

IMPLICATIONS OF THE DÉTENTE
FOR SINO-AMERICAN TRADE

Jerome Alan Cohen

From Gene T. Hsiao,
Sino-American Detente and
Its Policy Implications
(Praeger, 1974).

Although the gradual reduction of U.S. trade restrictions was one of the Nixon administration's principal means of publicly communicating its desire for détente with China, the American decision to seek a new relationship was based primarily on political rather than economic grounds. To be sure, as the 1960s unfolded and China reversed its trade pattern of the previous decade to do roughly three-quarters of its foreign trade with Western Europe and Japan rather than with the Communist world, certain segments of the American business community had begun to press the government to relax trade barriers. Belatedly the Kennedy and Johnson administrations did make certain modest gestures to signal a possible willingness to do business with the PRC, but this was mere tokenism amid the overall conduct of American foreign policy and particularly increasing U.S. involvement in the Vietnam conflict. Essentially those unrequited gestures, like the more successful strategy subsequently masterminded by Henry Kissinger, were made for political and not economic reasons.

Neither Democratic nor Republican administrations succumbed to the age-old myth of a vast China market. And few knowledgeable businessmen were as naively euphoric as their Australian counterpart who, giving new expression to an idea that has long inflamed the Western imagination, pointed out that "if every Chinese person used one woolen article a year, it would absorb the whole of the Australian wool clip."¹ Economists had driven home the lesson that, whatever the reopening of trade with the mainland might mean for importers of items such as hog bristles, specialty foods, and handicrafts and for a few exporters of grain and machinery, statistically it would amount to a drop in the bucket compared to the total volume of U.S. foreign trade.

The reasons advanced in support of this prediction are by now familiar. Ever since the break with the Soviet Union and the withdrawal from China of Soviet experts in 1960, the PRC has pursued a policy of autarky designed to make itself relatively free of dependence on the outside world. Unlike its rival on Taiwan, which has sought to flourish by taking advantage of the international division of labor and by becoming an integral part of world trading patterns, the People's Republic has allocated a minor role to foreign trade. It seeks to satisfy most of the needs of its largely agrarian population through domestic production and tends to restrict imports to whatever technology and essential goods it cannot produce.

Moreover, it was pointed out, no matter what economic strategy it adopts, China will be severely limited in the amount it can import because of foreign exchange problems. Although China's trade tends to show a favorable balance of modest proportions each year, its accumulated foreign exchange reserves (currently in excess of U.S. \$725 million) cannot finance a major increase in imports. Also, it was argued, the advent of trade with the United States, while eliminating barriers that previously precluded China from buying many things that it needs, would not substantially increase the export sales necessary to finance such purchases, because China sells few things that Americans desire. In addition, internal demands would make it difficult for China to increase export production of those items that could be sold to the United States.

Of course slender foreign exchange reserves and export sales would not preclude a significant increase in Sino-American trade were the PRC willing, as Taiwan is, to accept medium- and long-term credits. But, mindful of old China's domination by foreign lenders and of new China's unpleasant experience with its Soviet creditors in the early 1950s, the PRC has proudly proclaimed one of the principles of its policy of self-sufficiency to be the refusal to accumulate foreign debt. Therefore, economists argued, whatever the PRC's objective needs from an outsider's point of view or whatever its import desires according to its own economic strategy, it would not generate a large volume of trade with the United States in the foreseeable future.

Yet one of the most surprising things about the détente—other than that it happened at all—is the substantial impact that it has already had upon Sino-American trade. If in April 1971, when ping-pong diplomacy stunned the world, anyone had predicted that in 1973 the United States and the PRC would do over U.S. \$900 million in trade (as American officials were estimating in September 1973), he would have been dismissed as irresponsible. Indeed, in the immediate post-ping-pong period it was far from clear that there would be any Sino-American trade worth mentioning, despite the advent of cultural and political contacts between the two countries.

We should remember that, after years of vainly attempting to interest the United States in trade, tourism, and the exchange of correspondents and cultural groups, in 1960 the PRC had announced that it would no longer seek such contacts "so long as the United States Government still persists in its policy of hostility and aggression against China, still persists in occupying China's territory of Taiwan by armed force, and continues to scheme to create 'two Chinas'." ² In 1964 an important Chinese trade official had stated that there could be no "normal trade" until "normal relations are established between our two countries." ³ And as late as April 1970 Chou En-lai had said that trade with the United States was a minor matter about which nothing could be done until the Taiwan problem was settled. ⁴ In 1971 Chinese officials made it clear that, despite the lack of "normal" relations—that is, diplomatic relations at the ambassadorial level—and despite the failure to settle the Taiwan problem, the invitation to the U.S. ping-pong team was intended to introduce an era of "people-to-people" diplomacy. But they were reluctant to say whether trade would be considered "people-to-people" diplomacy.

Conversations with officials of the then newly established PRC embassy in Ottawa, for example, plainly indicated that trade might be treated differently from cultural exchange. I recall being shocked at the vehemence with which ordinarily pleasant trade officials attacked the American embargo when I succeeded in turning our discussion from politics to trade. "You Americans tried to strangle our revolution," one said, almost shouting. "You tried to use trade to kill the new China." All my attempts to elicit information about trade prospects were parried with the observation that it would be "premature" to focus on "details" until there had been a "fundamental change" in American policy toward Taiwan. The outburst that my inquiries triggered was reminiscent of the harsh statements with which the PRC had rejected American trade overtures in the 1960s. ⁵

As late as June 1972, three months after President Nixon's visit, I encountered similar reticence about trade details on the part of officials of the China Council for the Promotion of International Trade (CCPIT) in Peking, even though some direct Sino-American trade had begun and even though the Shanghai communiqué that culminated the President's visit had stated:

Both sides view bilateral trade as another area from which mutual benefit can be derived, and agreed that economic relations based on equality and mutual benefit are in the interest of the peoples of the two countries. They agree to facilitate the progressive development of trade between their two countries. ⁶

Whenever I asked about trade agreements, modes of protecting industrial property, and other devices for facilitating economic relations, I was told: "Everything depends on the future development of political relations." The director of the Legal Affairs Department of the CCPIT expressed interest in gathering material about the legal aspects of trade and particularly about such technical subjects as international arbitration, trademarks, admiralty, and commodity inspection; but it was too early to talk about the construction of an infrastructure for Sino-American trade, he said. The Chinese attitude seemed to be that we Americans were lusting after the China market and that before the PRC let us have our way, it wanted to be sure that we would give China the political satisfaction that it has so long sought from us.

In addition to demanding changes in American policy toward China as the price for developing trade, at least at certain times the PRC also seemed to be linking trade prospects to termination of American involvement in the Vietnam conflict. In April 1972, for example, Vice Premier Li Hsien-nien reportedly stated that Sino-American trade could not be greatly expanded so long as the United States "continues its bombing of North Vietnam." ⁷

Of course, for most of the first year after ping-pong it remained uncertain to what extent the United States itself would take steps to facilitate Sino-American trade. It was not until February 14, 1972, that the gradually evolving U.S. policy placed trade with China on substantially the same basis as trade with the Soviet Union, authorizing American firms to export a broad range of nonstrategic commodities to the PRC without obtaining Department of Commerce permission for each transaction. ⁸ And it was not until the summer of 1972, with the approval of the sale of Boeing aircraft and RCA permanent earth satellite ground stations, that it became clear that in those transactions for which a specific license was still required, the Commerce Department would not unreasonably prohibit exports on the ground that they might prejudice national security.

Moreover, prior to the July 15, 1971, announcement of Henry Kissinger's secret trip to Peking and of President Nixon's projected visit, most major American businesses had shown little overt interest in the China trade. This was not only because they believed the China market to have a limited potential but also because they were extremely concerned about the possibility of unfavorable domestic reactions to any news of their doing business with "Red China." Some of the largest U.S. corporations were still unhappy about episodes in which their negotiations for large-scale ventures in the Soviet Union or certain East European countries had aborted because of the pressure of public opinion. I recall that at a 1963 meeting convened in San Francisco's World Trade Center by former Congressman Charles Porter, who was hoping to mobilize a business lobby to open up the China trade,

virtually all of the major corporations represented were reluctant to go on record. Even in the spring of 1971, after ping-pong raised the possibility that trade might follow, most of the major corporations, far from vigorously probing the China market, continued to play the role of reluctant dragons. More than one executive echoed the sentiments of the company president who told me: "I've been burned before. If the U.S. Government wants us to do business with China, I want a letter from the Secretary of State telling me that it is in the national interest for us to do so. That will give me something to show the stockholders and irate citizens who descend upon me. Otherwise, I don't want to get involved."⁹

In February 1972, Secretary of Commerce Maurice Stans predicted that Sino-American trade would develop at a much slower rate than Soviet-American trade.¹⁰ Yet during 1971, almost four decades after normalization of relations and after half a century of trade, the United States did less than \$220 million of business with the Soviet Union.¹¹ And trade with China that year—all of it indirect—had amounted to less than \$5 million.¹² The most elaborate academic estimate of the total volume of direct Sino-American trade that could be anticipated by 1980 predicted that, although it might conceivably rise as high as \$900 million per year, it would probably remain well below that figure.¹³ The consensus of economists continued to be "that—except under most optimistic assumptions—the level of commercial interchange between the United States and China is likely to be of rather modest proportions, even if all restrictions on the movement of nonstrategic goods were removed by both sides."¹⁴

By 1973, however, the picture looked rather different. As Henry Kissinger somewhat puckishly noted at the end of February, when announcing the decision by Peking and Washington to establish liaison offices in each other's capital, the development of Sino-American trade had outstripped the predictions of economists.¹⁵ Figures for 1972 had revealed an impressive rise to \$93.5 million, almost two-thirds of it American exports, and the initial projections of U.S. government analysts for 1973 anticipated a jump to perhaps \$300 million.¹⁶ By the end of May the evidence suggested that the total for the year might in fact reach \$500 million, and Undersecretary of State William J. Casey, instead of echoing Assistant Secretary Marshall Green's "note of caution" of the previous October, referred to "the huge Chinese market" and recognized that economic relations had developed "at a rapid rate . . . presenting the possibility that the United States will become one of the top two or three trading partners of the People's Republic of China."¹⁷ By midsummer, although U.S. Bureau of the Census reports of shipments and arrivals for the first few months of the year seemed inexplicably low, State Department specialists were predicting that total trade for the year would surpass \$700 million. And by September they were estimating more than \$900 million.

If consummated transactions do indeed approach that figure, this will be a staggering development, especially since Washington and Peking have not yet even constructed the framework that will eventually boost their bilateral trade to a higher level. The diplomatic liaison offices opened only recently; the U.S. Commerce Department and the American business community are still organizing to meet the new situation; and the PRC and the United States have only begun to discuss matters such as trade, maritime, civil aviation, and consular agreements, most-favored-nation treatment, and credits.

How should one account for this surprising development? Obviously many factors have played a role, including the devaluation of the dollar, which makes American goods more competitive abroad. A continuing improvement in Sino-American political relations during the 18 months following the Nixon visit was, of course, the prime factor. Especially significant was the termination of American involvement in the Vietnam conflict in early 1973, which removed a major obstacle to trade expansion. Although full normalization of relations between Washington and Peking must await some resolution of the Taiwan problem, the PRC has plainly abandoned the policy of making normalization a prerequisite to substantial trade.¹⁸ It had been assumed that when the opportunity arose, China would purchase from the United States both high-level technology and high-quality agricultural commodities that were unavailable elsewhere. But China has also begun to buy from America when the equivalent is available elsewhere, and it has not even insisted on limiting its trade with individual American companies to those that abstain from participation in Taiwan's booming economy. For example, Peking could have purchased telecommunications equipment from over 20 firms other than RCA, half of them non-American. Not only did it choose an American firm, but one that enjoys a large investment in Taiwan. Similarly, the PRC recently selected the Chase Manhattan Bank to be the first American bank to maintain correspondent relations with the Bank of China, although Chase has established a branch in Taipei and an office in Moscow. "No questions asked" is frequently reported to be the Chinese attitude about the activities of American companies in Taiwan and other places, and various American traders shuttle back and forth between Taiwan and the mainland with only the most perfunctory efforts at concealment.

On the American side we have also witnessed a rapidly increasing desire to expand the China trade. The present Secretary of Commerce, Frederick B. Dent, has bluntly stated that it is the intention of his department to engage "in a no-holds-barred effort to make the American businessman more competitive and to facilitate his entry into this market of growing importance to the total U.S. trade picture."¹⁹ This has been visible in the sympathetic hearing that the

Commerce Department's Office of Export Control, after initial pressure from the White House and State Department, has given to applicants for validated licenses for the export of products that might be regarded as "strategic." Indeed, the scope of what exports may be considered detrimental to national security is now so diminished that the Chinese are currently exploring the acquisition of nuclear power plants, the export of which will require approval by the Atomic Energy Commission (AEC). It should be noted that although the PRC, unlike some East European countries, has thus far refused to fill out Commerce Department forms provided for the purpose of identifying the end user and the use to which potentially strategic U.S. exports are to be put, increasingly it has been providing the information in substance without cooperating in form. AEC approval of the sale of nuclear power plants would, of course, involve the Chinese in a greater degree of cooperation than anything yet encountered, raising such questions as end-use safeguards and on-site inspection.

The attitude of American businessmen also has changed dramatically within a two-year period. No longer is there much fear of courting an adverse reaction from stockholders or the public by demonstrating interest in the China trade. On the contrary, doing business with the PRC has become the "in" thing. At a symposium on the subject in October 1972, I was astounded when the executive vice-president of a well-known manufacturer asked whether Chinese state trading representatives would mind if during a negotiation the American side released publicity concerning the negotiation "in order to maintain a progressive image with its stockholders and the public." At a more recent conference Secretary of Commerce Dent assured the multitude assembled to discuss "this new national commercial initiative" that "[a]s you serve your stockholders in this respect, please be assured that you are also serving the national interest."²⁰ The proliferation of China trade symposia also testifies to the fresh interest of the business community, as does the fact that many thousands of American businessmen have besieged the PRC with requests to attend the Chinese Export Commodities Fair in Kwangchow, popularly known as the Canton Fair. As a new image of the People's Republic takes shape, American traders are beginning to describe their counterparts on the mainland in the same terms as they do those on Taiwan. As one speaker put it at a recent symposium, "they're very much like us—honest, hard-working, smart, punctual, clean, and humorous."

A broad segment of American business has rather quickly become involved in the China market. In addition to Boeing, RCA, and Chase Manhattan, some of the other well-known early entrants are Monsanto (sale of man-made fibers), SOHIO (licensing of fiber technology), M. W. Kellogg (construction of complete ammonia plants), Weyerhaeuser (sale of liner board) Western Union International (satellite

telecommunications sale), Continental Grain (wheat sale), and Macy's and Nieman-Marcus (handicraft imports). Many other well-known companies are now negotiating; a host of major oil companies have begun to vie for China's attention; a large number of lesser known companies have already concluded transactions; and export-import firms, some especially created for the new China trade, have become very active.

Where will this whirlwind end? Plainly enough, one cannot expect a continuation of anything like the rate of growth that Sino-American trade has experienced since the beginning of 1972, even assuming, as I do, a continuation of the present favorable political climate. In fact, it is possible, though I believe unlikely, that 1973 may not be equaled in 1974. After all, the substantial grain and cotton purchases that have unexpectedly swelled this year's total may not recur. Economic developments within both China and the United States, including the evolution of domestic policies unconnected with Sino-American relations, clearly will have an important effect; but I profess no competence to forecast them. Yet institutional factors and policy questions specifically pertaining to Sino-American relations will also be important and deserve our consideration.

NEW INSTITUTIONS FOR THE CHINA TRADE

The establishment of liaison offices represented a first step toward building the infrastructure of Sino-American trade, for they are charged with handling commercial as well as other problems. The extent to which the new offices will foster trade, however, remains uncertain. Thus far only a few staff members in each office have been assigned to commercial matters, and both the Chinese and American offices have been at pains to emphasize the limitations this imposes. In a speech delivered shortly after the opening of the U.S. office in Peking, Alfred Jenkins, one of its two deputy chiefs, described its functions relating to trade:

At the outset these officers will be working to build relationships at all levels with the Ministry of Foreign Trade, Chinese state trading corporations, the China Council for the Promotion of International Trade, and other organizations concerned with China's foreign commerce. As in all our endeavors, the aim of these contacts will be to create an atmosphere of mutual understanding and cooperation between the Chinese trading corporations and ourselves and our businessmen, in which there can be a smooth, effective and expanding interchange of people and information between our two trading communities. We want to

help the Chinese side learn more about American ways of doing business, and to bring to their attention the full range of goods and services which the United States has to offer. At the same time we need to learn more about those products and processes of greatest interest to the Chinese, so that we can go back to our own businessmen with trade opportunities on which to base specific initiatives. We want also to make available to the Chinese as much information as possible about our own market, so that they can expand their exports to the United States. It will take time, of course, to develop the optimum range of working contacts, but we will need to move forward with this multifaceted task. We have already met a number of top officials in the state trading corporations and have been pleased to note their expressions of interest in working with the Liaison Office. We are hopeful that we can succeed in building a climate in Peking in which there can be easy access for U.S. businessmen in their initiatives to the Chinese trading community.

We are also at work on another important aspect of our commercial activities in Peking, that of meeting with and assisting Americans when they come to China for business discussions. In the past several weeks we have seen quite a number of U.S. business representatives. I hope we have succeeded in providing useful advice and information during the course of their discussions with the Chinese. Once again our aim here is to promote mutual understanding between our businessmen and their Chinese counterparts, so that what we Americans have to offer gets clearly across to the other side, and that what comes back from the Chinese is clearly understood. Too often, when there are such great cultural and linguistic differences between American businessmen and their Chinese opposite numbers, it is all too easy for innocent misunderstandings to arise, with opportunities lost as a result. We do not want this to happen in Peking. Within our resources, we want to be as much involved in your efforts as you find it useful for us to be, so that we can help insure that this does not happen. We will be happy, when called upon, to provide advice and other appropriate and feasible support; we will be willing, when the occasion calls for it, to accompany businessmen to the state trading corporations; we might even be persuaded from time to time to join in those wondrous Peking banquets which are so happily a part of Chinese business negotiations. In short, we will assist you in any way we can,

taking into account the limitations imposed upon us by our small numbers and also, of course, the desires and interests of our Chinese hosts.

Another aspect of our work which I might mention is our hope to have officers on hand at every Canton Fair, to help our businessmen assess trends, and again to provide advice, assistance, and other support to our traders as they go through the sometimes exhausting experience of the month-long fair routines.²¹

Although Jenkins indicated willingness to help individual firms once their representatives reach China, he said the liaison office did not have the resources to become the forwarding point for either requests for visas or for invitations to enter China, nor could it forward brochures or other information to China's state trading corporations. He advised businessmen to address themselves directly to the Chinese corporations but to keep the Peking liaison office apprised of their initiatives, perhaps by sending it copies of correspondence. My conversations with the economic officers of the PRC's Washington liaison office suggest that they view their functions in a similar way. Because of their limited resources, they too emphasize the desirability of direct contacts between American firms and Chinese corporations and suggest that copies of correspondence be sent to their office.

Unless the staff of the American office is enlarged, it seems unlikely that it will long be able to render much in the way of assistance on individual negotiations in China. Moreover, it may be undesirable for it to attempt to do so, exposing the office as it would to charges of conflict of interest or favoritism toward one firm rather than another in the allocation of its scarce resources. The really valuable potential of the commercial staff would seem to lie in the more generalized services outlined by Mr. Jenkins and especially in collecting, analyzing, synthesizing, and presenting to the Chinese trade organization, on the one hand, and to the American government and business community, on the other, the perceptions, problems, and suggestions of the other side. In this respect both liaison offices can play a very useful catalytic role in facilitating trade.

The U.S. government has recently taken a number of other steps to develop its institutional capability for coping with the centrally controlled state trading monopolies of the socialist states. In March 1973 the President established the East-West Trade Policy Committee (EWTPC), with Secretary of the Treasury and Assistant to the President George Shultz as chairman and Secretary Dent as vice-chairman, in an effort to centralize government trade policy more effectively than in the past. It is not yet clear what role, if any, the EWTPC will play in China trade. In the fall of 1972, the Commerce

Department established the Bureau of East-West Trade "to focus more sharply on the problems of dealing with monolithic foreign trade corporations."²² Although the Bureau has been largely preoccupied with Soviet and East European developments and has lacked sufficient expertise relating to China, it is gradually becoming prepared to meet the new challenge.

Apart from disseminating information and reviewing applications for export licenses, the Bureau's effort to date in the China field has been concentrated upon the creation of the National Council for United States-China Trade, a private, nonprofit corporation. According to the Council's own description:

The National Council will provide a focal point for the initiation of trade contacts, including those with the China Council for the Promotion of International Trade (CCPIT) and appropriate officials and state trading agencies of the People's Republic of China. It will promote the dissemination of commercial information to interested members of the United States business community and appropriate entities in the People's Republic of China. The National Council will also provide a forum for the discussion of trade issues with the appropriate officials of the People's Republic of China, and where appropriate, act in an advisory capacity to the United States Government on issues which may affect trade, economic cooperation and other relations between United States firms and the appropriate entities in the People's Republic of China.²³

More specifically, the Council plans to exchange visits with the CCPIT; sponsor the visits of U.S. trade missions and other specialized delegations to China; assist businessmen in obtaining invitations to China and after they arrive there; help Chinese trade missions and specialized delegations visit the United States; facilitate trade exhibitions; provide China with comprehensive data on the American economy and on manufacturers, agricultural exporters, fairs and exhibits, industrial and trade associations, and pertinent laws and regulations; obtain similar information from China; provide a China market research service; conduct seminars; and publish a bulletin.²⁴

At the Council's organizational conference on May 31, 1973, Secretary Dent frankly explained that "[t]he necessity for government to intercede so deeply in affairs normally the preserve of the private sector results from the fact that foreign trade is a monopoly of the state in the East." He noted that "this centralized state control politicizes commercial relations with the socialist states to a degree unknown with our other major trading partners" and pointed out that "[w]e have responded with measures of our own."²⁵

The Council, of course, is the creation of the White House as well as the Commerce and State Departments and, as such, bears some of the marks of politicization. Its chairman and several other members of the Board of Directors, which was constituted only after much political tugging and hauling, are old friends of the President. The White House even controlled the selection of an academic "China watcher" to address the Council's organizational conference, vetoing not only specialists who had a trace of a McGovern connection but also anyone from the Brookings Institution.

The original 20-man (no women) Board of Directors consisted of 16 businessmen, 3 bankers and a lawyer. At the time of their appointment in March 1973, few directors had any experience in the China trade, although their acceptance of the coveted directorships obviously implied an eagerness to enter the field. Shortly after the Council's organizational conference, for example, one of its two vice-chairmen, David Rockefeller of the Chase Manhattan Bank, went to the PRC for the first time and established the first American banking relationship there. The Board reflects a very strong export orientation even though perhaps the principal problem in Sino-American trade is how to increase American imports. Only one of the original 16 businessmen-directors represents a company that is an importer, and he resigned soon after his appointment for reasons unrelated to the Council.

Although the Council was slow to get organized and appeared to be floundering in its earliest phase, it has recently begun to show signs of offering more than promises. Christopher H. Phillips, a former state senator, diplomat, banker, and President of the United States Council of the International Chamber of Commerce, has taken office as President and Executive Director. Phillips, who has no special acquaintance with China, played a role in Sino-American relations when, as U.S. Deputy Representative at the United Nations, he announced that the United States would no longer oppose PRC representation in the UN but would seek to retain a seat for the Republic of China on Taiwan.²⁶

Both the PRC and the United States regard the Council as the counterpart to the CCPIT in Peking, which, despite its nongovernmental form, is clearly part of China's foreign-trade organization. The CCPIT informs foreign business groups about China's foreign trade, acquires information on foreign markets on behalf of Chinese enterprises, invites foreign firms and delegations to China and sends similar Chinese representatives overseas, organizes trade fairs at home and abroad, and provides facilities for the mediation and arbitration of disputes and for the registration of foreign trademarks. The Council, as its first move, plans to send a delegation to the PRC in November to open discussions with the CCPIT and to visit the autumn Canton

Fair. In an effort to demonstrate the potential value of Council membership (initial membership fees of \$2,500 for corporations with sales or gross income of \$50 million per year or more and \$1,000 for others, plus annual dues as yet undetermined, appear to have inhibited applications), the Council announced that it hoped to secure admission to the Canton Fair for many members and to arrange other visits to China.²⁷

One of the Council's more important domestic tasks will be to develop satisfactory working relationships with the genuinely private American trade organizations such as the National Association of Manufacturers, the East-West Trade Council, and the China Trade Association that can usefully supplement the Council's activities.

Another challenge facing the Council will be to demonstrate its interest in serving small businesses as well as the big companies—which, after all, have the resources to undertake independent exploration of the China trade. And the Council will have to be sensitive in dealing with organized labor, consumer groups, and other organizations. The Council, which needs expertise, will also have to decide the extent to which it should draw upon the considerable reservoir of academic talent in the field of Chinese studies and whether in doing so it should continue to allow politics to take command.

The Chinese have made it very plain that the Council is their chosen instrument in the American business community and that other American organizations interested in the China trade should cooperate with the Council. Yet perhaps because internal developments in China required delay until establishment of a new Communist Party line and consolidation of the leadership at the Tenth Party Congress, the Chinese, while generally encouraging and very genial, have been quite vague in responding to the Council's specific requests. A frequently heard reply is: "When you meet with the CCPIT, you can arrange these matters." Unfortunately, because of the Party Congress the initial Council meeting with the CCPIT was postponed from mid-summer to November. It is also noteworthy that the PRC has sent ping-pong players, acrobats, scientists, doctors, gymnasts, journalists, and water conservation specialists to the United States but no trade delegations, even though Chinese trade delegations frequently visit all the other major industrial countries as well as many smaller ones. The Boeing Company has had over 50 Chinese airline officials, engineers, technicians, flight crew members, and trade representatives in residence at Seattle for varying periods in connection with the PRC's purchase of jet aircraft.

In view of this satisfactory experience, the successful visits of other Chinese groups to this country, and the PRC's burgeoning interest in trade with the United States, one can probably anticipate the arrival of trade groups in the near future. Peking may simply be waiting for the appropriate host organization, the National Council, to make

arrangements with CCPIT. This would be consistent with the rough overall understanding that seems to have been worked out between Peking and Washington, whereby the Committee on Scholarly Communication with the People's Republic of China will invite academic, scientific, and professional groups to the United States; the National Committee on United States-China Relations will invite athletic and cultural groups; and the Council will invite trade groups.*

CRITICAL DECISIONS FOR THE FUTURE OF TRADE

A certain amount of time undoubtedly will be required to establish cooperative trading relationships between two countries that have been bitter enemies for two decades and that have very different cultural and historical backgrounds and political, social, and economic systems. In the near future a large number of complex and controversial decisions must be made by elites in Peking and Washington within the broader context of substantive problems not directly related to Sino-American relations and through domestic political processes that are being redefined under the stress of internal tensions. The decisions that gradually emerge will determine the full implications of the détente for Sino-American trade.

Some questions are already being negotiated by the two governments. Early in 1973 they "agreed in principle" to settle the problems of American private claims for property of U.S. citizens taken by the PRC (totalling almost \$200 million plus interest) and of PRC claims for assets blocked by the United States (roughly \$78 million). No

*The spring 1973 Canton Fair offered an example of what may be Chinese ambivalence toward Sino-American cooperation on trade. In addition to permitting participation by well over 100 American businessmen and a visit by one of the commercial officers of the U.S. liaison office who was en route to Peking, the Chinese also allowed the U.S. Consulate-General in Hong Kong to send one of its commercial specialists. Yet officials of the Ministry of Foreign Trade, the state trading corporations, and the CCPIT studiously avoided responding to the specialist's requests to call upon them. This treatment contrasted sharply with the warm reception that the PRC has accorded to officials of the liaison office in Peking. The explanation may lie in the Chinese perception of the niceties of diplomatic protocol, in view of the fact that the Hong Kong Consulate-General, unlike the liaison office, has no official relation to the PRC. Or this may simply have been another phenomenon of the transitional period.

normal trading relations can occur until these issues are settled. In the current circumstances, if a Chinese trade exhibit, ship, or airplane arrived in this country, some private claimants might seek to attach the property in an effort to satisfy their claims through litigation, creating considerable political embarrassment as well as difficulty for expanding trade relations. And Peking is understandably reluctant to allow American banks to play their customary role in financing purchases until PRC assets that many of them hold are released.²⁸ Although reaching a settlement has already taken a good deal longer than Washington anticipated, these issues may well be disposed of before this essay appears. U.S. public claims against the PRC for government property seized in China presumably will be handled as part of the larger financial settlement that can be expected to accompany the establishment of formal diplomatic relations between Washington and Peking. Until that time they may constitute an obstacle to the extension of Export-Import Bank credits and other government financing.

Also on the agenda in the immediate future will be a variety of topics upon which agreements will be required if an appropriate framework for Sino-American trade is to be erected. A trade agreement will probably be concluded between the two governments, although it is possible that an "unofficial" agreement might be made between the CCPIT and the National Council for United States-China Trade. The subject matter of a trade agreement may be narrow or broad and its provisions vague or precise. A Sino-American agreement might cover most of the problems dealt with in the 1972 Soviet-American trade agreement as well as many others presented by the very newness of the relationship.²⁹ Given the pluralistic nature of American life, the agreement is likely to be suggestive rather than specific about the total trade to be conducted within a certain period and the types and volumes of particular goods to be traded, stating goals in a general way and pledging best efforts to achieve them. Among the subjects for which it may provide are reciprocal most-favored-nation (MFN) treatment; protection against market "disruption" by imports; currency payments in U.S. dollars or any other freely convertible currency; reciprocal establishment of official commercial offices; establishment of offices by private American firms in China and visa, housing, travel, and import privileges for their employees; reciprocal recognition of corporate entities as legal persons that can sue and be sued in domestic courts and that can have their property seized in satisfaction of court judgments; specified procedures and guarantees for the arbitration of contract disputes in third countries and the enforcement of arbitration awards; reciprocal protection of patents, trademarks, and copyrights; reciprocal commodity inspection and certification arrangements; and the extension and guarantee of credit facilities.

Although the PRC ordinarily has awaited the establishment of formal diplomatic relations before concluding bilateral maritime and civil aviation agreements, it is anticipated that Washington and Peking will soon negotiate such agreements. We can also expect the United States to make an effort to win Chinese acceptance of a consular agreement that would spell out reciprocal protections for the personal security of their nationals who are visiting the other country, in order to guarantee American officials at least prompt access to detained nationals; or it may be that such a guarantee will become part of the code of diplomatic privileges for the liaison offices that is already being discussed.³⁰ It is also possible that a joint U.S.-China commercial commission, similar to the commission that the United States and the Soviet Union established in 1972, may soon be organized to oversee and facilitate the implementation of the various agreements.

Plainly enough, this network of agreements would not only make Sino-American relations considerably more intimate but would also integrate the PRC more closely into the international economic arena and significantly affect its domestic polity. Yet many other difficult decisions also confront the leaders in Peking. For example, to what extent should they adopt the many suggestions now being received about how to sell more to the United States and thus increase foreign exchange earnings to finance requisite purchases? It is one thing to adjust the label on canned goods and the goods themselves to meet U.S. Food and Drug Administration (FDA) requirements, but should the PRC agree to market its products under "private label" so that what usually is sold as "Great Wall mandarin oranges" is instead sold as "Safeway Stores mandarin oranges"? Of course, resort to private label would enable China to sell much larger quantities in the United States in the near future than it otherwise would, but this would require PRC economic planners to allocate proportionately greater resources to the export market and away from domestic consumption or to divert exports from old trading partners—both unattractive choices. It would also demand some curbing of national pride and a willingness to slow the process of familiarizing the American market with Chinese brand names.

One can easily tick off a host of similar questions that have arisen during recent negotiations at the Canton Fair. Should the PRC allow would-be purchasers of frozen seafood to visit the freezing plants to discuss possible technical improvements that would make the seafood more acceptable to the American market? To what extent should American equipment salesmen have an opportunity to meet the technicians, engineers, and management of the prospective end users rather than negotiate through the less-informed middlemen of the state export-import corporation? Is the PRC willing to enter into long-term sales contracts so as to guarantee purchasers a steady source of supply?

Will its manufacturers adapt to American styles, packaging, and quality control? Moreover, to what extent will Peking seek to increase the processing of raw materials prior to export rather than continue the less lucrative export of unprocessed materials? How these questions are answered could have an important cumulative impact upon Chinese society as well as upon Chinese trade.

Legal questions also abound. Should the PRC acquiesce in the request of American shrimp importers to draw the contract so that they have no obligation to pay if upon arrival the shrimp fail to meet FDA standards? Such a provision is a familiar one in American contracts with other countries but is unknown to the Chinese. An American importer who accommodated to Chinese practice suffered a heavy loss as a result. More broadly, will the PRC develop an identifiable civil and commercial law upon which foreign traders can rely? Or, in lieu of that, will its corporations specify in their contracts that the law of a given foreign country should govern the transaction? Many American businessmen are concerned by the legal vagaries of dealing with China, and their concern has been magnified by awareness of the difficulties that some businessmen from other countries have recently encountered in persuading the Chinese to fulfill contracts and to honor arbitration clauses.

Pricing is obviously a critical problem and came to the fore at the spring 1973 Canton Fair, when most traders were stunned by the large price increases in many export items. I recall my own shock upon confirming the rumor that the PRC was indeed asking \$14 per bottle of mao-tai CIF New York. (It's good, it's strong, but Remy-Martin it isn't.) Various explanations have been offered for the increases. There is widespread agreement that the PRC, seeking to maximize its foreign exchange earnings at a time when it was experiencing shortages in many export commodities, sought to charge what the traffic would bear. Some observers believe that in certain instances China may have resorted to very high prices to "save face" by making the commodity so unattractive that buyers would not discover how inadequate stocks were. The entry of American buyers was also noted as a factor by jaded Europeans, who openly pined for the good old days before the newcomers had "spoiled" the market. My lengthy conversations with Chinese trade officials at the fair suggested that several other factors were at work. One was a feeling that China had been exploited at past fairs by traders who bought cheaply in Canton and then reaped unduly high profits, especially during the recent vogue for things Chinese. At a time when world market prices have been rising steadily, the Chinese also seemed to be experiencing the inconvenience of making so many of their export contracts during a semi-annual one-month period; they often explained price increases in terms not only of recent world market rises but also of ones that were

anticipated prior to the next fair. Finally, in certain cases pricing practices appeared to reflect lack of familiarity with the structure and functioning of the American marketing system. Whatever the explanation, the bloom came off the rose at the spring 1973 fair, as few businessmen got the impression that the PRC was adhering to its maxim of "friendship first, trade second" and many returned home without having made projected purchases. A much greater effort to understand the American market would seem to be called for so that the PRC can arrive at an optimum pricing policy.

Of course, whatever steps the PRC takes to increase its exports will be insufficient to finance the purchase of the capital equipment imports required for modernization. One of the principal decisions confronting the PRC in these circumstances concerns the extent to which it should modify its policy of refusing medium- and long-term foreign credits and return to its policy of the early 1950s of accepting foreign assistance, this time from the major capitalist states rather than the Soviet Union. Although the Chinese have not yet decided to go into long-term foreign debt, they are reconsidering the matter. The first sign of a new Chinese attitude toward credit came with the negotiation of agreements that euphemistically called for medium-term "deferred payments." Indeed, I have seen a sophisticated Chinese diplomat smile broadly while reiterating that credits were unacceptable but deferred payments might be possible. More recently, the PRC has openly negotiated intermediate-term loans. It is very difficult to predict the amount of long-term borrowing from abroad that Peking might prove willing to absorb, but one informed estimate suggests that it would not be unreasonable to anticipate a figure of \$2.5 billion for a five-year period.³¹ If China should opt for credits in a substantial way, it would have to decide many detailed questions, among them how much to accept from a given country and whether this aid should be "tied" to trade with that country. The determination of Chinese leaders never again to allow foreigners to gain control over China through the extension of loans and never again to rely heavily on any single country makes it likely that the PRC would prefer relatively modest amounts of aid from a number of different countries rather than look to only one source. The desire to foster friendly relations with all the capitalist states and to secure an optimum bargaining position would also lead to this conclusion, although it is possible that other factors might make massive loans from the United States alone attractive. In any event the acceptance of American loans would give Sino-American trade a further boost.

A decision to resort to long-term borrowing will not be easy for China's leaders, who derive considerable satisfaction from the economic and political independence of their "self-reliance" policy. An alternative that permitted them to enhance foreign exchange

reserve substantially while maintaining the posture of self-reliance should seem attractive to them. Such an alternative appears to be available if the PRC is willing to cooperate with foreign firms in extracting and marketing China's vast, previously untapped mineral and fuel resources. In addition to natural resources, China has skilled, disciplined, inexpensive labor. What it lacks is the high-level technology and capital necessary to make the most of its advantages. The United States and other industrialized nations have the requisite technology and capital, as well as an insatiable appetite for natural resources and an appreciation of Chinese labor. These circumstances would seem to make cooperation highly probable if the PRC is bent upon becoming a strong, modern nation. Indeed, one might expect the PRC to emulate the strategy of its Soviet rival, which has been energetically seeking to enlist the United States, Japan, West Germany, and other countries in precisely this kind of cooperation in an effort to develop its great economic potential.

Yet again ideological considerations, especially the preoccupation with national independence, complicate China's decision-making. Certain forms of cooperation with foreign firms are beyond the pale. China is unlikely to follow the example of some of the East European Communist countries, particularly Rumania and Hungary, by authorizing its state agencies to enter into joint production ventures. Foreigners may not make direct investments in China. Chou En-lai has emphasized to American visitors that not only wholly owned foreign subsidiaries but also joint ventures will not be tolerated. The Chinese did not require the Soviet Union to liquidate its interest in the Sino-Soviet joint stock companies of the early 1950s in order to clear the way for American equity ownership. Nevertheless, it should be possible to work out other forms of cooperation that will not involve foreign investment in China, at least in name. China is not the first developing country to have to accommodate the spirit of nationalism to the facts of national interest and international interdependence. For example, production-sharing agreements have authorized certain American oil companies to make what is functionally equivalent to, but still distinct from, investment in Indonesia in return for prescribed rights to a share of the oil extracted on terms that respect equality and mutual benefit. Imaginative businessmen and their lawyers are currently exposing the Chinese to the possibilities of production-sharing, service contracts, management fees, licensing arrangements, and a variety of other devices. One should also not overlook the possibility that companies owned or controlled by the PRC in Hong Kong, Singapore, Macao, and other places may be willing to join American firms in marketing PRC products abroad.

Although the PRC has not yet yielded in any significant way on its frequently expressed refusal to allow outsiders to participate in

the development of its resources, it plainly is reexamining the question. There have been a few encouraging signals, and the logic of cooperation may ultimately prevail. As Undersecretary of State William J. Casey recently summarized the situation:

[The Chinese] are realistic enough to perceive that the advantages in price and other advantages in [the sale of] consumer goods may become increasingly fleeting as the mobility of equipment and technology increases. On the other hand, trade advantages based on resources and established transportation and marketing patterns remain. Within the framework of these realities, with China's willingness to employ talent, pay for technology and sell raw materials I believe American business will find a way to work out mutually profitable development projects which will accelerate China's ability to bring specialized American products to the huge Chinese market. One of the important interests of our liaison mission in Peking will be to explore and assess the way the Chinese are prepared to proceed to utilize American technology and skills in their effort to develop their resources.³²

Should this optimism prove warranted, one can foresee the possibility that before long China, which is already self-sufficient in oil, may be marketing in the United States and Japan large surpluses extracted with American cooperation, thereby raising the China trade to new dimensions.

In the interim Peking will have to resolve a number of questions relating to the wise expenditure of existing foreign exchange reserves. For example, to what extent should it seek to acquire technology and "know-how" through licensing agreements such as the few that were recently concluded with American firms?³³ Should it attempt to make licensing a more attractive option by abandoning its refusal to permit the licensor to verify compliance with contract restrictions by monitoring manufacture? Again one runs into Chinese sensitivity to foreign interference. Lucian Pye has stated:

I have heard the most powerful officials in the Chinese foreign office speak of China's determination not to allow foreigners through trade and the sale of technology to control China in any manner. This fear of being dominated through the presumed leverage of trade has manifested itself in the extraordinary lengths the Chinese have gone to purchase spare parts and not enter into maintenance agreements. One might hope that one of the early effects

of expanding trade with American firms would be to convince the Chinese that they do not need to follow their current practice of purchasing up to three years of stocks in spare parts, and that it would be more prudent to spend the money that would be so tied up in buying further productive machinery. At present the Chinese, ever mindful of the damage they experienced to their economy when the Soviets arbitrarily cut off all further dealings with them, feel that they must protect themselves against the danger of comparable behavior from other quarters. Their calculation is that extensive stocks of spare parts will give them not only a cushion against such an eventuality, but also models for copying so as to speed the realization of Mao's goal of "Self-Reliance."³⁴

Of course, not all of China's future decisions affecting Sino-American trade will arise in a bilateral context. The PRC must also arrive at an optimum multilateral economic posture that will be reflected in its relations with the United States. It has already begun to take part in the United Nations Commission on Trade and Development (UNCTAD) and in the UN Economic Commission for Asia and the Far East (ECAFE), and it probably will adhere eventually to relevant multilateral treaties such as the Universal Copyright Convention and the UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards. It is less clear whether the PRC will emulate Rumania in the near future by participating in the General Agreement on Tariffs and Trade, the International Monetary Fund, and the World Bank, although even these possibilities, once thought out of the question, seem to be more likely.

Our earlier discussion indicated that the United States will also have to make a number of decisions that will affect the growth of Sino-American trade. For example, what kind of trade agreement should it conclude? Should the United States grant China MFN treatment with respect to customs duties, export-import rules and formalities, and other matters? Should it make available Export-Import Bank loans and guarantees and other credit arrangements? Should it restrict the export of grain and other commodities that are in short supply at home? To what extent should it allow national security considerations to interfere with exports? How should the United States deal with the problem of restricting the entry of Chinese textiles?

American firms also will have to decide how much in the way of resources they should allocate to exploring the China trade and how flexible they should be in adapting to its peculiarities. I previously mentioned the shrimp importer who gambled—and lost—by not insisting on a contract provision that conditioned his obligation to pay upon

FDA approval. Boeing had to decide whether a "confidentiality clause" in the contract was likely to prove an adequate substitute for the usual measures for the protection of its technology. SOHIO had to decide whether licensing without monitoring arrangements would be worth the risk. RCA had to decide whether to accept contracts that failed to specify the law that would govern any dispute. Virtually every China trader has to decide whether to take a chance on the uncertainties of Peking's preferred modes of settling disputes, and an increasing number of companies may have to decide whether to expose their employees to the risks of residing in China. Space precludes analysis here of the pros and cons of these and many other public and private decisions facing the United States, but I cannot resist a word about MFN treatment and related problems.

The dramatic 1973 increase in Sino-American trade consists almost entirely of American exports, so that the United States currently sells to the PRC roughly a dozen times what it buys. This presents a serious problem. Although China does not insist on maintaining an evenly balanced relationship with each of its trading partners, it has become concerned about developing a gross and long-run imbalance in its trade with the United States. For example, at the recent Canton Fair, officials who were negotiating China's acquisition of foreign machinery frankly said:

We would like to purchase large amounts of capital equipment from the United States, but we are worried about our balance of payments. What are you going to buy from us to help us pay for our purchases? We don't say that you must buy from us as much as you sell to us, but we would like you to make a good-faith effort to do what you can to correct the existing situation.

The PRC has also registered this concern at the diplomatic level, making it clear that the United States may not be paying sufficient attention to the Shanghai communiqué's reference to "equality and mutual benefit" in economic relations.³⁵

The extension of MFN to China would cease the existing discrimination against Chinese goods by granting them the same access to the world's largest market that the goods of most other countries enjoy. This would enable the PRC to sell its goods at substantially lower prices than at present, when a number of Chinese manufactures and even some primary products are unsalable because of high duties. Thus the PRC would increase its sales significantly and earn more dollars with which to purchase American goods. In urging Congressional authorization of MFN for China, Eugene Theroux, consultant to the National Council on United States-China Trade, said in March 1973:

If allowed to compete fairly with other exporters to the U.S., it has been estimated that with improvements in styling, quality control and marketing techniques, China could generate \$300 to \$500 million in export earnings from sale to the U.S. of labor intensive manufactures. This is a measurable increase from the currently estimated level of some \$50 million.³⁶

Unless the United States takes affirmative steps to facilitate the entry of Chinese goods to its markets, Peking will probably try to reduce the growing imbalance by purchasing less from the United States than it otherwise would. We must bear in mind that many of China's purchases to date could have been made from other countries. If America does not wish to lose future orders, whether for airplanes, telecommunication equipment, cotton, or grain, it ought to grant Chinese goods tariff treatment equal to that conferred on most other countries.

This is not to say that the elimination of discriminatory tariffs alone will suddenly reverse the present trend. As the earlier discussion indicated, MFN is only one of many problems that need to be solved as the very different, long-separated Chinese and American economic systems seek to adjust their institutions for doing business. Yet MFN is an important factor. It is also a highly visible symbol of American goodwill, about which Peking is understandably sensitive for historical reasons. Not only did America discriminate against Chinese goods by continuing to ban all trade with the PRC for almost two decades after the end of the Korean war, but also in the nineteenth century, after the European powers used armed force to exact MFN treatment for their exports to China without granting China reciprocity, the United States shared in the benefits of this unequal arrangement for many years. Chinese officials of today have told American diplomats that the PRC stays out of many American markets because it considers the absence of MFN treatment unfair.³⁷

The trade legislation that the Administration has proposed to the Congress would grant the President authority to conclude international agreements extending MFN treatment for renewable three year periods to any Communist country, subject to a ninety-day Congressional veto procedure and subject to the President's right to suspend or withdraw MFN at any time.³⁸

At this writing, prospects for passage of the President's trade bill are uncertain. In addition to the anticipated opposition of organized labor, protectionist industry and dedicated anti-Communists, a new and formidable obstacle to the bill has arisen in the widespread Congressional determination not to confer trade benefits upon the Soviet Union so long as it continues to restrict the emigration of its Jewish nationals. This has led to the introduction of a bill in the House of

Representatives entitled the "Act for Freedom of Emigration in East-West Trade" and a similar proposal in the Senate.³⁹ The House bill (1) prohibits the extension of MFN to "any non-market economy country" that denies its citizens the opportunity to emigrate or imposes significant financial impediments to emigration; (2) prevents such a country from receiving U.S. government credits and credit and investment guarantees; and (3) precludes the President from concluding any commercial agreements with such a country. The Senate version is virtually identical except that it does not prohibit conclusion of commercial agreements.

These proposals, which the press has compendiously dubbed "the Jackson-Vanik amendment," represent an effort to persuade the Soviet Union to terminate its so-called "education tax" and other barriers to free emigration that have worked particular hardship on Jews wishing to leave, and public discussion has focused upon their impact on Soviet-American trade. Nevertheless, the language of the proposals is not limited to the Soviet Union but embraces every "non-market economy country" that restricts emigration. Furthermore, neither the proposed statutory language nor the statements of its sponsors limit the applicability of these bills to situations where a nonmarket-economy country discriminatorily restricts emigration on the basis of race, religion, ethnic origin, or similar factors. Rather, the proposals appear to prohibit MFN treatment and other commercial benefits if the country in question restricts emigration for any reason whatever. Although their sponsors frequently allude to the right to free emigration enshrined in the Universal Declaration of Human Rights adopted by the UN in 1948, the proposals themselves go beyond the Declaration, which contains a general escape clause that subjects the right to emigrate "to such limitations as are determined by law solely for the purpose of securing due recognition and respect for the rights and freedoms of others and of meeting the just requirements of morality, public order and the general welfare in a democratic society."

In these circumstances this proposed legislation would necessarily apply to the PRC. It is a nonmarket-economy country that plainly restricts emigration, although its restrictions are not designed to discriminate against any racial, religious, ethnic, or other subgroup of its society, nor do they appear to have such a discriminatory effect.

Adoption of the proposed legislation in either of its present forms would deal a devastating blow to the gradually developing, vitally important Sino-American reconciliation. It would deny both the United States and the PRC the previously mentioned benefits of MFN treatment for Chinese products. More important, and virtually unknown to the American public, it would prevent the U.S. government from directly or indirectly extending credits or credit guarantees to the PRC at a time when the PRC might at long last accept credits from Western countries in order to increase its purchases abroad substantially. It would also prevent the government from in any way

guaranteeing any indirect American investments that the PRC may eventually come to accept. For example, before obligating itself to spend millions of dollars drilling for oil under a production-sharing agreement, an American company would presumably wish to obtain a U.S. government guarantee against subsequent Chinese interference with what would be tantamount to an investment in China. But the proposed legislation would not permit such a guarantee. Finally, the House version would prevent the President from even concluding a commercial agreement with the PRC, although a bilateral agreement is badly needed to establish an appropriate framework for trade.

MFN, credits, credit and investment guarantees, and commercial agreements are all instruments that the world's other industrialized countries are prepared to employ in competing with the United States for the China trade. If the United States denies itself these instruments, it will lose out on a significant share of that trade and damage its political relations with the PRC.

No adequate reason has been advanced for applying the so-called Jackson-Vanik amendment to the PRC, and indeed little attention has been devoted to its bearing upon China. In the existing circumstances, it would make no more sense to apply this prohibition to China than to the many market-economy countries that enjoy MFN and other commercial benefits despite their severe restrictions upon emigration.

Indeed, we ought to consider whether it is possible for the United States, without hypocrisy, to insist that the PRC let down its barriers to emigration. If millions of Chinese were permitted to leave their country, one wonders how many of the proponents of free emigration in the Congress would vote to admit them to the United States, even assuming that the racial attitudes underlying the Oriental Exclusion Acts expired together with that obnoxious legislation. The record of other countries in this regard also fails to inspire confidence. We should recall that when, during the spring of 1962, the PRC did relax emigration barriers for a brief period, the United Kingdom sealed Hong Kong's border with China because it could not absorb the exodus. Viewing the matter in this light, one can argue that the People's Republic has actually assisted the rest of the world by not permitting the departure of millions of its nationals but instead adequately feeding, clothing, and housing one-fourth of humanity for the first time in China's history.

In any event, even if free emigration from China is an objective that the United States sincerely wishes to achieve, continuing denial of mutually beneficial economic advantages surely is not going to pressure Peking into yielding. The PRC will only regard such an attempt as an unfriendly gesture that is both politically and economically foolish.

Moreover, given the intense Sino-Soviet rivalry, if the United

States should extend MFN and other economic benefits to China before resolving its difficulty with the Soviet Union, it will be providing the latter with an even more powerful stimulus to permit the emigration of Soviet Jews in order to obtain the long-awaited comparable benefits for Soviet-American relations. Therefore, if Congress deems it necessary to enact the so-called Jackson-Vanik amendment, it would be desirable to narrow the scope of the legislation to avoid application to China. As Senate Majority Leader Mike Mansfield has wisely recommended, the development of commercial relations with China should not be delayed pending resolution of the Soviet emigration dilemma.⁴⁰

CONCLUSION

This essay began with the observation that the American motivation for détente with China was essentially political rather than economic. Yet it is apparent that the implications of the détente for trade are profound. It is also apparent that the implications of trade for détente are profound. Although trade was not a major factor in determining the American desire for a new relationship with China, it is beginning to play a vital role in nourishing that relationship. A broad segment of American business now appreciates the idea that it is acceptable and even desirable and profitable to trade with China. This influential and increasingly large stratum of American society has begun to learn about China, to diffuse its newly acquired knowledge in the community, and to acquire a vested interest in expanding contacts with the People's Republic. No longer will Americans be dependent upon a small group of diplomats, journalists, and academic specialists for their impressions of new China. Moreover, U.S. policy-makers are operating on the assumption that "[t]rade fosters habits and attitudes of adaptation, accommodation and agreement which, hopefully, will be carried over into political and security relationships."⁴¹ They may be right, and in any event it is essential to explore the possibility.

Peking has also demonstrated its sensitivity to the value of trade. The past two years of contacts with American businessmen have been a period of intense information-gathering for the PRC. This exposure seems to have enhanced its awareness of how useful high-level technology can be to China's modernization, and business transacted to date has shown the Chinese that it is possible to deal with Americans on a satisfactory basis. The Chinese have also taken advantage of trade contacts to acquire a broader perspective of American society than has been available through scanning the media and through meeting diplomats and cultural exchange groups. Peking knows full well that through trade it is building an important constituency in the United States that will contribute to the normalization of Sino-American relations; and, like Washington, it is betting that economic cooperation will foster cooperation in other areas. It knows too that by forging strong

commercial links with the United States it further demonstrates to the Soviet Union the solidity of its American connection.

Plainly, both Peking and Washington can take some satisfaction in the conduct of their trade to date. How quickly they progress during the next few years will depend upon how hard they try. Yet even skeptics will have to concede that prospects are bright.⁴²

NOTES

1. Henry S. Albinski, Australian Policies and Attitudes Toward China (Princeton, N.J.: Princeton University Press, 1965), p. 267.
2. "Red China Limits Talks with U.S.," New York Times, Sept. 14, 1960, p. 11.
3. "Interview with Ch'en Ming," Far Eastern Economic Review (FEER) 44, no. 8 (May 21, 1964): 366.
4. See "Chou En-lai Statement," Kyodo (Peking), Apr. 20, 1970, in Foreign Broadcast Information Service, I, no. 76 (Apr. 20, 1970): A 10.
5. For a review of China's attitude toward trade with the United States from 1949 to 1970, see Jerome Alan Cohen, "Chinese Law and Sino-American Trade," in A. Eckstein, ed., China Trade Prospects and U.S. Policy (New York, Washington, and London: Praeger Publishers, 1971), pp. 137-39. See also Oliver Lee, "U.S. Trade Policy Toward China: From Economic Warfare to Summit Diplomacy," in Arthur Stahnke, ed., China's Trade with the West, A Political and Economic Analysis (New York: Praeger Publishers, 1972), p. 33.
- Even today this anger over U.S. trade controls continues. For example, when the PRC agreed to purchase American equipment from RCA and Boeing, it refused to allow the seller to write into the force majeure provision of the contract a stipulation that the denial of an export license by the U.S. government would free the seller from its obligation.
6. For the complete text of the joint communiqué, see Department of State Bulletin (hereafter DSB) 66 (1972): 435.
7. Washington Post, Apr. 24, 1972, p. A-8, quoted in Robert Starr, "Developing Trade with China," Virginia Journal of International Law 13, no. 1 (Fall 1972): 32, n. 72.
8. See Starr, op. cit., pp. 24-25.
9. For comparable American corporate reactions to trade with the Soviet Union, see Harold J. Berman, "East-West Trade: Business Before Pleasure," Nation 216, no. 20 (May 14, 1973): 620-21.
10. Richard Phalon, "Stans Sees Slow Growth in China Trade," New York Times, Feb. 3, 1972, p. 13.
11. In 1971 U.S. imports from the Soviet Union were \$56,811,247. See U.S. Bureau of the Census, U.S. General Imports—World Areas, Country, Schedule A Commodity Groupings, and Method of Transporta-

tion, report FT 155, 1971 Annual (Washington, D.C.: Government Printing Office, 1972), p. 292. In 1971 U.S. exports were \$160,464,621. See U.S. Bureau of the Census, U.S. Exports—World Areas, Country, Schedule B Commodity Groupings, and Method of Transportation, report FT 455, 1971 Annual (Washington, D.C., 1972), p. 381.

12. See William J. Casey, Undersecretary of State for Economic Affairs, "Trade as a Factor in Improving United States-PRC Relations," an address to the National Council for United States-China Trade Conference, May 31, 1973 (this conference is hereafter cited as "Conference" and this speech as "Address by Undersecretary Casey").

13. See Robert F. Dernberger, "Prospects for Trade Between China and the United States," in Eckstein, ed., op. cit., pp. 185 ff.

14. Alexander Eckstein, "Introduction," ibid., p. xxvii. See also Dwight H. Perkins, "Is There a China Market?" Foreign Policy no. 5 (Winter 1971-72): 88, 105-06.

15. See "Presidential Assistant Kissinger Visits Asia: Transcript of News Conference, February 22, 1973," DSB 68 (1973): 316.

16. See Dick Wilson, "Breaking the Ice," FEER 80, no. 13. (Apr. 2, 1973): 43. See also Lucian W. Pye, "The Prospects for Development of Commercial Relations Between the United States and China," Conference (hereafter cited as "Address by Professor Pye").

17. Address by Professor Pye. See Marshall Green, "Trade in the Context of United States Relations with the People's Republic of China," Oct. 9, 1972; DSB 67 (1972): 491. See also Address by Undersecretary Casey.

18. See Jerome Alan Cohen, "When Will China and the United States Complete the 'Normalization' of Relations?" in Francis O. Wilcox, ed., China and the Great Powers, to be published by Praeger.

19. Address by Secretary of Commerce Frederick B. Dent, Conference (hereafter cited as "Address by Secretary Dent").

20. Ibid.

21. Alfred LeS. Jenkins, speech before the National Council for United States-China Trade, May 31, 1973.

22. Address by Secretary Dent.

23. The quotation is from an undated summary distributed by the National Council for United States-China Trade.

24. Report by Thornton A. Wilson of the National Council for United States-China Trade's Board of Directors, on behalf of the Program and Liaison Committee, Conference (hereafter cited as "Report by Thornton A. Wilson").

25. Address by Secretary Dent.

26. Henry Tanner, "U.S. Eases Stand in Debate at UN on Seating Peking," New York Times, Nov. 13, 1970, p. 1.

27. Report by Thornton A. Wilson.

28. Address by Undersecretary Casey. See also Stanley B. Lubman, "Trade with China Enters a New Stage," New York Times, June 10, 1973, sec. III, p. 3. For a brief discussion of the background

of the private claims and blocked assets problems, see John J. Fitzpatrick, Jr., and Toby B. Producers, "Blocked Assets and Private Claims: The Initial Barriers to Trade Negotiations Between the United States and China," Georgia Journal of International and Comparative Law 3, no. 2. (1973): 449.

29. For the text of the Sino-American trade agreement see "U.S. and USSR Sign Agreements on Trade and Lend-Lease," DSB 67 (1972): 595-604. For a PRC scholar's view of trade agreements, see Wang I-wang, "What Are the Differences Between Commercial Treaties and Trade Agreements," Kung-ming jih-pao (Enlightenment daily), May 12, 1950, p. 3; English translation in Jerome Alan Cohen and Hungdah Chiu, People's China and International Law: A Documentary Study (Princeton, N.J.: Princeton University Press, 1974), item 31-13. For an authoritative study of PRC practice, see Gene T. Hsiao, "Communist China's Trade Treaties and Agreements (1949-1964)," Vanderbilt Law Review 21, no. 5 (1968): 623.

30. For analysis of the problems of assuring the security of foreigners in China, see Jerome Alan Cohen, "The Personal Security of Businessmen and Trade Representatives," in Victor H. Li, ed., Law and Politics in China's Foreign Trade (Seattle: University of Washington Press, 1974). For background on the Chinese legal system, see Jerome Alan Cohen, The Criminal Process in the People's Republic of China, 1949-1963: An Introduction (Cambridge, Mass.: Harvard University Press, 1968).

31. See Dernberger, op. cit., pp. 272-73.

32. Address by Undersecretary Casey. See also Address by Professor Pye.

33. See "SOHIO, Mainland China Set Royalty Agreement," Wall Street Journal, May 7, 1973, p. 6.

34. Address by Professor Pye.

35. Address by Undersecretary Casey.

36. Eugene A. Theroux, "A Long March to Expanded Trade?" Congressional Record 119, no. 56 (Apr. 10, 1973): S6863. The extent of discrimination against Chinese imports can be seen from the fact that hand-knotted carpets from Iran, for example, are subject to an 11 percent duty while comparable Chinese carpets are subject to a 45 percent duty. See David C. Buxbaum, "American Trade with the People's Republic of China: Some Preliminary Perspectives," Columbia Journal of Transnational Law 12, no. 1 (1973): 46, n. 32.

37. Address by Undersecretary Casey. For a PRC scholar's view of MFN, see Wang Yao-t'ien, Kuo-chi mao-i t'iao-yüeh ho hsieh-t'ing (International trade treaties and agreements; Peking: Financial and Economic Press, 1958), pp. 25-33; English translation in Cohen and Chiu, op. cit., item 33-2.

38. See Title V of H.R. 6767, Trade Reform Act of 1973, 93rd Congress, 1st session, introduced Apr. 10, 1973.

39. H.R. 3910, 93rd Congress, 1st session, introduced Feb. 7,

1973. Amendment on East-West Trade and Freedom of Emigration, 93rd Congress, 1st session, introduced Mar. 15, 1973. See Congressional Record 119, no. 41 (Mar. 15, 1973): S4822.

40. Sen. Mike Mansfield, "China and the US: The New Congress and the New China—An Agenda for Action," in Francis O. Wilcox ed., op. cit.; see note 18.

41. Address by Undersecretary Casey.

42. Since this essay was written, there have been a number of encouraging developments. Representatives of the National Council for United States-China Trade completed a very successful visit to China. They arranged for the CCPIT to send the PRC's first trade delegation to the United States in 1974 and to follow this with an exchange of trade exhibitions between the two countries, exchanges of selling and purchasing missions, and exchanges of trade, economic, and technical information. In addition to the regularly scheduled discussions with CCPIT and government foreign trade officials, members of the National Council delegation also met with representatives of the Bank of China and with the Legal Department of the CCPIT to review specialized questions of mutual interest. The latter meeting dealt with conciliation and arbitration procedures, protection of patents, trademarks and copyrights, standard trade contract and insurance clauses, and governmental regulation of imports and exports.

The autumn Canton Fair offered further evidence of China's desire to expand trade with the United States. The number of American businessmen participating (over 200) again doubled, as it has at every fair since they became welcome in the spring of 1972. They made record purchases of roughly (U.S.) \$25 to 30 million in Chinese goods, and sold at least \$15 million in U.S. goods. Representatives of a dozen American firms were subsequently invited to Peking to continue negotiations relating to exports to China. The PRC also announced, among other purchases, an order for five more ammonia plants from the M. W. Kellogg Co., at a cost of some \$130 million. Moreover, Chinese pricing practices at the fall fair were far more reasonable than they had been at the previous fair, and trade officials made it clear that the PRC had decided to make an effort to comply with United States Government regulations relating to imports and with the needs of the American market. This explicit resolve, which the National Council delegation also noted, appears to be related to a high-level policy decision to take the necessary technical steps to allow foreign trade to flourish. The recent appointment of Li Ch'iang, a veteran commercial expert, to replace Pai Hsiang-Kuo as Minister of Foreign Trade seems to reflect this new policy.

Thus as of mid-December 1973, although American transportation difficulties were slowing grain deliveries to the extent that 1973 Sino-American trade figures might fall somewhat below the projected \$900 million estimate, bilateral trade developments continued to look bright.



MINNESOTA HISTORICAL SOCIETY

Copyright in the Walter F. Mondale Papers belongs to the Minnesota Historical Society and its content may not be copied without the copyright holder's express written permission. Users may print, download, link to, or email content, however, for individual use.

To request permission for commercial or educational use, please contact the Minnesota Historical Society.



www.mnhs.org