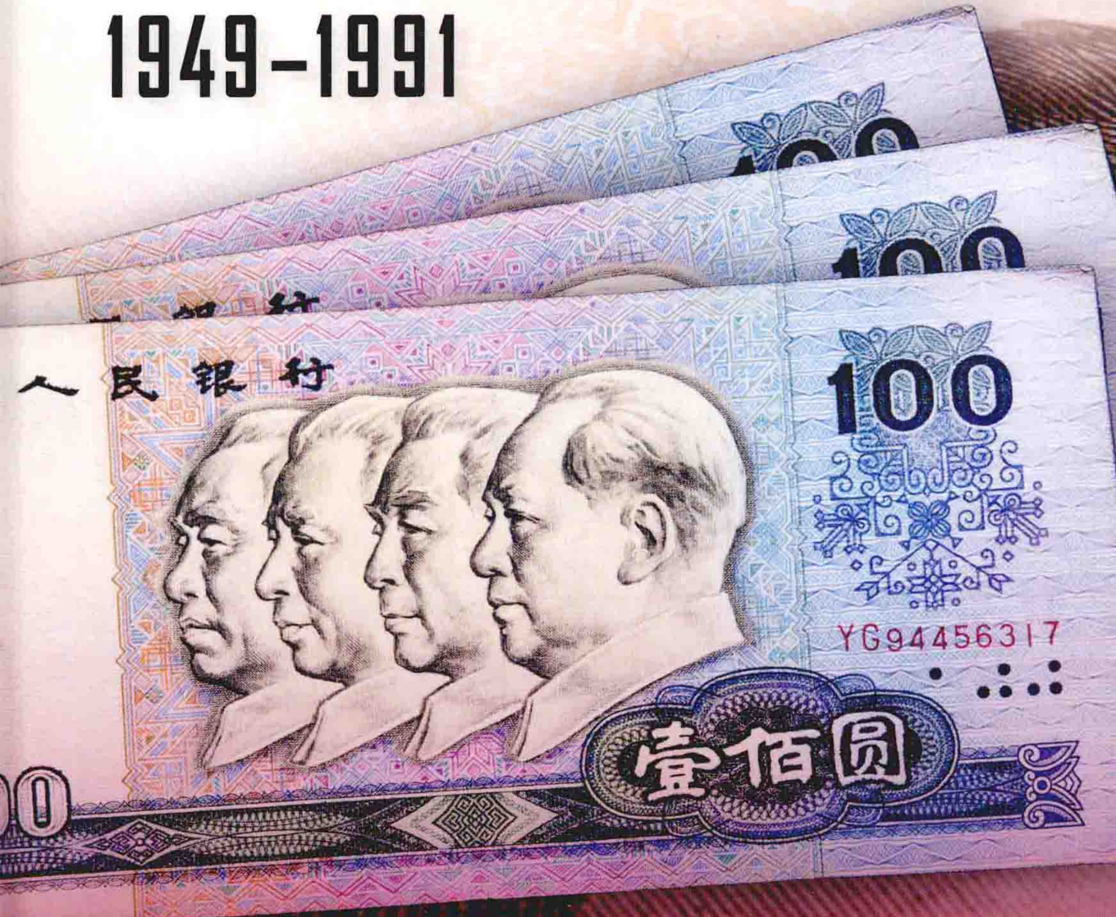
BEIJING'S ECONOMIC STATECRAFT DURING THE COLD WAR

1949–1991



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Beijing's Economic Statecraft during the Cold War, 1949–1991

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For my wonderful colleagues in the
History Department of the
University of Maryland, College Park, USA

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Shu Guang Zhang
The Praia, Macau
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Abbreviations

ADM	Assisting Deliverer Ministry
CCFA	Central Commission on Foreign Affairs
CCFE	Central Commission on Finance and Economy
CCP	Chinese Communist Party
CCPIT	China Council for the Promotion of International Trade
CFEP	Commission on Foreign Economic Policy (US)
CHINCOM	China Committee (Paris Group)
COCOM	Coordinating Committee (Paris Group)
CPA	Council of Political Affairs
CPSU	Communist Party of the Soviet Union
DPRK	Democratic People's Republic of Korea
DRV	Democratic Republic of Vietnam
GAC	General Administration of Customs
GBFEL	General Bureau of Foreign Economic Liaison
GDM	General Deliverer Ministry
GMD	Guomindang (Kuomintang)

IDCA	International Development Cooperation Agency (US)
MFEL	Ministry of Foreign Economic Liaison
MFET	Ministry of Foreign Economy and Trade
NLF	National Liberation Front
NPC	National People's Congress
NSC	National Security Council (US)
PLA	People's Liberation Army
PRC	People's Republic of China
PRM	People's Republic of Mongolia
SCFEL	State Commission on Foreign Economic Liaison
WCJA	Working Committee on Japanese Affairs

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Introduction

Economic Statecraft Revisited

"By almost any criterion," John Franklin Copper wrote in his celebrated book *China's Foreign Aid* in 1976, "China is a poor country. . . . [Yet] Chinese leaders appear to be committed to giving foreign aid," which indeed "reflects China's foreign policy objectives both in the short run, i.e., the more specific goals, and in the long run, i.e., future goals related to Peking [Beijing]'s view of the world."[1] After sixty-plus years, the People's Republic of China (PRC) is no longer a poor country by any contemporary economic measure, and its current leaders remain committed to pursuing foreign policy goals with foreign aid.[2] Moreover, Beijing has not only aided other governments but has also imposed economic sanctions on other countries; it has not only sought economic aid from other governments but has also been constantly subjected to international economic penalties. China's economic statecraft encompasses at least these four dimensions. How, then, does one characterize the nature and scope of Beijing's economic statecraft? Does China's economic instrument of foreign policy fit the description, or prescription, found in contemporary studies of economic statecraft? What can be derived from the Chinese case that might capture the attention of academics and policymakers dedicated to understanding the political economy of international diplomacy? These questions motivate this study.

I

Both China's economic statecraft behavior and its potential are significantly understudied. If economic statecraft is defined as a government's ability, intent, policy, and preparedness to use economic instruments in pursuit of foreign policy goals, China stands out as an ideal test case with which to explore many core theoretical assumptions in the field of international relations as well as international political economy.

National power is multidimensional in international politics. A nation-state can hardly ignore the instrumentality of its economic power, actual or potential, either to protect or to advance its national interests. For centuries, makers of foreign policy and international relations scholars have devoted considerable attention to a government's use of its economic weaponry in diplomacy. In an age of globalization, the widespread employment of economic tools in pursuit of foreign policy objectives has never disappeared from researchers' radar screens. Despite the remarkable efforts by observers and scholars to decode economic statecraft behavior, however, little, if any, consensus has emerged.[3]

In broad purview, economic statecraft entails the employment of economic instruments by a government—the sender—to influence the behavior of another state—the target.[4] Such a characterization gives rise to three core concerns. The first touches on the logic of international economic interdependence. It assumes that nation-states in modern time are economically interdependent, and increasingly so. As one state's economy depends to a greater or lesser degree on the economy of another state, its government is correspondingly either more or less vulnerable to actual or potential interference from the other state. The second concern has to do with the actual or perceived utility of economic power in shaping international relations. Utility measures largely involve inducements and sanctions. Inducements may take the form of rewards or incentives that a state extends to another state to secure the target state's compliance or to change how it pursues its national interests. Sanctions are actions taken by the sender to interfere with the economy of the target for the purpose of coercing the target's compliance with the sender's political objectives.[5] The third concern, and one that is still controversial, is the efficacy of applying economic instruments of foreign policy. In a rational or cost-effective evaluation, the more economic interdependence there is between the sender and the target, the more effective economic diplomacy will be. Each of these three themes has been repeatedly tested and explored in the existing literature.

With regard to the relationship between external economies and diplomatic behavior, at least three competing views exist. One view, largely promulgated by commercial liberalists, assumes that open international markets and free trade encourage international cooperation.[6] When contact and communication among individuals and governments are increased, an established international trade fosters cooperative political relations.[7] Such an assumption also holds that policymakers may view commerce as a substitute for conquest as they pursue the resources needed to enhance national security and promote economic growth. As trade relations grow, the incentives to secure resources through territorial expansion and aggression decline, sometimes to the vanishing point.[8] A corollary view, emphasizes that trade liberalization contributes to economic integration, specialization, and development, making isolation or conflict very costly and thus increasing the likelihood of cooperation and peaceful relations.[9]

On the other hand, mercantilists, economic nationalists, and realists challenge these views. One of their arguments states that open commerce, by influencing power relations among trading partners, does not necessarily enhance but in effect undermines the trading partners' national security. Since the distribution of gains from trade tends to be asymmetric, it is assumed that countries benefiting less from a trade relationship may find their security or political interests jeopardized or threatened by trading partners benefiting more; thus, they may refuse to collaborate politically. Even if states are highly dependent on trade with one another, economic dependence may lead to commercial disputes that, unless contained, might evoke nationalism and trigger political antagonism.[10]

Recent studies have sought to fuse liberal and realist arguments by stressing the importance of states' expectations about future economic relations. One such effort finds that in assessing foreign and defense policy choices, decision makers tend to take into consideration the costs of rupturing existing commercial ties with another state, as well as the loss of any benefit that could otherwise be expected from future trade with that state.[11] If a state anticipates that future benefits from trade with a given trading partner are likely to be large and substantial, then it is unlikely to engage in hostilities that could undermine these benefits. Alternatively, if a state considers that future benefits from trade will be relatively small and insignificant, it is more likely to pursue an aggressive foreign policy. Moreover, it is stressed that the expected gains from trade need not be highly correlated with existing economic relations. Even if states currently conduct very little trade, diplomatic actions that signal their willingness to expand trade in the future can promote political cooperation.[12] After analyzing the effects of preferential trading arrangements, another study concluded that an expectation of future commercial gains helps reduce political tensions, as preferential arrangements, for example, provide an institutional means to promote the expectation of future economic benefits.[13]

Studies of foreign economic sanctions have assumed center stage in the literature on economic statecraft. In part, this focus on sanctions has been driven by "a significant growth" in the use of economic punishment in pursuit of foreign and defense policy goals in the twentieth century.[14] In a rather narrow sense, economic sanctions refer to *coercive economic measures* taken against one or multiple countries for foreign policy purposes.[15] This definition treats the nation-state as the primary subject, thus excluding private or nongovernmental sanctions. In addition, this definition regards economic sanctions as an integral part of international diplomacy, or, put slightly differently, an inescapable foreign and defense policy tool.[16]

Many, however, find this narrow definition unsuitable for foreign policy analysis.[17] The meaning of economic sanctions, David Baldwin argues, must correspond to the concept of "economic techniques of statecraft," which for him entails "governmental influence attempts relying primarily on resources that have a reasonable semblance of a market price in terms of money."[18] Baldwin believes that economic sanctions ought to be broadly defined so as to describe all politically motivated, coercive acts of foreign economic policy. By analogy, diplomatic, cultural, or military sanctions, which also represent attempts at influence by a government, should be counted.[19] Margaret Doxey echoes this recommendation by suggesting the inclusion of other measures, such as the presence of protest, censure, and condemnation; the postponement or cancellation of official visits, meetings, or negotiations over treaties and agreements; a reduction in or limitation of diplomatic representation, including the status of the post and the number of diplomatic personnel and consular offices; the severance of diplomatic relations; and the nonrecognition of new governments or new states.[20]

In seeking to explain the rationale behind the use of economic sanctions, studies almost uniformly stress the utility of sanctions in international