top four commodities exported to the PRC.⁹²

Conversely, for US imports from the PRC, the largest category of goods were 1) miscellaneous manufactured articles—US\$30 billion; 2) machinery and transport equipment—US\$14 billion; and 3) chemicals and related products—US\$1 billion. As far as actual commodities are concerned the top four PRC exports to the US in 1996 were 1) baby carriages, toys, games and sporting goods—US\$8 billion; 2) Footwear—US\$6.4 billion; 3) women/girls coats, capes,

⁹¹ *The Trade Deficit with China*, Fact Sheet released by the Bureau of Public Affairs, US Department of State. 17 June 1997. From the US State Departments web site - http://www.state.gov/www/regions/eap/fs-trade_def_china_970617.html. Date last accessed: 4 July 1998.

⁹² Data from the US Department of Commerce web site - <http://www.ita.doc.gov/industry/otea/usfth/china.e-i>. Date last accessed: 23 June 1998.

extile fabrics—US\$2.1 billion; and 4) trunks, suitcases, briefcases—US\$2 billion.⁹³

The implication for the US trade deficit is simple, the market in the PRC for high-technology products—such as aircraft and telecommunications equipment—is limited by the characteristics of the PRC's market, whereas US demand for cheap imports from the PRC—such as shoes and apparel—are not limited by similar restrictions in the US marketplace. US exports to the PRC are not only expensive to produce, and therefore expensive to buy, but by their nature the products are limited to a few customers only—usually the PRC government. Conversely, the PRC's exports to the US are cheap to produce, and appeal to a large number of American consumers. In short, while everybody in the US needs (and probably can afford) some clothes, not many people in the PRC need (or can afford) Boeing 747 Jumbo jets. As long as the disparity in what the US and the PRC's economies can produce remains, the possibility of the trade deficit remaining is high.

The US trade deficit with the PRC will most likely turn out to be long-term problem, one that will probably overshadow other trade issues that might occur between the two countries. The question remains, what role does Hong Kong play in US-PRC economic relations, and more importantly, for the purpose of this thesis, what effects would the discontinuation of normal trade relations between the US and the PRC have on the territory. The next part of section 2 will examine the role that Hong Kong plays in US-PRC relations, with special attention on Hong Kong's role as a re-export center for goods from the PRC. The

⁹³ Data from the US Department of Commerce web site - <http://www.ita.doc.gov/industry/otea/usfth/china.e-i>. Date last accessed: 23 June 1998.

section following will be examine the possible effects that the discontinuation of normal trade between the US and the PRC would have on Hong Kong.

3) In the Middle—Hong Kong

Ever since 1841, when the British acquired Hong Kong Island in perpetuity from the Chinese, the territory has served as a convenient entry to the Chinese market. Although much has changed since 1841, when the most important commodity that Hong Kong handled was opium, the entrepôt role that the territory plays has remained essentially unchanged. It is a place where foreign companies can find the expertise and *guanxi* that is required for success in the PRC's market, while enjoying the protection of British common law and their favourite alcoholic beverage all in a luxury settings. As one expatriate Hong Kong businessman explained “Hong Kong removes the sharp edge of the PRC experience.”⁹⁴

The importance of the role that Hong Kong plays in Sino-US trade relations is perhaps best illustrated by the following assertion by President Clinton, who in a radio address stated that:

Hong Kong handles more than half of the trade between the United States and China⁹⁵

Bader (Deputy Assistant Secretary for East Asian and Pacific Affairs) in a 1997 statement before Congress implicitly acknowledged the importance of Hong Kong's entrepôt status when he stated that of the US\$14 billion worth of goods that are exported to Hong Kong by US companies, many are in fact re-exported to

⁹⁴ Personal conversation in Hong Kong, 31 June, 1997.

⁹⁵ Clinton, *Radio Address of the President to the Nation*. From the White House web site - <http://www.whitehouse.gov>. Date last accessed: 10 May 1998.

the PRC market.⁹⁶ The issue of re-exports, whether originally from the PRC or the US, poses a number of serious problems that encompass the essence of Hong Kong's livelihood—and thus warrant further attention. There are two issues that warrant canvassing that are associated with the issue of re-exports. Firstly, the two different types of re-exports that Hong Kong handles in its role as an entrepôt between the US and the PRC. Secondly, the size of the re-export trade that Hong Kong handles between the US and the PRC—as this has special relevance to the earlier discussion on the US trade deficit.

The first of the two issues is perhaps the easiest to dispense with. Simply, there are two types of transactions of goods that invokes Hong Kong's services as a regional entrepôt. The first type is usually referred to as “transhipped goods”, this label is applied to goods that, for customs purposes, do not enter the territory. That is, they are simply transferred from one ship to another without ever entering Hong Kong territory. This provides the problem of quantifying their value, since records of value are not kept by the Hong Kong authorities—only record of weight.⁹⁷ The second type of re-exported goods that Hong Kong handles are value added re-exports. This is when goods enter Hong Kong customs territory, some value added process is applied—for example: re-packaging or simply re-labeling—and then the goods are re-exported either to the PRC or the US. Lardy reports that the Hong Kong Trade Development Council has found that, on average, the gross Hong Kong re-export margin was approximately 15 percent overall.⁹⁸

⁹⁶ J. Bader, *Sino-American Relations and U.S. Policy Options*. From the State Departments web site - http://www.state.gov/www/regions/eap/970423_bader_china.html. Date last accessed: 20 May 1998.

⁹⁷ M. K. Chan, G. A. Postiglione, (Eds.), *The Hong Kong Reader: Passage to Chinese Sovereignty*, M. E. Sharpe, New York, 1996, p 197.

⁹⁸ Lardy, *China in the World Economy*, p 77.

The second important issue that re-exports raise is the exact size of the trade in question, as this has significant bearings on US-PRC trade relations, especially with regard to the trade deficit. Metzger et al, estimate that anywhere between two-thirds to three-quarters of all goods from the PRC that have been sold to the US in recent years have been exported first to Hong Kong and then re-exported to the US. Conversely, approximately one-fifth to one-fourth of all US exports to the PRC were first exported to Hong Kong and then onto the Mainland. The result is that both the PRC and the US governments underestimate each others importance, as far as exports are concerned—although it is without doubt that the US figures are more reliable in this instance.⁹⁹

The figures shown in Table 4.6 below were derived by Lardy, who suggested that two adjustments should be made to current US-PRC trade statistics in order for a clearer picture to emerge regarding the true state of the US trade deficit.

The first adjustment involves the calculation of the value of US goods re-exported minus the re-export margin that is added by Hong Kong firms. This amount then should be added to the official US data on exports to the PRC. The second adjustment required is the calculation and removal of the value added by Hong Kong firms to the PRC's exports to the US. This amount needs to be subtracted from the official US data on PRC imports.

Table 4.6 below shows re-calculated figures for US exports and imports for the early 1990s.¹⁰⁰

⁹⁹ Metzger, T. A., Myers R. H., (Eds.), *Greater China and U.S. Foreign Policy: The Choice Between Confrontation and Mutual Respect*, Hoover Press, Stanford, 1996, p 69.

¹⁰⁰ Lardy, *China in the World Economy*, p 77.

Table 4.6 - Re-adjusted Figures for US Exports/Imports to/from the PRC
(US\$ Million)¹⁰¹

Year	Adjusted US Exports	Adjusted US Imports	Adjusted US Deficit	Official US Deficit
1989	6,923	10,860	3,931	6,235
1990	5,962	13,837	7,875	10,431
1991	7,776	17,182	9,406	12,691
1992	9,473	23,272	13,799	18,309
1993	8,330	20,877	12,547	16,695

There are two implications that stem from Table 4.6 above. First, the data shows that since 1990, the data used by the US Commerce Department has consistently overstated the US trade deficit with the PRC by approximately one-third.¹⁰² Second, it seems that the role of Hong Kong as an entrepôt, both for US goods into the PRC and PRC goods into the US, seems to be neglected by both parties in their statistics.

Hong Kong and MFN

As emphasised in both the Introduction and section 2 of this Chapter, continuation of normal trade relations between the US and the PRC is essential to the future prosperity of Hong Kong. Arguably the issue that has the most substantial influence on the continuation of good trade relations between the US and the PRC is the granting of Most Favoured Nation (MFN) status to the PRC. This section will examine two issues related to MFN status, firstly, what it is and why it is important to US-PRC relations—this will form the background which the next part will be portrayed against. Secondly, a closer inquiry into the reasons why and how the loss of MFN status for the PRC would conceivably effect Hong Kong, as

¹⁰¹ Ibid., p 76.

¹⁰² Ibid., p 77.

well as the role that Hong Kong has played in the renewal of MFN in the late 1990s.

Besides the real-life implications that a negative outcome in the annual MFN debate would cause in the PRC, the US, Hong Kong and Taiwan, the example of MFN also provides an important focus of analysis for this thesis. The debates over MFN status for the PRC were fought mostly, although not exclusively, in the arena of economic and political interests—although security issues such as missile non-proliferation, among others were also used both by the proponents as well as the antagonists of MFN for the PRC—the center of the argument was mostly over US political and economic aims. The opportunity thus exists to closer examine the interaction of US political and economic interests in an issue that had (and has) serious implications for US policy towards not only Hong Kong, but also Taiwan.

Firstly, MFN—what it is and why it is important. As President Clinton elucidated in one of his radio addresses to the nation:

I want to just take a minute to say that even though we call it “Most Favored Nation” treatment, that’s really misnaming it. It really means normal trading status.¹⁰³

MFN, as President Clinton jokingly called it, is the “most wrongly worded term in government language”¹⁰⁴, the implication of privilege that the term insinuates is misleading, in fact MFN simply refers to ordinary tariff treatment that the US extends to virtually all nations.¹⁰⁵ However, due to the Jackson-Vanik amendment

¹⁰³ W. J. Clinton, *Radio Address of the President to the Nation*. From the White House web site - <http://www.whitehouse.gov>. Date last accessed: 10 May 1998.

¹⁰⁴ W. J. Clinton, *Remarks by the President to Business Roundtable*, White House Press Release, 12 June 1997. From the White House web site - <http://www.whitehouse.gov>. Date last accessed: 4 July 1998.

¹⁰⁵ *China: Trade Aspects of Most Favoured Nation (MFN) Treatment*, Fact Sheet Released by the Bureau of Public affairs, U.S. Department of State, 17 June 1997. From the US State Departments web site - http://www.state.gov/www/regions/eap/fs-trade_asp_china_970617.html. Date last accessed: 4 July 1998.

to the Trade Act of 1974, all non-market economies have to be determined by the President not to be restricting immigration¹⁰⁶—an amendment inserted in order to pressure the then Soviet Union to allow unfettered immigration of Russian Jews to Israel, and the West in general. The Presidential determination regarding freedom of emigration is a statutory requirement that has to be made every year.

In the case of the PRC, there are a number of issues that adversely effect normal trade relations, these issues include, but are not restricted to:

China's human rights practices, its transfer of technology to developing countries for arms production, and its alleged unfair trade practices.¹⁰⁷

As Rondinelli point out, it is the *perception* that exists in the US over the PRC's unwillingness to confront and solve some of the more contentious bilateral issues that have led to calls from Congress to revoke the PRC's MFN status. Rondinelli further elucidates on this point by suggesting that for the US, actual PRC actions on trade and human rights issues count for more in combating the negative perception that the PRC has than any "formal declaration, promises or statement of intent"¹⁰⁸ that the PRC might make on issues of contention. Rondinelli concludes that:

if American companies and government officials continue to perceive difficulties in engaging in trade with China or become convinced that China will not significantly open its domestic markets...they will insist on retaliatory measures and trade restriction.¹⁰⁹

The effects of trade restrictions, in the form of revocation of MFN status for the PRC—the most likely US action—have been estimated by the US government to

¹⁰⁶ *The President Renews MFN Status for China*, Statement by the Press Secretary, White House Press Release, 31 May 1996. From the White House web site - <http://www.whitehouse.gov>. Date last accessed: 4 July 1998.

¹⁰⁷ Rondinelli, *Expanding Sino-American Business and Trade*, p 17.

¹⁰⁸ *Ibid.*, p 19.

¹⁰⁹ *Ibid.*, p 18.

be as follows—incidentally, the following should also underline the importance of renewing MFN status for both the US and the PRC. It has been estimated that the failure to renew MFN would, on the top 25 dutiable imports from the PRC, raise US duty from approximately 8.7 percent to more than 50 percent—at that rate most goods from the PRC would no longer be competitive in the US market.¹¹⁰ As for the effects of MFN revocation on the US, far from helping to reduce the trade deficit, as argued by many proponents of revocation, it has been pointed out by the Administration that the US\$12 billion that the US exports to the PRC—that supports approximately 170,000 US jobs—would be almost certainly a casualty of PRC counter-sanctions.¹¹¹ Considering that both sides have much to gain by maintaining normal trade relations, the question arises—why has the 1990s seen so much bitter fighting in the US over MFN?

One of the main causes of the MFN problem originates in the events of 4 June 1989, in Tiananmen Square. The events of 4 June divided US policy makers on US PRC policy. The Administration, led by President Bush, maintained that while the actions of the PRC must be condemned in the strongest possible way, only further engagement with the PRC would lead to eventual political change in the PRC. Conversely, Members of Congress maintained that the actions of the PRC indicated that it was not prepared to accept US values as given, and should, therefore be punished—and the best weapon at hand was MFN status. Candidate Clinton repeatedly stated that one of his policies towards the PRC would be the linking of its human rights behaviour to its trade status.

¹¹⁰ Rondinelli, *Expanding Sino-American Business and Trade*, p 17.

¹¹¹ Eizenstat, (Under Secretary of State for Economic and Business Affairs) *Normal Trade with China*. From the State Departments web site - <http://state.gov/www/issues/economic/china970617.html>. Date last accessed: 22 June 1998.

In May of 1993, President Clinton announced a new trade policy towards the PRC, that was to be based on “a resolute insistence upon significant progress on human rights in the PRC”.¹¹² Executive Order #12850 issued by President Clinton on 28 May 1993 stated that the renewal of MFN status for the PRC in 1994 would depend on a Secretary of State report on human rights advances in the PRC during the intervening year.¹¹³ In effect, President Clinton linked, by Executive Order, the PRC’s MFN status to its human rights behaviour. This particular policy did not last long, as MFN was de-linked by President Clinton the next year. From then on, the yearly debate over the renewal of MFN, required by the Jackson-Vanik amendment, has become an opportunity for opponents of MFN for the PRC to pressure the President to withhold MFN, mostly due to human rights violations by the PRC. Alas, President Clinton has consistently renewed MFN for the PRC throughout his Presidency.

The second part of this section deals with the role of Hong Kong in the US-PRC MFN debacle. Hong Kong, due to its position as an entrepôt serving both the US and the PRC's markets is in a very vulnerable position. As President Clinton elucidates:

The Hong Kong government estimates that our revocation of normal trade status would cut Hong Kong’s growth in half, double unemployment by eliminating up to 85,000 jobs, and reduce its trade by as much as \$32 billion.¹¹⁴

Besides the obvious disruption of trade and investment that currently flows

¹¹² W. J. Clinton, *Statement by the President On Most Favoured Nation Status for China*, White House Press Release, 28 May 1993. From the White House web site - <http://www.whitehouse.gov>. Date last accessed: 4 July 1998.

¹¹³ *Conditions for Renewal of Most Favored Nation Status For the People’s Republic of China in 1994*, Executive Order #12850, 28 May 1993. From the White House web site - <http://www.whitehouse.gov>. Date last accessed: 4 July 1998.

¹¹⁴ Clinton, *Radio Address of the President to the Nation*. From the White House web site - <http://www.whitehouse.gov>. Date last accessed: 10 May 1998.

through Hong Kong to both the US and the PRC, any disruption of normal trade status in the years leading up to the handover of sovereignty would have resulted in a massive abandonment by the middle class of Hong Kong, as well as the almost certain decline in business confidence in the territory as a viable financial and trade center.¹¹⁵ Furthermore, as Hartland-Thunberg points out:

roughly 16% of Hong Kong's GDP is in the range of vulnerability and could be affected to some degree by a change in China's MFN status.¹¹⁶

Besides the negative effects that revocation of MFN status would have had on Hong Kong's economy, it is worthwhile pointing out, as Madeleine Albright has done, that Taiwanese investment—worth approximately US\$20-US\$30 billion—would also be jeopardised.¹¹⁷

Hong Kong Governor Chris Patten, a long-time supporter of MFN status for the PRC, has argued against the linking of MFN to human rights as early as 1993, arguing that trade should not be used as a weapon. Patten maintained that by reducing trade contacts, “you reduce your communication and your ability to influence”.¹¹⁸ Even Martin Lee QC., the leader of the Hong Kong Democratic Party, joined in the chorus of people calling for the renewal of MFN for the PRC, stating that:

¹¹⁵ *Hong Kong and Normal Trading Status for China*, Fact Sheet released by the Bureau of East Asian and Pacific Affairs, U.S. Department of State, 20 June 1997. From the US State Department web site - http://www.state.gov/www/regions/eap/fs-hk_trade_china_970620.html. Date last accessed: 4 July 1998.

¹¹⁶ P. Hartland-Thunberg, (Ed.), *Hong Kong in the MFN Debate: CSIS Project on Democracy, Prosperity and Stability in the Future of Hon Kong and East Asia*, The Center for Strategic and International Studies, Washington D.C., 1992, p 1.

¹¹⁷ M. K. Albright, (Secretary of State), *China MFN*, Statement before the Senate Finance Committee, Washington, D. C., 10 June 1997. From the State Departments web site - <http://secretary.state.gov/www/statements/970610.html>. Date last accessed: 4 July 1998.

¹¹⁸ R. Buckley, *Hong Kong: The Road to 1997*, Cambridge University Press, Cambridge, 1997, p 138.

the Democratic Party has always strongly supported renewal of MFN for China unconditionally.¹¹⁹

Despite the call for the renewal of MFN for the PRC from Hong Kong's leading democratic leaders, there were some in Congress who advocated using MFN as a leverage to protect Hong Kong's autonomy after 1997.¹²⁰ This approach, in typical Patten style, was rejected by the Hong Kong Governor when he bluntly stated that:

I hope that anybody who thinks that would actually be helpful will take it from the Governor of Hong Kong that it certainly wouldn't.¹²¹

Instead, Chris Patten recommended to Congress that:

Unconditional renewal of China's MFN status for a full year is the most valuable single gift the United States can present to Hong Kong during the handover period¹²²

The complex arguments and their final outcome was perhaps best summarised by the former Secretary of State, Warren Christopher, when in a speech to the Asia Society he bluntly stated that the revocation or conditioning of MFN would not improve the human rights situation in the PRC. The conditioning or revocation of MFN would cause harm to not only the US economy, but also to Hong Kong's and Taiwan's economy as well. The linkage would also work to undermine US

¹¹⁹ Eizenstat, (Under Secretary of State for Economic and Business Affairs) *Normal Trade with China*. From the State Departments web site - <http://state.gov/www/issues/economic/china970617.html>. Date last accessed: 22 June 1998.

¹²⁰ A. P. Larson, (Assistant Secretary for Economic and Business Affairs), Remarks before the U.S.-China Business Council, Washington, D.C., 5 June 1997. From the US State Department web site - http://www.state.gov/www/regions/eap/970605_larson_china.html. Date last accessed: 4 July 1998.

¹²¹ Buckley, *Hong Kong: The Road to 1997*, p 138.

¹²² Clinton, *Radio Address of the President to the Nation*. From the White House web site - <http://www.whitehouse.gov>. Date last accessed: 10 May 1998.

strategic goals in the Asia region—such as non-proliferation, and the resolution of the problems on the Korean Peninsula among others.¹²³

As an appendix to the MFN debate in late June 1998, President Clinton told the Los Angeles Times in an interview that he wants to grant the PRC permanent unconditional MFN status, and that he may propose legislation in Congress upon his return from his state visit to the PRC. President Clinton is quoted remarking that the annual debate over the PRC's MFN status does not “serve a particularly useful purpose”.¹²⁴

From the conditioning of MFN in 1993, in the short space of five years, President Clinton has come full circle on the issue of MFN. The question that remains (unanswered) is whether the President's decision stems from a belief that increased contacts with the PRC will lead to a change in the regime's handling of human rights—this being the argument used by the Administration—or whether the decision to renew MFN was taken out of economic expediency, with no regard for humanitarian issues.

Conclusion

Hong Kong, in the years leading up to the handover of sovereignty, has provided a very clear example of how the US manages the sometimes conflicting interests that it has in the economic and political arenas. There are a number of observations that can be made regarding US behaviour that give some indications

¹²³ W. Christopher, (Secretary of State), *American Interests and the U.S.-China Relationship*, Speech to the Asia Society, New York, 17 May 1996. From the US State Departments web site - <http://www.state.gov/www/current/debate/96517qa.html>. Date last accessed: 4 July 1996.

¹²⁴ *Clinton Wants to Grant Beijing Permanent MFN Status*, Article 1 in *China News Digest*, 22 June, 1998. Received via e-mail from cnd-editor@cnd.org, 22 June, 1998.

as to how the US had tried to resolve conflicts between economic and political goals. However, first, it must be emphasised again that US policy towards Hong Kong (and indeed US policy towards Taiwan) has to be viewed in light of US policy goals towards the PRC. In the area of trade, especially in Hong Kong, the two policies appear to be inseparable.

The overall US approach to the management of their sometime differing political and economic goals can perhaps best be described as pragmatic. The linkages between economic and political interests are recognised by the US and acted upon. Perhaps one of the best example of this is the US approach to emphasising autonomy in Hong Kong after 1997. The US interest was in Hong Kong's maintaining autonomy both in economic and political terms. Thus the US actively promoted the importance of economic autonomy, knowing it to be inseparable from political autonomy. The threat to withdraw from normal trade in Hong Kong if the territory loses its autonomy acts to discourage PRC political meddling in the territory for fear that such meddling would be viewed by the US as economic intervention.

Overall, although US rhetoric constantly gave prominence to political interests, when a clear conflict of interests arose between economic and political goals, economic interests tended to prevail. By the 1990s any security interests that the US has had in the territory had been discounted, as these concerns were small (compared to Taiwan) and as there was no realistic method for the US to continue addressing these concerns after 1997. The idea that the US would fight a war with the PRC in order to maintain its interests in political order in the territory seems unthinkable.

The US instead choose to concentrate on the protection of its economic and political interests, especially after the arrival of Governor Patten and the emergence of a local pro-democracy camp. In protecting its political and economic interests, the US focused on issues that were mutually reinforcing, such as the rule of law and freedom of expression. The fact that both of these features are a requirement for a modern economic and financial center were emphasised continuously. Thus the political interests of the US were partly argued in economic terms, which made it more acceptable for the PRC. After all, to accept that the maintenance of a credible law-based system of justice is a result of US pressure over human rights would be a serious loss of face for the PRC, while the acceptance that rule of law was required to fulfil the territories present and future economic potential does not entail the same loss of face for the leaders of the PRC.

PART 3
REVISITING RECOGNITION:
1995-1997

Chapter 5

Hierarchy of Interests Under Threat:

The Aftermath of the Lee Visit, 1995-1997

Chapter 2 traced the evolution of the hierarchy of interests in the “one China” policy that the US had pursued since the 1970s. This Chapter updates that analysis to the end of 1997 and builds on the closer examination of US interests and policy in Hong Kong in Chapters 3 and 4. The Chapter is divided into three sections, each devoted to the examination of one particular set of US interests related to Taiwan and the “one China” policy in the period after President Lee Teng-hui’s US visit in 1995. The first section examines US political interests, the second section examines US economic interests, and the third investigates US strategic interests, with special reference to the 1996 missile crisis.

Political Interests

Taiwanese President Lee Teng-hui's visit to the United States in 1995 had a detrimental effect on US-PRC, as well as PRC-Taiwan relations. The US began to focus not on issues of convergence with the PRC—such as strategic opposition to the Soviet Union—but on issues of divergence—such as human rights, trade, and Taiwan's international status. Although the US constantly and consistently re-confirmed to Beijing that the basic principles of the “one China” policy were

unchanged, Beijing regarded the Lee visit as a clear breach of the understandings arrived at in the three communiqués.

Since 1949, the United States had one fundamental, overriding interest in the Taiwan Strait—the avoidance of military conflict between the PRC and Taiwan. As expressed by Lord, the core of the US PRC policy is "peace in the Taiwan Strait".¹ The framework that governed US-PRC-Taiwan relation since the 1970s—the so called "one China" policy—came under increasing political pressure during the late 1980s and the early 1990s, culminating in the 1995-1996 crisis in the Taiwan Strait. An important prelude to the serious events of 1996 was the release of the Clinton Administration Taiwan policy review in 1994. The policy review attempted to strike a balance between Taiwan's growing desire for contact with high-level US officials and the need to placate Beijing's demands that the US does not deviate from its "one China" policy.² While the policy review reiterated that the US does not support independence for Taiwan, nor does it support Taiwanese entry into the United Nations, the entry of Taiwan into international organisations where issues of sovereignty are of secondary importance—such as the WTO—are explicitly supported. The review also specifically allowed Taiwanese top leaders to "transit" in the United States, although visits were still forbidden. The major changes espoused by the review are in the commercial area.

In effect the:

¹ W. Lord, (Assistant Secretary for East Asian and Pacific Affairs), *The United States and the Security of Taiwan*, Statement before Subcommittee on East Asia and the Pacific, Senate Foreign Relations Committee, Washington D. C., 7 February 1996. From the US State Departments web site - http://www.state.gov/current/debate/mar96_china_us_taiwan.html. Date last accessed: 4 July 1996.

² P. Simon, (US Senator, Illinois, (D)), *The Costs of Overlooking the Other China*, US Senate, 30 November 1994. From the Library of Congress web site - <http://thomas.loc.gov>. Date last accessed: 4 July 1998.

Key adjustment in the policy is [was] to boost the octane of Washington's backing of U.S. corporate interests in Taiwan.³

In effect, the Administration attempted to draw a clear distinction between high-level officials who had commerce related portfolios, as opposed to political or military related ones. The name of the office representing the Taiwanese government in Washington was also changed from the "Coordinating Council for North American Affairs" to "Taipei Economic and Cultural Representative Office". As all of these changes were minor, and simply brought the US policy in line with other countries, Beijing's objections were perfunctory in tone.⁴

Following the release of the policy review, there were a number of important events that contributed to the disturbance in the established hierarchy of US interests, leading up to the tensions that erupted in the Taiwan Strait in 1995-1996. Perhaps the four events of political significance that had the largest impact on US policies and perceptions were: 1) the Tiananmen Square incident; 2) the democratisation of Taiwan; 3) the reaction of the US Congress to Lee Teng-hui's Hawaiian stay-over—or more correctly, lack of a Hawaiian stay-over; and 4) Lee Teng-hui's actual visit to the US in 1995. These four issues will be briefly examined below, followed by an examination of the effects on the US hierarchy of interests as well as on US policy and policy makers.

The Tiananmen incident had a very straightforward effect on Sino-US relations. Simply, it drained all “public warmth” from the relationship immediately, making it almost impossible for any Administration to pursue

³ Ibid.

⁴ Simon, *The Costs of Overlooking the Other China*, US Senate, 30 November, 1994.

normal diplomatic relations with the PRC.⁵ Furthermore, the largely routine Congressional approval of the Administration's PRC policy that existed before was also brought to an end, as US PRC policy making became increasingly confrontational, as opposed to consensual, within US foreign policy formulating circles.⁶ PRC policy, in the words of C. W. Freeman Jr.,⁷ became a "theme park for the human rights advocates and the Dalai Lama's followers".⁸ The cruel, undemocratic manner in which the Beijing demonstrations were dealt with was in sharp contrast to events unfolding across the Taiwan Strait.

In Taiwan, the local elections that the KMT allowed in the 1950s had expanded slowly into national elections by the mid to late 1980s.⁹ The Taiwanese Parliament had become fully elected in December of 1991, and the first ever Presidential elections were scheduled and held in March of 1996.¹⁰ The Presidential elections were the first in 5000 years of Chinese history where the leader of a Chinese society was chosen by the ballot box. US perceptions, as expressed by Lord, were that the 1996 Presidential elections capped "Taiwan's transition to democracy".¹¹ As Vogel points out, the change towards democracy in

⁵ B. Gellman, (Washington Post Staff Writer), *Reappraisal Led to New China Policy: Skeptics Abound, but U.S. 'Strategic Partnership' Yielding Results*, Second of Two Articles. Washington Post, 22 June 1998, Page A01. From the Washington Posts web site - <http://www.washingtonpost.com>. Date last accessed: 22 June 1998.

⁶ Joint Economic Committee, Congress of the United States, (Ed.), *China's Economic Future: Challenges to U.S. Policy*, M. E. Sharpe, New York, 1997, p 516.

⁷ Former deputy chief of US mission in Beijing, and President Clinton's first assistant secretary of defense for international security affairs.

⁸ Gellman, *Reappraisal Led to New China Policy: Sceptics Abound, but U.S. 'Strategic Partnership' Yielding Results*.

⁹ C. L. Chiou, *Democratizing Oriental Despotism: China from 4 May 1919 to 4 June 1989 and Taiwan from 28 February 1947 to 28 June 1990*, St. Martin's Press, New York, 1995, p 90.

¹⁰ *Chronology of Taiwan's March to Democracy*, Taipei, 22 March 1996. From the Taiwan Research Institute web site - <http://www.taiwaninformation.org/lee/democracy/democ.html>. Date last accessed: 4 July 1998.

¹¹ Lord, *The United States and the Security of Taiwan*, Washington D. C., 7 February, 1996.

Taiwan, especially since it occurred during the time of a change for the worse in the PRC, created a “greater affinity” in the United States for Taiwan.¹²

The democratisation of Taiwan, together with its ever growing economy, led to the seeking of increased official contact with other countries, as well as a quest on behalf of the Taiwanese government for international recognition—which led to the third event that exerted a significant influence on US politics. In 1994, Taiwanese President Lee Teng-hui’s plane was re-fuelling in Hawaii, en-route to a state visit to Central America. However, Lee Teng-hui’s request for a transit visa was refused by the Clinton Administration, thus forcing the Taiwanese President to remain on the plane throughout his Hawaiian stopover.¹³ This “strict application”¹⁴ of US law was seized upon by supporters of Taiwan, with many Members of Congress pointing out that the US policy was, among other things, “absolutely ridiculous”.¹⁵ It was further pointed out by Congressional supporters of Taiwan that during the same trip, “on his way back from his triumphant trip for democracy” President Lee was met with honor by the Prime Minister of Singapore Goh Chok Tong among other leaders, both in Asia and in Central America.¹⁶

The fourth and possibly the most important event during the mid 1990s that had a profound effect on US policy was the visit of Taiwanese President Lee Teng-hui to the United States in 1995. President Lee’s private visit to the reunion at Cornell University, his alma mater, was allowed by the Clinton Administration

¹² E. F. Vogel, (Ed.), *Living With China: U.S.-China Relations in the Twenty-first Century* W. W. Norton & Company, New York, 1997, p 71.

¹³ J. W. Garver, *Face Off: China, the United States, and Taiwan’s Democratisation*, University of Washington Press, Seattle, 1997, p 38.

¹⁴ *Ibid.*, p 38.

¹⁵ F. H. Murkowski, (US Senator, Alaska, (R)), *Taiwan Policy*, US Senate, 21 July 1994, Congressional Records, Page S9337-S9341. From the Library of Congress web site - <http://thomas.loc.gov>. Date last accessed: 4 July 1998.

only after immense Congressional pressure, which included a measure, passed by both the House of Representatives and the Senate, calling for a visa to be issued to President Lee¹⁷ (the vote in the US House of Representatives was 396 to 0, and in the US Senate 97 to 1 for a visa to be issued).¹⁸ The outrage of the PRC was further fuelled by the fact that a bare two weeks prior the visa being issued, Secretary of State Christopher assured his PRC counterpart that a visa would not be granted. The PRC's response was swift, and consisted of breaking off routine bilateral talks with the US, the withdrawing of the PRC's ambassador from the US and the postponing of several scheduled high-level visits.¹⁹

The importance of the US decision to allow Lee Teng-hui to visit the US in 1995 should be viewed in the larger context of US-PRC relations at that time. According to the PRC's beliefs the United States, since the 1989 incident, has been pursuing a policy consisting of opposition to the "rising power of the PRC under Beijing's communist system" and therefore in line with this policy, has been taking actions to "weaken and hold down China".²⁰ These actions included stronger US support for both Hong Kong and Taiwan, restrictions on the sale of military related technology to the PRC, strong US pressure on the PRC's trade practices and constant warnings against the PRC's assertiveness in the Asia region.²¹ The visit of Lee Teng-hui to the US simply re-iterated to the PRC that

¹⁶ Ibid.

¹⁷ Joint Economic Committee, *China's Economic Future: Challenges to U.S. Policy*, p 516-517.

¹⁸ B. Gellman, (Washington Post Staff Writer), *U.S. and China Nearly Came to Blows in '96: Tension Over Taiwan Prompted Repair of Ties*, First of Two Articles, Washington Post, 21 June 1998, Page A01. From the Washington Posts web site - <http://www.washingtonpost.com>. Date last accessed: 22 June 1998.

¹⁹ Joint Economic Committee, *China's Economic Future: Challenges to U.S. Policy*, p 516-517.

²⁰ R. G. Sutter, "China Policy: Crisis Over Taiwan, 1995—A Post-Mortem", *CRS Report for Congress*, The Library of Congress, December 5, 1995, p 2-3.

²¹ Ibid., p 3-4.

their belief regarding US policy objectives was true, despite repeated US assurances to the contrary.

Furthermore, President Lee's US visit was interpreted by the PRC as "a step towards independence",²² and thus unacceptable to Beijing. Perhaps to reinforce its message, Beijing held a series of military exercises, including the firing of surface to surface missiles into the ocean 100 miles north of Taiwan.²³ The next year, in 1996, during the scheduled Taiwanese Presidential elections which Lee Teng-hui won, the PRC again held a number of military exercises, including firing of nuclear capable M-9 missiles into the ocean around Taiwan. The PRC also carried out extensive live-fire exercises in Fujian Province (opposite to Taiwan) with mock amphibious assaults on Haitan Island—where the topography is similar to that of Taiwan. The US response was to reiterate their position that the Taiwan Strait problems should be solved peacefully, and backed up their commitments²⁴ to Taiwan by sending two carrier groups into the area.²⁵

Despite the scale of the PRC's military maneuvers neither the Administration nor Congress was under the impression that a PRC attack on Taiwan was imminent. As Senator Murkowski stated bluntly during Senate debates:

²² Lord, *The United States and the Security of Taiwan*, Washington D. C., 7 February, 1996.

²³ Ibid.

²⁴ The American political commitment to the security of Taiwan is grounded in the 1979 Taiwan Relations Act. Section 2(b)(2) of the Act clearly states that "peace and stability in the area are in the political, security and economic interests of the United States", the Act goes further in Section 2 (b)(3) by stating that the American decision to establish diplomatic relations with the People's Republic of China "rests upon the expectation that the future of Taiwan will be determined by peaceful means". See Section 2 (b)(2) and 2(b)(3) of the *Taiwan Relations Act*, Public Law 96-8, 96th Congress, From the American Institute in Taiwan web page—<http://ait.org.tw/ait/tra.html>. Date last accessed: 4 July 1998.

²⁵ Gellman, *U.S. and China Nearly Came to Blows in '96: Tension Over Taiwan Prompted Repair of Ties*.

I do not believe that China is on the verge of attacking Taiwan²⁶

This sentiment was also echoed by numerous Administration officials, including Winston Lord, the Assistant Secretary for East Asian and Pacific Affairs.²⁷ Instead of seeing the PRC's exercises as a real short-term threat to the survival of Taiwan—although the missile tests did show that the PRC is able to disrupt normal trade²⁸—the tests were seen as a reaction to the emergence of Taiwanese democracy. As Sigur writes:

What the People's Republic sees across the Strait is a China whose people are ready to choose their own leaders, with all the demands that makes on a political system...Beijing is not prepared to accept this model in Taiwan or on the mainland.²⁹

Whatever the reason behind the PRC's military actions, the ferocity of the PRC's reaction to Lee Teng-hui's US visit and the Presidential elections in Taiwan took many observers in the US by surprise.³⁰ The realisation that the PRC was prepared to enter into a costly conflict with the US over Taiwan led to the re-appraisal of US policy towards the PRC by the Administration, as well as the realisation by Members of Congress that there is a need to "pull back" on Taiwan related issues.³¹

²⁶ F. H. Murkowski, (US Senator, Alaska, (R)), US Senate, 21 March 1996, Congressional Records, Page S2623-S2624. From the Library of Congress web site - <http://thomas.loc.gov>. Date last accessed: 4 July 1998.

²⁷ Lord, *The United States and the Security of Taiwan*, Washington D. C., 7 February 1996.

²⁸ *To provide structure for and introduce balance into a policy of meaningful engagement with the People's Republic of China*, United States Senate, 105th Congress, 1st Session, S. 1083., 29 July 1997. From the Library of Congress web site - <http://thomas.loc.gov>. Date last accessed: 4 July 1998. Section 101 (8).

²⁹ C. J. Sigur, *Why Taiwan Scares China*, as printed in the Congressional Record, 21 March 1996, Page S2624-2625. From the Library of Congress web site - <http://thomas.loc.gov>. Date last accessed: 4 July 1998.

³⁰ Sutter, "China Policy: Crisis Over Taiwan, 1995—A Post-Mortem", p 2-3.

³¹ *Ibid.*, p 10-11.

The tension between the US and the PRC that peaked during the 1996 March Taiwanese Presidential elections marked the turning point for both the US and the PRC governments. A serious attempt was made by both sides to move their relationship away from one of escalating conflict, and to focus on a "strategic partnership" instead. As Secretary of State at the time, Warren Christopher, elucidated:

I sense that after the train wreck, we are both struggling to put the cars back on track...The relationship [between the US and China] might have bottomed out.³²

The US policy of "strategic engagement" was encapsulated in the 1997 the China Policy Act passed by Congress on the 11th of September, 1997. The Act emphasises that while it is in the US interest to "encourage freedom and democracy" in the PRC, the US also strongly supports the "integration of the People's Republic into the community of nations".³³ The Administration expressed support for the underlying principles of the Act, and also took the opportunity to re-iterate the US commitment to the "one-China" policy.³⁴

Economic Interests

³² Gellman, *U.S. and China Nearly Came to Blows in '96: Tension Over Taiwan Prompted Repair of Ties*.

³³ See Section 2, *To state a policy of the United States that engages the People's Republic of China in areas of mutual interest, promotes human rights, religious freedom, and democracy in China, and enhances the national security interests of the United States with respect to China, and for other purposes*, United States Senate, 105th Congress, 1st Session, S. 1164., 11 September 1997. From the Library of Congress web site - <http://thomas.loc.gov>. Date last accessed: 4 July 1998.

³⁴ Roth, S. O., (Assistant Secretary for East Asian and Pacific Affairs) *U.S.-China Relations and the China Policy Act of 1997*, Statement on U.S.-China Relations and the China Policy Act of 1997, Before the Senate Committee on Foreign Relations, 17 September 1997, Washington D. C. From the US State Departments web site - http://www.state.gov/www/policy_remarks/970917_roth_china.html. Date last accessed: 30 July 1998.

There are a number of economic interests that the United States has in Taiwan. The first draws from the standing of Taiwan in the international economy of the 1990s, and this is the first issue that will be examined. This will be followed by a closer investigation of the US stake in Taiwan—both in terms of trade and investment. This section will also present a brief comparison between US-PRC and US-Taiwan trade. A third factor that poses a threat to US economic interests in Taiwan is the role that the PRC plays in the Taiwanese economy. The last section will scrutinize how the US pursued its economic interests in Taiwan in the latter half of the 1990s, with attention being paid to US views on Taiwanese participation in international trade regimes.

The economic achievements of Taiwan are remarkable, in just two decades a "feudal, agricultural, sleepy community" was converted into a "modern industrial state".³⁵ Since the 1950s, Taiwan has experienced impressive growth, with average annual GDP growth of 8%. This has produced a reduction in inequalities, insignificant unemployment and a significant increase in the educational level of the people of Taiwan.³⁶ In 1997, Taiwanese GDP reached US\$283.6 billion, with per capita GNP of US\$13,233. The economic growth rate, despite the overall downturn in Asia, was a respectable 6.81%, with the unemployment rate an enviable 2.72% overall. The total trade volume of Taiwan was US\$236.5 billion, of which exports were US\$122.1 billion and imports were US\$114.4 billion. Taiwan's major export markets, in order, were the United States

³⁵ Hartland-Thunberg, P., *China, Hong Kong, Taiwan and the World Trading System*, MacMillan Ltd., London, 1990, p 117.

³⁶ Dessus, S., Shea, J., and Shi, M., *Chinese Taipei: The origins of the Economic "Miracle"*, Development Centre Studies of the Organisation for Economic Co-operation and Development, OECD, 1995, p 9.

(with 24.2%), Hong Kong (with 23.5%—see part three later in this section) and Europe (with 15.1%). The major suppliers of goods to Taiwan were, in order, Japan (with 25.4%), the US (with 20.3%) and Europe (with 18.9%). The foreign exchange reserves of the island stood at US\$84.03 billion in January 1998.³⁷ Furthermore, Taiwan's economy was one of the eight economies worldwide that the Heritage Foundation classified as "free" in its 1997 Index of Economic Freedom.³⁸

Overall, in 1995 Taiwan's GNP ranked 19th in the world, with its per capita income 25th overall in the global economy. Taiwan's total trade volume accounted for 2% of the world's total trade, ranking Taiwan the 14th in the world overall, with its exports and imports ranked 14th and 15th respectively.³⁹

The second part of this section is devoted to examining US-Taiwan economic relations. First trade, Taiwan is America's 7th largest trading partner,⁴⁰ with annual two-way trade in 1997 exceeding US\$50 billion. Table 5.1 below presents figures showing US exports and imports to and from Taiwan, as well as total trade figures between the two countries.

³⁷ *The Economy*, From the Republic of China Government Information Office web site - http://www.gio.gov.tw/info/nation/en/glance/ch6_c.htm. Date last accessed: 26 June 1998.

³⁸ *The Economy*, From the Taipei Economic & Cultural Office in New York web site - http://www.taipei.org/info/yb97/ch10_p.htm. Date last accessed 26 June 1998.

³⁹ *Current Status of Economic Development*, From the Ministry of Economic Affairs web site - http://www.moef.gov.tw/~meco/Intro_e/xmoe1.htm. Date last accessed: 26 June, 1998.

⁴⁰ Shirk, S. L., (Deputy Secretary for East Asian and Pacific Affairs), *The United States and Taiwan*, Testimony before the House International Relations Committee, Washington D. C., 20 May 1998. From the State Departments web site - http://www.state.gov/www/policy_remarks/1998/980520_shirk_taiwan.html. Date last accessed: 4 July 1998.

Table 5.1—US Exports/Imports to/from Taiwan and Total Trade between the US and Taiwan, 1991-1997 (US\$ Billion)⁴¹

Year	1991	1992	1993	1994	1995	1996	1997
Ex⁴²	13.1	15.2	16.1	17.1	19.2	18.4	20.3
Im⁴³	23	24.6	25.1	26.7	28.9	29.9	32.6
TT⁴⁴	36.1	39.8	41.1	43.8	48.1	48.3	52.9

There are two general observations that can be made immediately from the above figures. First, that the trend of trade between the two countries is an increasing one, for both exports and imports. Overall total trade between Taiwan and the US increased by 46.5% between 1991 and 1997. Second, that the US has a continuing trade deficit with Taiwan, although not of the magnitude of that of the US trade deficit with the PRC.

The commodity composition of US exports to Taiwan for 1996, the last year that comprehensive data is available for, show that the four largest groups of commodities exported to Taiwan were: machinery and transport equipment—US\$9 billion; chemicals and related products—US\$ 2.3 billion; food and live animals—US\$1.8 billion; and crude materials (excluding fuels)—US\$1.6 billion. A further breakdown of commodities shows that the top goods exported were: thermionic, cold cathode and photocathode valves—US\$2.9 billion; aircraft and associated equipment—US\$1.1 billion; and unmilled maize—US\$962 million. The breakdown of US imports from Taiwan present a very different view. Here, the largest group of commodities were: machinery and transport equipment—US\$18.1 billion; miscellaneous manufactured items—US\$6.7 billion; and

⁴¹ Raw data from the US Department of Commerce, International Trade Administration web site - <http://www.ita.gov/industry/otea/usfth/t06.prn> and <http://www.ita.gov/industry/otea/usfth/t07.prn> Date last accessed: 13 May 1998. Calculations mine.

⁴² US Export to Taiwan.

⁴³ US Imports from Taiwan.

⁴⁴ Total Trade

manufactured goods classified by material—US\$3.7 billion. The further breakdown of commodities shows that the top goods imported from Taiwan were: automatic data processing machines—US\$4 billion; parts for office machinery—US\$3.8 billion; and differing valves—US\$3 billion.⁴⁵ The above categories of goods imply that the majority of US exports to Taiwan are raw materials—such as food and unprocessed articles, whereas, the majority of US imports from Taiwan are processed goods—such as data processing machines and other assorted manufactured items.

US direct investment in Taiwan had reached US\$4.5 billion in 1996. By far the largest portion of US investment in Taiwan is aimed at the manufacturing sector with US\$2.7 billion invested in 1996. Within the manufacturing sector, chemicals products and electronic equipment were the two largest recipients of US investment with US\$1.2 and US\$1.1 billion invested respectively in 1996. US investment in the banking sector was US\$575 million, in finance US\$243 million and in services US\$158 million.⁴⁶ Since 1996 the Taiwanese authorities have slowly relaxed restrictions on investment in a number of key areas, including petroleum refinement, coal cooking and a number of value-added network services. Nevertheless, a number of areas including agriculture, basic wire-line telecommunications, and broadcasting still have prohibitions against foreign investment.⁴⁷

⁴⁵ Data from the US Department of Commerce web site - <http://www.ita.doc.gov/industry/otea/usfth/taiwan.e-i>. Date last accessed: 23 June 1998.

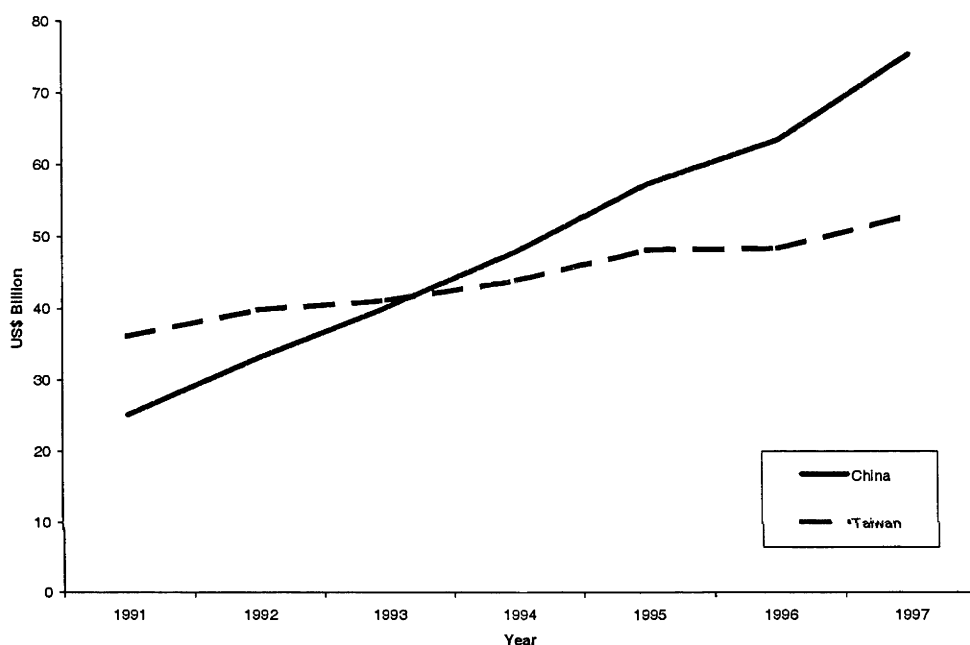
⁴⁶ *Taiwan: Economic Policy and Trade Practices Report (1997)*, Department of State Report to the Senate. From the US State Departments web site - http://www.state.gov/www/issues/economic/trade_reports/eastasia97/taiwan97.html. Date last accessed: 4 July 1998.

⁴⁷ *Ibid.*

The following will draw a brief comparison between US-PRC and US-Taiwan trade, in an attempt to illustrate the long-term trend for US economic interests in the PRC and Taiwan.

Figure 5.2 below illustrates the current trend of US total trade with both the PRC and Taiwan.

Figure 5.2—PRC vs. Taiwan—Trends in Total US Trade, 1991-1997.⁴⁸



The trend that emerges from the figure is clearly visible. Total trade with the PRC overtook US total trade with Taiwan in the early 1990s, and the gap between the two trade figures has been widening since. Although it is clear that one of the main reasons for the widening difference between the trade figures is due to the trade deficit that the PRC has with the US, the purpose of the figure is to establish a pattern for the purpose of future predictions. As can be seen in Table 4.4 in Chapter 4, the PRC is importing more goods from the US every year, thus it

⁴⁸ Data for figure from the US Department of Commerce, International Trade Administration web site - <http://www.ita.gov/industry/otea/usfth/t06.prn> and <http://www.ita.gov/industry/otea/usfth/t07.prn>. Date last accessed: 13 May 1998. Calculations mine.

is reasonable to expect that as the PRC's economy modernises—and thus becomes more prosperous—the 1.2 billion people of the mainland will import and use more goods from the US than the 21 million people of Taiwan.

Notwithstanding the above point, as Congressman Smith pointed out, in 1993, the 21million people of Taiwan bought more goods from the US than the 1.2 billion people of the PRC.⁴⁹

The trade figures presented in Chapter 4 (in Table 4.4) as well as in the above figure indicates that sooner, rather than later, the People's Republic of China will become the more significant trade partner of the US, overtaking Taiwan. According to the theoretical framework presented in Chapter 1, this situation (since theoretically, economic interests rate higher than political ones) would lead to the eventual reduction in the willingness of the US to risk economic gains in the PRC for political ones in Taiwan. Whether this will indeed be the case, is of course, at the moment unfathomable.

The third section of this Chapter will examine the cross-Strait trade that has developed since the relaxing of controls by the Taiwanese government in the late-1980s, with special attention to the effects of events in the mid 1990s on cross-Strait trade.

The emerging economic importance of the PRC is not only of interest to the US government, but also to the government of Taiwan. As the two economies become more and more entwined, the harder it will become for Taiwan to

⁴⁹ Simon, *The Costs of Overlooking the Other China*, US Senate, 30 November 1994.

withstand PRC pressure for political unification. Leng explains that Taiwan's economic relationship with the mainland is asymmetric:⁵⁰

Taiwan's economic dependence on China...[has been] on the rise in the past few years.⁵¹

Hsiao and So's study of the Taiwan-Mainland economic nexus attempts to find some reasons for the convergence of the two economies.⁵² The above study points to three major developments that contributed to the exposure of Taiwan's economy to mainland pressures, starting in the 1980s. First, Taiwan faced internal economic problems, such as labour shortages, escalating prices for land and factory sites, and increasingly strict environmental standards. Secondly, Taiwanese exports were coming under increasing pressure from other newly industrialised countries in South East Asia, and finally, in the international sphere protectionism was on the rise, with advanced industrial nations setting up quotas and tariffs on imports.⁵³

The answer to the increasing costs of production in Taiwan was the re-location of factories into the PRC, especially into Fujian and Guangdong provinces. It is interesting to note that as Taiwan's dependence on the mainland has been rising, the trade dependence of Taiwan on the US has been declining:

The value of Taiwan's trade with China, especially exports, will soon surpass that of Taiwan's trade with the United States.⁵⁴

Asserts Leng, and further predicts that without the trade surplus that Taiwan

⁵⁰ T. K. Leng, *The Taiwan-China Connection: Democracy and Development Across the Taiwan Straits*, Westview Press, Boulder, Colorado, 1996, p 119.

⁵¹ *Ibid.*, p 119.

⁵² H. H. M. Hsiao, A. Y. So, *Taiwan-Mainland Economic Nexus: Socio-Political Origins, State-Society Impacts, and Future Prospects*, Hong Kong Institute of Asian-Pacific Studies, The Chinese University of Hong Kong, Hong Kong, 1994.

⁵³ *Ibid.*, p 3.

⁵⁴ Leng, *The Taiwan-China Connection*, p 120.

acquires from the PRC, Taiwan would actually have an overall trade deficit.⁵⁵

The cross-Strait tension of 1995-1996 highlighted the significance of the PRC to the Taiwanese economy. The PRC military exercises affected both consumer and business confidence, and helped to slow Taiwan's growth during the second half of 1995 and again in early 1996. Taiwan's stockmarket fell by 27% in 1995, which made it the worst performing market in Asia. Although the fall in the stockmarket cannot be blamed wholly on the actions of the PRC, that the PRC did have an influence is beyond doubt.⁵⁶

The last part of this section is concerned with US economic policy towards Taiwan in the latter half of the 1990s, especially the US views on Taiwanese participation in international trade regimes.

Since its expulsion from the United Nations in 1971, Taiwan has faced an identity crisis in the international community—the traditional and rigid foreign policy stance of the KMT added to Taiwan's international isolation. However, by the 1980s, Taiwan begun to leave behind some of its more dogmatic 'baggage'. With increasing economic strength, during the last 1980s and early 1990s Taiwan has made participation in international economic structures an urgent priority.⁵⁷

Perhaps the most important international body that Taiwan is currently waiting to join is the World Trade Organisation. However, despite an impressive economic performance by Taiwan during the last few decades, the People's

⁵⁵ Ibid., p 120.

⁵⁶ H. Smith, S. Harris, *Economic Relations Across the Strait: Interdependence or Dependence?*, Pacific Economy Papers No. 264, February, 1997, Australia-Japan Research Centre, Australian National University, Canberra, 1997, pp 3-7.

⁵⁷ D. T. Lee, R. L. Pfaltzgraff, Jr., (Eds.), *Taiwan in a Transformed World*, Institute for Foreign Policy Analysis, Inc., Brassey's, Inc., Washington D. C., 1995, pp 118-119.

Republic—which is not yet a member of the WTO—"has indicated that Taiwan should not join the WTO"⁵⁸ before the PRC does.

Nevertheless, as with the Asian Development Bank, the PRC has indicated that although it would not agree to Taiwan joining the WTO before the People's Republic, it would be prepared to allow Taiwan to join, provided some mutually acceptable arrangement could be developed regarding the name that Taiwan would use. As with the Asian Development Bank, it remains to be seen whether the name "Taipei, China" would be acceptable to both parties. In general, ever since Taiwan first applied to join the WTO in 1990 (then still referred to as GATT), the US policy has been to support Taiwan's bid.⁵⁹ In the 1994 Taiwan policy review, the Administration announced that:

we would support Taiwan's participation in appropriate international organizations where statehood was not a requirement for membership and where Taiwan had contributions to make.⁶⁰

By 1994, Taiwan was already a contributing member of the Asian Development Bank as well as the Asia Pacific Economic Cooperation (APEC) forum. In February 1998, the US and Taiwan completed a bilateral market access agreement, which was viewed by the US as an "important step which moves Taiwan closer to membership" of the WTO.⁶¹

US economic interests in Taiwan, in the long-term, have to be balanced with US economic interests in the PRC. As Figure 5.2 showed, the trend for the

⁵⁸ Murkowski, F. H., (US Senator, Alaska, (R)), *American Policy Towards Taiwan*, 9 March 1998. From the Taiwan Research Institute web site - <http://www.taiwaninformation.org/view/speeches/murkowski030998.html>. Date last accessed: 31 July 1998.

⁵⁹ Lee and Pfaltzgraff, Jr., (Eds.), *Taiwan in a Transformed World*, pp 126-127.

⁶⁰ Shirk, S. L., (Deputy Secretary for East Asian and Pacific Affairs), *The United States and Taiwan*, Washington D. C., 20 May 1998.

⁶¹ *Ibid.*

long term potential of the PRC will, eventually, become more lucrative and therefore more important to the US than Taiwan—though that is not to say that the US would abandon Taiwan simply for economic reasons. With the possible exception of the lapse in relations in 1995-96, the US has been rather skillful in maintaining relatively good economic relations with both sides of the Taiwan Strait. Nevertheless, as the PRC's economy prospers, and the pull that it will exert on Taiwan increases, the government of Taiwan will find it increasingly difficult to avoid making political sacrifices in order to satisfy Beijing's wishes.

Security Interests

US strategic interests in the Taiwan Strait are geared towards war avoidance. As Winston Lord elucidates, "peace in the Taiwan Strait lies at the core" of US strategic interests.⁶² Since the beginning of the recognition procedure in 1972, all US Administrations and Congresses have emphasised that any resolution to the reunification problem had to be a peaceful one. As expressed by Lord:

Our fundamental interest on the Taiwan question is that peace and stability be maintained.⁶³

While US security interests had been pressed into the background with the collapse of the Soviet Union in 1989, the events of 1995 and 1996 brought these interests back into the limelight again. This section will first examine why Taiwan

⁶² Lord, W., (Assistant Secretary for East Asian and Pacific Affairs), *The United States and the Security of Taiwan*, Statement before Subcommittee on East Asia and the Pacific, Senate Foreign Relations Committee, Washington D. C., 7 February 1996. From the US State Departments web site - http://www.state.gov/current/debate/mar96_china_us_taiwan.html. Date last accessed: 4 July 1996.

⁶³ W. Lord, (Assistant Secretary for East Asian and Pacific Affairs), *The United States and the Security of Taiwan*, Testimony before the House International Relations Subcommittee on East

is strategically important to the United States, followed by an overview of the events that led to the reemergence of US strategic interests. The third part will examine an issue that is closely related to the continual military stability of the region—thus fulfilling the US strategic goal of war avoidance—the issue being People's Liberation Army capabilities and US arms sales to Taiwan. The last section will briefly examine US policy in relation to its security interests in the Taiwan Strait.

The strategic importance of Taiwan to the US, and indeed to the PRC as well, lies in its geography. Taiwan lies astride two of the most important shipping channels in the Western Pacific—the Bashi Channel and the Taiwan Strait. Taiwan's geographical position could be used by a major hostile power for a number of disruptive reasons, including: 1) limitation of the sea lines of communications between Japan, Southeast Asia and the Middle East; 2) the projection of military force into the Pacific as well as into Northeast or Southeast Asia; and 3) for the monitoring or disruption of US air and naval transits between Southeast and Northeast Asia.⁶⁴ Furthermore, Taiwan is the third largest island nation friendly to the US in the Western Pacific—after Japan and the Philippines—and with both Subic Bay and Clark airforce base in the Philippines closed and the people of Okinawa lobbying intensely for the removal of US forces, in case of a strategic crisis in the area, Taiwan could be asked to provide adequate logistical support for US forces in the region.

Asia and the Pacific, Washington D. C., 14 March 1996. From the US State Departments web site - http://www.state.gov/current/debate/china_us_taiwan_strait.html. Date last accessed: 4 July 1996.

⁶⁴ M. L. Lasater, *The Taiwan Issue in Sino-American Strategic Relations*, Westview Press, Boulder, Colorado, 1984. p 177.

After the clashes in the Taiwan Strait during the 1950s, US strategic interests declined along with the explicit threat from the PRC. By the early 1990s the prospect of a PRC invasion, to many people, was unthinkable. The response of the PRC to the visit of Taiwanese President Lee Teng-hui to the US brought US security concerns to the forefront again. Beijing's response to the Lee visit was the firing of ballistic missiles in July and August 1995 into waters north of Taiwan—the missile tests were timed to coincide with Parliamentary elections on the island. The following year, on the 5th of March, Beijing announced that it would fire further missiles into the ocean not far from two of Taiwan's major ports⁶⁵—Kaohsiung and Keelung. After the firing of three missiles on the 8th and 9th of March, the PRC announced that large scale live-fire exercises would be held at the southern end of the Taiwan Strait.⁶⁶ The United States responded to this outright challenge to its security interests in the region by dispatching two carrier battle groups to the area in order to "monitor tensions".⁶⁷

Although, in general, both the US Congress and the Administration were of the opinion that Beijing did not have the capability nor the intent of invading Taiwan, the possibility of the situation escalating was a serious threat. As Kissinger in a 1996 newspaper article made clear:

I do not believe that China has any intention of invading Taiwan. But this has the uncomfortable parallel to the outbreak of World War One, where an unfortunate escalation can lead to war.⁶⁸

⁶⁵ G. Austin, *China's Ocean Frontier: International Law, Military Force and National Development*, Allen & Unwin Australia Pty. Ltd., St Leonards, NSW, 1998. p 93.

⁶⁶ *Ibid.*, p 94.

⁶⁷ *Ibid.*, p 94.

⁶⁸ *Kissinger Says Taiwan Invasion Unlikely, Urges Restraint*, Bloomberg Business News, 1996 (exact date not given). From the Nando Times web site - <http://www.nando.net/newsroom/nt/0311chissn.html>. Date last accessed: 4 August 1998.

Despite the expectation on behalf of the US that the PRC would not invade Taiwan, the events of 1996 led to a reappraisal of the PRC's military capabilities as well as defensive weapon sales to Taiwan. The following section will briefly examine these two issues.

First, the PRC's military capabilities. By the US State departments own admission the PRC's military, although undergoing a modernisation program, "do not pose a serious threat" to US forces in the region, nor will they pose a threat "in the foreseeable future".⁶⁹ It is estimated that the PRC's military technology is approximately 30-40 years behind the United States. Although the PRC has recently acquired some advanced weapons systems—such as SU-27 Fighters and Kilo Class submarines—the majority of the PRC's armaments are of 1960s vintage.⁷⁰

In an interesting analysis of the PRC's use of force, Yu concluded that the PRC tends to use force for defensive and for deterrence purposes. He argues that since the inception of the People's Republic, the use of the military by the PRC's leaders has always been cautious and deliberate in execution.⁷¹ Yu argues that:

Military action was taken from a broader political perspective, rather than for narrower military ends—to signal a perceived enemy and to deter it from jeopardizing vital Chinese interests.⁷²

It could certainly be argued that in the case of the 1996 Taiwan Strait maneuvers, the PRC's aim was to signal to the people and leaders of Taiwan that any

⁶⁹ *China's Military Modernization*, Fact Sheet released by the Bureau of Public Affairs, US Department of State, 3 June 1997. From the US State Departments web site - http://www.state.gov/www/regions/eap/fs-china_mil_modern_970603.html. Date last accessed: 4 July 1998.

⁷⁰ Ibid.

⁷¹ B. Yu, "The Study of Chinese Foreign Policy-Problems and Prospects", *World Politics*, 46, January 1996, pp 235-61.

⁷² Ibid., p 239.

movement towards *de jure* independence would not be accepted by the PRC.

One unintended (for the PRC) consequence of the PRC's military action was the re-opening of the question of arms supplies to Taiwan by the United States. The Taiwan Relations Act, in Section 2 (b)(5) and Section 3 (b), sets out the legal basis for the continuation of the supply of defensive weapon systems to Taiwan after the shifting of recognition to the PRC. In effect, Section 2 (b)(5) states that it is the policy of the United States "to provide Taiwan with arms of a defensive character."⁷³ During the last few decades since the transfer of recognition, the US has completed significant transfers of arms to Taiwan—including F-16 fighters, Knox class frigates, helicopters, tanks, and a variety of defensive missiles.⁷⁴ It has been stated repeatedly by both Members of Congress and the Administration that the weapon systems sold to Taiwan by the US are non-offensive in nature, and that they are intended to "constitute a credible deterrent to military action".⁷⁵

The last part of this section is concerned with US policy in relation to its security concerns in the Taiwan Strait. As elaborated before, the US strategic goal in the region is aimed at 'war avoidance'. With the end of the Cold War, and the subsequent collapse of domestic unity behind a single US foreign policy, isolationist tendencies have been creeping into US foreign policy. In a 1995 Harris Poll, in questions related to Taiwan, researchers found that only 22 percent of

⁷³ See Section 2 (b)(5) of the *Taiwan Relations Act*, Public Law 96-8, 96th Congress, From the American Institute in Taiwan web page—<http://ait.org.tw/ait/tra.html>. Date last accessed: 4 July 1998.

⁷⁴ Shirk, S. L., (Deputy Secretary for East Asian and Pacific Affairs), *The United States and Taiwan*, Washington D. C., 20 May 1998.

⁷⁵ Lord, W., (Assistant Secretary for East Asian and Pacific Affairs), *The United States and the Security of Taiwan*, Testimony before the House International Relations Subcommittee on East Asia and the Pacific, Washington D. C., 14 March 1996. From the US State Departments web site - http://www.state.gov/current/debate/china_us_taiwan_strait.html. Date last accessed: 4 July 1996.

Americans believed that the US should defend Taiwan. A similar poll in Taiwan demonstrated that while most of the island's population believed that the US should defend Taiwan, only 39 percent believed that the US would indeed do so.⁷⁶

The implications of the above findings is that the Taiwanese population perceives that the US would accord its security interests—that is war avoidance—a higher priority than its political interests—that is the supporting of democracy—in the Taiwan Strait.

Despite the above statistics, both the Administration and Congress have repeatedly reiterated that the US would find any military action against Taiwan unacceptable. The United States, through the Taiwan Relations Act is committed to the security of Taiwan. The rhetoric, and actions of the US during the 1996 missile crisis showed that where the security interests of the US are threatened, the United States will take appropriate action.⁷⁷

Conclusion

US interest in the political order of Taiwan came to the forefront as the island underwent political democratisation. The democratisation of Taiwanese society in the early to mid 1990s, culminating in the first Presidential elections in 1996, had elevated the political status of Taiwan in the hierarchy of US interests in Greater China. The affinity that the US had for a democratic Taiwan, together with the

⁷⁶ D. V. Hickey, *Taiwan's Security in the Changing International System*, Lynne Rienner Publishers, Boulder, Colorado, 1997, p 178.

⁷⁷ *China and Regional Security*, Fact Sheet released by the Bureau of Public Affairs, US Department of State, 3 June, 1997. From the US State Departments web site - http://www.state.gov/www/regions/eap/fs-china_reg_sec_970603.html. Date last accessed: 4 July, 1998.

efforts by Taiwanese President Lee Teng-hui for increased international recognition of Taiwan, led to new prominence in both the US Congress and in general US public opinion for the plight of Taiwan.

While US political interests were elevated in importance, its economic interests also became more prominent during this time. Taiwanese trade and investment with the US was booming, with Taiwan importing more goods from the US than the PRC did. The opening up of hitherto closed sections of the Taiwanese economy to US trade and investment, again in sharp contrast to the situation in the PRC, helped to highlight similarities between the political and economic systems of the US and Taiwan, while at the same time emphasising the differences that exist between the US and the PRC.

The events of 1995 and 1996 saw the reemergence of US strategic interests in Taiwan. Although US strategic interests have been present since the end of the Second World War in 1945, after the end of the Cold War, US global strategic interests had receded as first economic and later the political interests of the US rose to prominence. The 1995 visit of Lee to the US, and the PRC's response, meant that US security interests in the Greater China region were returned to center stage.

The events of 1995 and 1996 brought about changes in the balance of interests that the US had in the Taiwan Strait. While economic interests remained constant, both political and security interests acquired new urgency in response to the provocative military exercises carried out by the PRC near Taiwan.

The strain placed on the "one China" framework by the events of the mid 1990s almost drew the US and the PRC into a direct military conflict over the issue of Taiwan. However, despite the heated rhetoric from both sides, after the

crisis was averted, the status quo that existed in the US "one China" policy before the events of 1995-1996 was reaffirmed. Once the immediate threat to US strategic interests were removed, US security interests once again receded to the background behind US economic and political interests. The confrontation in the Taiwan Strait showed that although it seemed that US strategic interests were dormant, in fact they remained dominant, even if not always prominent.

CONCLUSION

US HIERARCHY OF INTERESTS AND THE

HONG KONG HANDOVER

Conclusion

US Hierarchy of Interests and the Hong Kong Handover

In 1984, when the Joint Declaration on the return of Hong Kong to China was signed by the United Kingdom and the PRC most commentators recognised an obvious link between the successful implementation of that transfer process and the prospects for the reunification of Taiwan and the mainland. However, few commentators predicted that the events that would lead up to the 1997 transfer to PRC rule in Hong Kong would have a significant effect on the "one China" policy of major powers, as happened in the case of the US.

In 1984, at the time of the promulgation of the Joint Declaration, until the 1989 Tiananmen incident, US interests in the territory were mostly economic. US political interests in Hong Kong were perfunctory at best. Although US security interests in the territory existed, they were quite minor. The US would probably not have been prepared to engage in an open conflict with the PRC had any of these interests been violated.

The Tiananmen Square incident in 1989 created an atmosphere in the US where its interests in the political order of Hong Kong acquired a new prominence, which was increased with the arrival in Hong Kong of Governor Patten and the introduction of his democratic reforms. US policy adjusted from mere support of the Joint Declaration to a keen interest in changing the political order in line with Patten's proposals, which were contrary to the spirit and letter of the Joint Declaration. The Patten proposals for the future of Hong Kong, with his

emphasis on democratic representation for the territory, caught the imagination of the US. The acceptance of American political values by the general population of Hong Kong and Taiwan—which was also undergoing democratic changes at the same time—reaffirmed the US belief that its values are universal, and at the same time undermined the PRC's claim that 'American' values could never be accepted by a Chinese society.

The Tiananmen incident, together with the removal of Cold War strategic restraints, allowed US global security interests in Greater China to fade to the background while US political and economic interests emerged in force. The behaviour of the PRC on Tiananmen square highlighted the political and economic differences between the US and the PRC. Although these differences between the two societies always existed, these differences were downplayed or ignored under the global security interests that were paramount during the Cold War.

At the same time, while US political interests were being reaffirmed, US economic interests in Greater China have also grown rapidly. Trade between the US and Greater China increased yearly, and although the trade—especially the US-PRC trade—was uneven, the possibilities of access to the PRC's 1.2 billion people was most tempting for US businesses.

It was also becoming ever harder to distinguish between US economic and political interests in Greater China. The interaction between the two interests began to converge as US policy makers increasingly realised that the pursuit of US economic gain and support of an open democratic system in greater China were not going to be such contradictory goals as they might have thought. US support for the rule of law and freedom of expression in Hong Kong supported

both US economic and political interests. The US was able to press the PRC to maintain its promises on these issues on economic grounds, thus avoiding charges that it is attempting to interfere in the PRC's internal affairs.

During the mid 1990s Taiwan had completed its transition to democracy, as well as continuing to open up the Taiwanese economy. As Taiwan's domestic order was starting to resemble US visions of political order and economic management, it was increasingly difficult for the US to pursue its "one China" commitments to the PRC. US political and security interests in Greater China collided during the visit of President Lee to the US in 1995. As the US realised that it had stood by while 6 million people of a rapidly democratising society in Hong Kong were being handed back to the oppressive regime in the PRC, US opinion crystallised against any move by the PRC towards reunification with a rapidly democratising Taiwan under present circumstances.

The events of the 1995 and 1996 crisis in the Taiwan Strait showed that although US security interests of a global nature had mostly disappeared in the region at the end of the Cold War, regional security interests could still be present, although not always clearly visible. While security interests remained prominent for a short period, in times where there were no explicit day-to-day security threats to US interests, economic and political interests came to occupy the attention of the US. Its policymakers realised that the pursuit of US political interests had important spin-offs for US economic interests and vice versa.

The approach described in Chapter 1 theorises that of the three competing interests that a state pursues, security interests take precedence. In general, this thesis found that this proposition held true in Greater China during the timeframe examined. The framework further theorises that when security interests are

removed, or recessed, economic interests would become the more prominent, followed by political interests.

In the cases of Hong Kong and Taiwan in the mid 1990s, the interplay of US economic and political interests can not, conclusively, be taken as confirmation of this. In the case of Hong Kong—where security interests can be assumed to have been negligible—the US actively supported the democratic reforms of Governor Patten, while at the same time tended to frame arguments for democratic change in economic terms. In effect, the US advanced its political interests by using economic interests as a cover. In the case of Taiwan, US economic interests remained constant while both security and political interests rose in prominence. Since by 1998 the US had reaffirmed its "one China" policy, it was quite clear that in the absence of a direct security threat the US would be able to maintain a stable balance between its security, political and economic interests within the framework of its long standing "one China" policy. The US "one China" policy with its two planks—recognition of the PRC and a unitary China, along with a commitment to defend Taiwan—has proven to be a very flexible policy instrument to accommodate changes in the balance of US interests under the pressure of events in the 1990s.

The analytical tool that was used in this thesis—the hierarchy of interest—has proven to have some inherent strengths as well as weaknesses. When examining the trends in long-term US interests in Greater China, the hierarchy of interests concept proved to be useful. As long term trends of US interests could usually be distinguished from each other to some degree and clear interactions could be distinguished. However, when attempting to examine US short term interests, as in the Taiwan Strait during the 1995-1996 crisis in Chapter 5, the

hierarchy of interests framework did not perform as well as expected.

Overall, the theoretical expectations as described in Chapter 1 could be said to have been fulfilled. US does seem to make distinctions between its differing interests, and as Chapter 2 and Chapter 5 showed, the rough hierarchy that was described in Chapter 1 seems to have been followed—security interests more dominant than economic interests, economic interests more dominant than political interests.

As Taiwanese democracy becomes more and more established and mature, the hitherto limited calls for independence will increase, and this may lead Taiwan to declare independence. If this happens, the flexibility of the "one China" framework as a policy that can accommodate the competing interests of the US is likely to be severely tested. If the PRC responds militarily, the resulting conflict would most likely prevent further pursuit by the US of its political and economic interests in Hong Kong and the mainland for some time.

But even a continuation of the present situation would place an increasing strain on the "one China" policy, exposing the inherent inflexibility on all sides and requiring an ever increasing complexity in the resolution of crises. It is likely that with the entrenchment of democracy in Taiwan, the calls for independence will be stronger. The US and the PRC will need to rethink their policies covering "one China". The US "one China" policy may not survive too many more crises like the 1996 one.

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Internet Sites

key - USG = US Government maintained site
 HKG = Hong Kong Government maintained site
 TWG = Taiwan Government maintained site
 JPG = Japan Government maintained site
 OCP = Other, Commercial, or Privately maintained site

<http://ait.org.tw> - American Institute in Taiwan (USG)

<http://chinesebusinessworld.com> - Chinese Business World (OCP)

<http://thomas.loc.gov> - US Congress Library - including Congressional Record (USG)

<http://wnc.fedworld.com> - FBIS Searchable Database (USG)

<http://www.bhkf.org> - The Better Hong Kong Foundation (OCP)

http://www.business.gov	-	US Business Adviser (USG)
http://www.census.gov	-	US Census (USG)
http://www.chron.com	-	The Houston Chronicle Web Site (OCP)
http://www.csd1.tamu.edu/bushlib	-	George Bush Presidential Library (OCP)
http://www.doc.gov	-	US Department of Commerce (USG)
http://www.economist.com	-	The Economist (News Magazine) (OCP)
http://www.fas.org	-	Federation of American Scientists (OCP)
http://www.fedstats.gov	-	US Federal Statistics (USG)
http://www.fedworld.gov	-	FedWorld Information Network Home Page (USG)
http://www.foreignpolicy.com	-	Foreign Policy, Carnegie Endowment for International Peace (OCP)
http://www.gio.gov.tw	-	Republic of China, Government Information Office (TWG)
http://www.gwjapan.org	-	Gateway Japan (JPG)
http://www.house.gov	-	US Congress (USG)
http://www.info.gov.hk	-	Hong Kong Government Information Center (HKG)
http://www.ita.doc.gov	-	US Department of Commerce, International Trade Administration (USG)
http://lcweb.loc.gov	-	Library of Congress (USG)
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http://www.nando.net	-	The Nando Times (OCP)
http://www.odci.gov	-	Office of the Director of Central Intelligence World Wide Web Site (USG)
http://www.taipei.org	-	Taipei Economic & Cultural Office in New York (TWG)
http://www.tdc.org.hk	-	Hong Kong Trade Development Council (HKG)
http://www.stat-usa.gov	-	STAT-USA/Internet, a service of the US Department of Commerce (USG)
http://www.state.gov	-	Department of State (USG)
http://www.taiwaninformation.org	-	Taiwan Research Institute (OCP)
http://www.uschinatrade.org	-	US-China Education Foundation (OCP)
http://www.usia.gov	-	US Information Agency (USG)
http://www.ustr.gov	-	United States Trade Representative's Homepage (USG)
http://www.washingtonpost.com	-	Washington Post Web Site (OCP)
http://www.whitehouse.gov	-	White House (USG)
http://www.worldbank.org	-	The World Bank Group (OCP)
http://www.wto.org	-	World Trade Organization (OCP)