

CRS Report for Congress

Received through the CRS Web

China-U.S. Summitry: Premier Zhu Rongji's April 1999 Visit

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Summary

On April 8, 1999, Premier Zhu Rongji will begin his first official visit to the United States since his selection as China's Prime Minister in March 1998. Zhu's visit is another important step in a seemingly perennial effort to improve U.S.-China relations. Although U.S. policymakers have tried to lower expectations about the visit's potential achievements, there is widespread speculation that a deal may be in the works that could pave the way for China's accession to the World Trade Organization (WTO), a matter under negotiation for over a decade now. Premier Zhu has been candid about his hopes for such an agreement. But both U.S. and Chinese government officials remain hamstrung by domestic political constraints that may make it difficult to reach accommodation on substantive matters. President Clinton is already under fire for his China policy, which some critics allege has made too many concessions to Beijing and has even compromised U.S. national security. Although Zhu is in a stronger position at home, his ability to make concessions sufficient for WTO accession is constrained by China's growing economic, political, and social problems, some of which are the result of new, painful reforms championed by Zhu himself. Any agreement on WTO that may come out of the Zhu visit is therefore likely to be challenged by key constituencies in both countries.

Background to Current U.S.-China Troubles

For the past decade, the U.S.-China relationship has continued to seesaw between notable improvements and frustrating setbacks. Eighteen months ago, much about the relationship appeared destined to improve its prospects. Clinton Administration officials continued to emphasize dialogue and engagement with Chinese leaders, and they believed that China had made important shifts in its willingness to abide by international agreements, such as in its decision to minimize nuclear cooperation with Iran. Hong Kong's reversion to Chinese rule, anticipated with trepidation, occurred without incident on July 1, 1997. And despite the devastating financial crisis that affected all major Asian countries beginning in late 1997, China appeared to be weathering the crisis relatively well,

and was applauded by American officials for not devaluing its currency, the renminbi (RMB). Taken in microcosm, these developments suggested that a greatly improved atmosphere was possible, and they helped bring about the resumption of U.S.-China summitry, suspended since 1989. China's President, Jiang Zemin, made a state visit to Washington in October 1997, and this was swiftly followed by President Clinton's state visit to China in June 1998.

But concurrent with these positive developments, unexpected challenges have also plagued the relationship, and these appear to have intensified throughout 1998 and 1999. U.S. officials are concerned about a new Chinese crackdown against political dissidence, begun late in 1998, about a reported buildup of missiles along the Chinese coast facing Taiwan, and about the increasing U.S. trade deficit with China. Chinese officials object strongly to U.S. proposals involving a theater missile defense (TMD) system in Asia, and they have warned of serious consequences if a proposed TMD system should include defense of Taiwan, which Beijing considers to be part of China. Disturbing reports surfaced in the American press suggesting a darker aspect to the relationship — one involving illegal Chinese contributions to American political campaigns, allegations that American aerospace companies may have illegally transferred sensitive satellite launch information to China, and charges that China has conducted espionage in the United States. Problems also persist in the international arena. While Administration officials defend the engagement policy by referring to the benefits of Chinese cooperation on North Korea, Pakistan, and India, China is seen to be less cooperative in the U.N. Security Council on issues such as U.N. involvement in Kosovo and Macedonia.¹

It appears that both U.S. and Chinese officials are seeking ways to reduce tensions and reach accord on issues of mutual interest. But while the willpower may be there, given the significant constraints imposed by the current political environment, many people are uncertain that a meaningful agreement on substantive issues can be reached during Zhu's official visit. In addition to disagreements with the United States over TMD, Chinese officials have strongly criticized the U.S. decision in February 1999 to deny, for security reasons, export licenses to the Hughes Electronics Corporation for a \$450 satellite intended for launch in China. For its part, the United States remains critical of China's human rights record, particularly in light of widespread recent reports about a new crackdown against democracy activists in their efforts to form an independent political party. U.S. officials are also dealing with evidence that lax security procedures at U.S. national science labs in the 1980s may have contributed directly to significant improvements in China's nuclear weapons capabilities — a charge which Chinese officials have denied.

The area most often mentioned as a potential basis for accord is some type of forward movement on China's application to join the World Trade Organization (WTO). China is thought to have made its entry into the WTO a top priority, and is frustrated that negotiations on its WTO access have been going on for 13 years. The United States contends that China needs substantially to reform its trade regime before it can gain WTO entry. China, for its part, has argued for more lenient accession terms that would allow

¹ On February 25, 1999, China used its U.N. Security Council veto to halt the extension of the U.N. peacekeeping force in Macedonia (in country since 1993). The vote was a retaliation for Macedonia's recent diplomatic recognition of Taiwan.

it to phase in needed reforms more gradually. While many of these issues have yet to be resolved, timing has become important this year for China's WTO accession, since a November 1999 WTO ministerial meeting is likely to result in decisions that would make accession for non-members even more difficult. Thus, 1999 is seen by many to be the last window of opportunity for China's WTO accession for the foreseeable future.²

China's Goals and Constraints

China is now in the midst of a decidedly ambitious 5-year program for achieving a series of sweeping reforms in economic and fiscal policy, and in bureaucratic infrastructure. Among other things, China's leadership last year committed itself to keeping annual growth high and inflation low (at 8% and 3%, respectively);³ reforming, closing, or privatizing China's moribund state-owned-enterprises (SOEs) and its frail and nearly insolvent state banks; requiring the People's Liberation Army (PLA) to divest itself of its non-military, profit-making corporate interests; and reducing the bloated state bureaucracy, including the number of government employees, by as much as 50%.

Although clearly such an ambitious reform program must have the active support of the senior leadership, it is Premier Zhu Rongji who is most closely associated with the reform agenda. Zhu has long had a reputation for advocating the kinds of forward-looking economic and structural reforms that American specialists have said China greatly needs in order to ensure its economic development goals. Often described as "blunt spoken," his directness and candor (along with his willingness to hold live press conferences and take questions from reporters) are generally perceived by Americans as a refreshing change from the usual staid approach taken by China's senior leaders. As Premier, a position to which he was elevated in March 1998 for one 5-year term, Zhu actively presides over and directs China's State Council bureaucracies; thus, he is not only considered the chief architect of China's ambitious reform agenda, but is also in charge of its implementation. His position as head of the government bureaucracy gives him wide-ranging jurisdiction; nevertheless, he is most strongly associated with an economic portfolio, and is often given the moniker of China's "economic czar."

Although Zhu in recent weeks has discussed a number of the thornier issues in U.S.-China relations, including TMD and Taiwan, he is thought to have placed China's WTO accession at the top of a list of issues to discuss in Washington. According to Chinese press reports, Zhu is putting together a series of economic and trade measures that he hopes will result in an agreement with the United States on China's accession to the WTO.⁴ Although he has not gone into specifics about what these measures may be, in a

² See CRS Issue Brief 98014, China's economic conditions, and CRS Issue Brief 91121, China-U.S. trade issues, both by Wayne Morrison.

³ Actual growth for the previous year was 7.8% rather than the targeted 8% rate, according to Zhu Rongji's work report delivered at the annual meeting of the National People's Congress in March 1999. Cited in FBIS online, March 5, 1999, Document ID FTS 19990305000649. Chinese leaders reportedly have lowered projections for annual growth in 1999 to 7%.

⁴ Lam, Willy Wo-Lap, "Zhu's 'basket for U.S.' as he shops for trade group entry," in *South China Morning Post*, March 17, p. 7; "Comparison — Zhu Rongji News Conference" (of March (continued...))

mid-March 1999 press conference during which he discussed a broad range of issues in U.S.-China relations, Zhu was quoted as saying that China was “prepared to make the largest possible concessions” for WTO access. This would be possible, he said, largely because continued economic reforms had given Chinese leaders a greater ability to “supervise and regulate” China’s economy.⁵ U.S. trade experts have speculated that these concessions would include a further reduction of tariffs on imports. But according to Zhu’s own statements, Chinese leaders also may be considering measures to allow direct foreign investment in key domestic markets that hitherto have been closed or highly restricted, such as the telecommunications and electronics sectors, banking services, and possibly the agricultural sector.⁶ Only by “encouraging competition” in such sectors, to quote Zhu, will there be ultimate benefit to these and other outdated and inefficient sectors in China’s economy.⁷

Even though Zhu Rongji may be willing to make significant concessions to assure China’s WTO accession, the more important question is whether he will be able to make them. Although he still appears to be in a strong position politically at home, the domestic reforms Zhu has pushed for are painful, cutting across a wide group of constituencies that have vested interests in the status quo. Zhu remains potentially vulnerable to resistance and criticism from these groups, many of whom are potential victims of the kind of international competition that WTO obligations could bring. Almost exclusively, the entities with something to lose from WTO accession are part of the official state sector; the private and entrepreneurial parts of the Chinese economy, already competitive, stand to be the chief beneficiaries of WTO membership.

This official concern about the state sector is a serious complication in Premier Zhu’s efforts to gain support for substantive and meaningful economic concessions on WTO. Zhu’s support for a decision requiring the PLA to sell off its money-earning corporate interests, for instance, has won him few friends in China’s military establishment. Indeed, a key military leader, a vice-chair of the crucial Central Military Commission, has been described in one press account as an unexpected leader in the “say no to Zhu” contingent in China.⁸ There are others who may want to say no to Zhu: ministers of state government bureaucracies faced with massive cuts in personnel and resources; demobilized soldiers; and workers at state-owned-enterprises who may lose their jobs, housing, and medical care as a result of SOE reform. Some Chinese and U.S. economists also wonder whether such key, protected sectors in China as telecommunications and agriculture can absorb the economic shock of an influx of highly competitive foreign imports without resulting in massive bankruptcies and widespread unemployment. Despite these constraints, Zhu is

⁴(...continued)

15, 1999), in *Xinhua*, FBIS online, March 16, 1999.

⁵ Ibid.

⁶ In his March 15 press conference, Zhu said that China must introduce competition into the state telecommunications monopoly held by China Telecom, and suggested it was his intention to open the telecommunications market gradually to foreign investors. He also suggested that China would allow foreign banks to begin doing business in renminbi, China’s currency.

⁷ Ibid.

⁸ This is General Zhang Wannian, according to Willy Wo-Lap Lam, “Critics Besiege Zhu Rongji,” in *South China Morning Post*, Nov. 18, Nov. 1998, p 17.

thought to be exerting enormous pressure at home to gain support for enough concessions to gain WTO access on what U.S. officials have insisted must be “commercially viable” terms.⁹

U.S. Goals and Constraints

According to Administration officials, a broad range of issues in U.S.-China relations will be on the table for discussion during Premier Zhu’s visit.¹⁰ At the top of this U.S. list are issues involving non-proliferation and China’s human rights record, the latter being of particular congressional concern.¹¹ In addition, according to one U.S. official, the United States will use the occasion of Zhu’s visit to “reaffirm our position on Taiwan,” and to emphasize that the United States will continue to adhere to its obligations under the Taiwan Relations Act.¹² In addition to these perennial concerns, China’s potential WTO membership is clearly also on the minds of U.S. policymakers. U.S. trade officials have made a number of trips to China within the last few weeks, seen to be part of an intensive effort to reach accord on a WTO agreement, and recent statements by U.S. officials suggest that China has made substantial (although still insufficient) progress toward meeting WTO requirements.¹³ One recent trade publication has reported that China is offering to allow foreign investors a 35% stake in telecommunications firms, a 40% stake in banks, and a 50% stake in insurance companies by the year 2005.¹⁴ Still, U.S. officials have been endeavoring to lower expectations about the potential achievements of the Zhu Rongji visit.

In spite of the differences plaguing U.S.-China relations, many U.S. policymakers find much to support in the principles behind China’s current reform agenda, including new validation of the private sector, the emphasis on market competition, and attempts to place limits on the role of the communist state apparatus. Thus, U.S. officials may wish to find ways to support Zhu Rongji, the reform agenda’s principal advocate, in an effort to help him with his own political and economic problems in Beijing. An agreement paving the way for China’s WTO accession would be the centerpiece of Zhu’s visit, and could

⁹ According to USTR Charlene Barshefsky, the United States will not agree to “a sweetheart deal” to give China WTO access on terms of special privilege. Quoted in *Chicago Tribune*, March 5, 1999, p. a35.

¹⁰ These issues were enumerated in testimony by Stanley Roth, Assistant Secretary of State for East Asia, in hearings before the Senate Foreign Relations Committee on March 25, 1999.

¹¹ Responding to intense congressional pressure on the human rights issue, the Clinton Administration announced on March 26, 1999, that the United States would introduce a resolution condemning China’s human rights record at the U.N. Conference on Human Rights in Geneva some time in April 1999.

¹² Roth, *Ibid.*

¹³ On March 5, 1999, U.S. Trade Representative Charlene Barshefsky left China after two days of talks on WTO. During the talks, she met for nearly 3 hours with Premier Zhu Rongji. On March 24, 1999, U.S. Assistant Trade Representative Robert Cassidy arrived in China for further talks, during which there was enough progress to justify a second visit by Barshefsky, who left for Beijing on March 28, 1999. Also in China beginning March 28, 1999, was U.S. Secretary of Commerce William Daley, scheduled to be in China until April 1, 1999.

¹⁴ *China Weekly Fax Bulletin*, Orbis Publications, Washington D.C., March 29, 1999. www.orbispub.com

strengthen his hand against his own critics at home. But in light of fierce American media attention on possible U.S. national security breaches, and given current congressional tensions with the White House over a broad range of issues in U.S. China policy, some have suggested that Administration officials appear to have limited flexibility to make bold policy moves unless those actions have broad domestic support.

Congressional Actions

Congressional opinion remains divided on what the United States should seek to gain from Premier Zhu's visit. In a Dear Colleague letter (dated March 15, 1999) proposing legislation to require prior congressional approval before the United States could support China's WTO accession, Senators Jesse Helms and Fritz Hollings stressed human rights and security issues, saying:

...the [human rights] situation in China has degraded significantly ... Additionally, we remain troubled by the allegations regarding the possible illegal transfer of technology to China, as well as lingering questions over Chinese espionage and involvement in U.S. elections. Any trade agreement with China would be premature before these issues are resolved.

In floor debate on a similar motion (ultimately tabled by the Senate), Senator Hutchinson stressed common congressional themes: skepticism about Chinese promises, doubts about whether China had made enough market reforms to fulfill WTO obligations, and objection to "lowering the bar" for China on terms of membership.¹⁵

Prospects

Despite the low profile being taken by U.S. officials, the frequency and apparent intensity of U.S.-China talks over the last two months suggest that both sides believe they are close to an agreement on at least the basic framework for China's future accession to WTO membership. How that agreement is viewed in the United States is likely to depend on whether the United States is perceived to have backed off of its insistence that China be admitted on commercially viable terms. Some have suggested that a WTO agreement could be made more palatable if it were followed by other agreements or understandings designed to appeal to unhappy constituencies on either side. These could include understandings involving Taiwan's swift accession to the WTO¹⁶ (widely supported within Congress) and on China's receipt of permanent most-favored-nation trade status (MFN, now officially known as NTR, or normal trade relations), something long sought by Beijing and supported by some Members of Congress. Although failure to reach an understanding on WTO during Zhu's visit — something which a Chinese spokesman has said China is "mentally prepared" — would not necessarily mean a further erosion in U.S.-China relations, it would indicate that agreements on far more fundamental differences in the relationship are not likely in the foreseeable future.

¹⁵ Senate floor debate on the Hutchinson amendment to S. 544, making emergency supplemental appropriations and rescissions. The Senate tabled the amendment, 69-30.

¹⁶ Taiwan has also had a long-standing application for admission to the WTO as a "customs territory." Beijing has strongly opposed Taiwan's admission to the WTO before China's admission.