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Background Notes: China, August 1999



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OFFICIAL NAME: People's Republic of China

PROFILE

Geography

Total area: 9,596,960 sq. km. (approximately 3.7 million sq. mi.).

Cities: Capital--Beijing. Other major cities--Shanghai, Tianjin, Shenyang, Wuhan, Guangzhou, Chongqing, Harbin, Chengdu.

Terrain: Plains, deltas, and hills in east; mountains, high plateaus, deserts in west.

Climate: Tropical in south to subarctic in north.

People

Nationality: Noun and adjective--Chinese (singular and plural).

Population (1998 est.): 1.251 billion.

Population growth rate (1997 est.): 0.93%.

Health (1997 est.): Infant mortality rate--37.9/1,000. Life expectancy--70.0 years (overall); 68.6 years for males, 71.5 years for females.

Literacy rate: 82%.

Ethnic groups: Han Chinese--91.9%; Zhuang, Manchu, Hui, Miao, Uygur, Yi, Mongolian, Tibetan, Buyi, Korean, and other nationalities--8.1%.

Religions: Officially atheist; Taoism, Buddhism, Islam, Christianity.

Language: Mandarin (Putonghua), plus many local dialects.

Education: Years compulsory-- 9. Literacy--81.5%.

Work force (699 million): Agriculture and forestry--60%. Industry and commerce--25%. Other--15%.

Government

Type: Communist party-led state.

Constitution: December 4, 1982.

Independence: Unification under the Qin (Ch'in) Dynasty 221 BC; Qing (Ch'ing or Manchu) Dynasty replaced by a republic on February 12, 1912; People's Republic established October 1, 1949.

Branches: Executive--president, vice president, State Council, premier. Legislative--unicameral

National People's Congress. Judicial--Supreme People's Court.

Administrative divisions: 23 provinces (the P.R.C. considers Taiwan to be its 23rd province); 5 autonomous regions, including Tibet; 5 municipalities directly under the State Council.

Political parties: Chinese Communist Party, more than 58 million members; 8 minor parties under communist supervision.

Suffrage: Universal at 18.

Economy

GDP (1998 est.): \$964 billion (exchange rate based).

Per capita GDP (1998 est.): \$770 (exchange rate based).

GDP real growth rate: 7.8%.

Natural resources: Coal, iron ore, crude oil, mercury, tin, tungsten, antimony, manganese, molybdenum, vanadium, magnetite, aluminum, lead, zinc, uranium, hydropower potential (world's largest).

Agriculture: Among the world's largest producers of rice, potatoes, sorghum, peanuts, tea, millet, barley; commercial crops include cotton, other fibers, and oilseeds; produces variety of livestock products.

Industry: Types--iron, steel, coal, machinery, light industrial products, armaments, petroleum.

Trade (1998-7): Exports--\$192 billion: mainly textiles, garments, electrical machinery, foodstuffs, chemicals, footwear, minerals. Main partners--Hong Kong, Japan, U.S., South Korea, Germany, Singapore, Netherlands. Imports--\$146 billion: mainly industrial machinery, electrical equipment, chemicals, textiles, steel. Main partners--Japan, Taiwan, U.S., South Korea, Hong Kong, Germany, Russia.

PEOPLE

Ethnic Groups

The largest ethnic group is the Han Chinese, who constitute about 91.9% of the total population. The remaining 8.1% are Zhuang (16 million), Manchu (10 million), Hui (9 million), Miao (8 million), Uygur (7 million), Yi (7 million), Mongolian (5 million), Tibetan (5 million), Buyi (3 million), Korean (2 million), and other ethnic minorities.

Language

There are seven major Chinese dialects and many subdialects. Mandarin (or Putonghua), the predominant dialect, is spoken by over 70% of the population. It is taught in all schools and is the medium of government. About two-thirds of the Han ethnic group are native speakers of Mandarin; the rest, concentrated in southwest and southeast China, speak one of the six other major Chinese dialects. Non-Chinese languages spoken widely by ethnic minorities include Mongolian, Tibetan, Uygur and other Turkic languages (in Xinjiang), and Korean (in the northeast).

The Pinyin System of Romanization

On January 1, 1979, the Chinese Government officially adopted the pinyin system for spelling Chinese names and places in Roman letters. A system of Romanization invented by the Chinese, pinyin has long been widely used in China on street and commercial signs as well as in elementary Chinese textbooks as an aid in learning Chinese characters. Variations of pinyin are also used as the written forms of several minority languages.

Pinyin has now replaced other conventional spellings in China's English-language publications. The U.S. Government has also adopted the pinyin system for all names and places in China. For example, the capital of China is now spelled "Beijing" rather than "Peking."

Religion

Religion plays a significant part in the life of many Chinese. Buddhism is most widely practiced, with an estimated 100 million adherents. Traditional Taoism also is practiced. Official figures indicate there are 18 million Muslims, 4 million Catholics, and 10 million Protestants; unofficial estimates are much higher.

While the Chinese Constitution affirms religious toleration, the Chinese Government places restrictions on religious practice outside officially recognized organizations. Only two Christian organizations--a Catholic church without ties to Rome and the "Three-Self-Patriotic" Protestant church--are sanctioned by the Chinese Government. Unauthorized churches have sprung up in many parts of the country and unofficial religious practice is flourishing. In some regions authorities have tried to control activities of these unregistered churches. In other regions registered and unregistered groups are treated similarly by authorities and congregates worship in both types of churches.

China hosted a delegation of distinguished American religious leaders in February 1998. The religious leaders met with President Jiang Zemin, conveyed U.S. views on religious freedom, and traveled to numerous sites, including Tibet.

Population Policy

With a population of over 1.251 billion and an estimated growth rate of 0.93%, China is very concerned about its population growth and has attempted to implement a strict population control policy. The government's goal is one child per family, with exceptions in rural areas and for ethnic minorities. The government states that it opposes physical compulsion to submit to abortion or sterilization, but instances of coercion have reportedly continued as local officials strive to meet population targets. The government's goal is to stabilize the population early in the 21st century, although some current projections estimate a population of 1.6 billion by 2025.

HISTORY

Dynastic Period

China is the oldest continuous major world civilization, with records dating back about 3,500 years. Successive dynasties developed a system of bureaucratic control which gave the agrarian-

based Chinese an advantage over neighboring nomadic and hill cultures. Chinese civilization was further strengthened by the development of a Confucian state ideology and a common written language that bridged the gaps among the country's many local languages and dialects. Whenever China was conquered by nomadic tribes, as it was by the Mongols in the 13th century, the conquerors sooner or later adopted the ways of the "higher" Chinese civilization and staffed the bureaucracy with Chinese.

The last dynasty was established in 1644, when the nomadic Manchus overthrew the native Ming dynasty and established the Qing (Ch'ing) dynasty with Beijing as its capital. At great expense in blood and treasure, the Manchus over the next half century gained control of many border areas, including Xinjiang, Yunnan, Tibet, Mongolia, and Taiwan. The success of the early Qing period was based on the combination of Manchu martial prowess and traditional Chinese bureaucratic skills.

During the 19th century, Qing control weakened, and prosperity diminished. China suffered massive social strife, economic stagnation, explosive population growth, and Western penetration and influence. The Taiping and Nian rebellions, along with a Russian-supported Muslim separatist movement in Xinjiang, drained Chinese resources and almost toppled the dynasty. Britain's desire to continue its illegal opium trade with China collided with imperial edicts prohibiting the addictive drug, and the First Opium War erupted in 1840. China lost the war; subsequently, Britain and other Western powers, including the United States, forcibly occupied "concessions" and gained special commercial privileges. Hong Kong was ceded to Britain in 1842 under the Treaty of Nanking, and in 1898, when the Opium Wars finally ended, Britain executed a 99-year lease of the New Territories, significantly expanding the size of the Hong Kong colony.

As time went on, the Western powers, wielding superior military technology, gained more economic and political privileges. Reformist Chinese officials argued for the adoption of Western technology to strengthen the dynasty and counter Western advances, but the Qing court played down both the Western threat and the benefits of Western technology.

Early 20th Century China

Frustrated by the Qing court's resistance to reform, young officials, military officers, and students--inspired by the revolutionary ideas of Sun Yat-sen--began to advocate the overthrow of the Qing dynasty and creation of a republic. A revolutionary military uprising on October 10, 1911, led to the abdication of the last Qing monarch. As part of a compromise to overthrow the dynasty without a civil war, the revolutionaries and reformers allowed high Qing officials to retain prominent positions in the new republic. One of these figures, General Yuan Shikai, was chosen as the republic's first president. Before his death in 1916, Yuan unsuccessfully attempted to name himself emperor. His death left the republican government all but shattered, ushering in the era of the "warlords" during which China was ruled and ravaged by shifting coalitions of competing provincial military leaders.

In the 1920s, Sun Yat-sen established a revolutionary base in south China and set out to unite the fragmented nation. With Soviet assistance, he organized the Kuomintang (KMT or "Chinese

Nationalist People's Party"), and entered into an alliance with the fledgling Chinese Communist Party (CCP). After Sun's death in 1925, one of his proteges, Chiang Kai-shek, seized control of the KMT and succeeded in bringing most of south and central China under its rule. In 1927, Chiang turned on the CCP and executed many of its leaders. The remnants fled into the mountains of eastern China. In 1934, driven out of their mountain bases, the CCP's forces embarked on a "Long March" across China's most desolate terrain to the northwest, where they established a guerrilla base at Yan'an in Shaanxi Province.

During the "Long March," the Communists reorganized under a new leader, Mao Zedong (Mao Tse-tung). The bitter struggle between the KMT and the CCP continued openly or clandestinely through the 14-year long Japanese invasion (1931-45), even though the two parties nominally formed a united front to oppose the Japanese invaders in 1937. The war between the two parties resumed after the Japanese defeat in 1945. By 1949, the CCP occupied most of the country.

Chiang Kai-shek fled with the remnants of his KMT government and military forces to Taiwan, where he proclaimed Taipei to be China's "provisional capital" and vowed to reconquer the Chinese mainland. The KMT authorities on Taiwan still call themselves the "Republic of China."

The People's Republic of China

In Beijing, on October 1, 1949, Mao Zedong proclaimed the founding of the People's Republic of China. The new government assumed control of a people exhausted by two generations of war and social conflict, and an economy ravaged by high inflation and disrupted transportation links. A new political and economic order modeled on the Soviet example was quickly installed.

In the early 1950s, China undertook a massive economic and social reconstruction. The new leaders gained popular support by curbing inflation, restoring the economy, and rebuilding many war-damaged industrial plants. The CCP's authority reached into almost every phase of Chinese life. Party control was assured by large, politically loyal security and military forces; a government apparatus responsive to party direction; and ranks of party members in labor, women's, and other mass organizations.

The "Great Leap Forward" and the Sino-Soviet Split

In 1958, Mao broke with the Soviet model and announced a new economic program, the "Great Leap Forward," aimed at rapidly raising industrial and agricultural production. Giant cooperatives (communes) were formed, and "backyard factories" dotted the Chinese landscape. The results were disastrous. Normal market mechanisms were disrupted, agricultural production fell behind, and China's people exhausted themselves producing what turned out to be shoddy, unsalable goods. Within a year, starvation appeared even in fertile agricultural areas. From 1960 to 1961, the combination of poor planning during the Great Leap Forward and bad weather resulted in famine.

The already strained Sino-Soviet relationship deteriorated sharply in 1959, when the Soviets started to restrict the flow of scientific and technological information to China. The dispute

escalated, and the Soviets withdrew all of their personnel from China in August 1960. In 1960, the Soviets and the Chinese began to have disputes openly in international forums.

The Cultural Revolution

In the early 1960s, State President Liu Shaoqi and his protege, Party General Secretary Deng Xiaoping, took over direction of the party and adopted pragmatic economic policies at odds with Mao's revolutionary vision. Dissatisfied with China's new direction and his own reduced authority, Party Chairman Mao launched a massive political attack on Liu, Deng, and other pragmatists in the spring of 1966. The new movement, the "Great Proletarian Cultural Revolution," was unprecedented in communist history. For the first time, a section of the Chinese communist leadership sought to rally popular opposition against another leadership group. China was set on a course of political and social anarchy which lasted the better part of a decade.

In the early stages of the Cultural Revolution, Mao and his "closest comrade in arms," National Defense Minister Lin Biao, charged Liu, Deng, and other top party leaders with dragging China back toward capitalism. Radical youth organizations, called Red Guards, attacked party and state organizations at all levels, seeking out leaders who would not bend to the radical wind. In reaction to this turmoil, some local People's Liberation Army (PLA) commanders and other officials maneuvered to outwardly back Mao and the radicals while actually taking steps to rein in local radical activity.

Gradually, Red Guard and other radical activity subsided, and the Chinese political situation stabilized along complex factional lines. The leadership conflict came to a head in September 1971, when Party Vice Chairman and Defense Minister Lin Biao reportedly tried to stage a coup against Mao; Lin Biao allegedly later died in a plane crash in Mongolia.

In the aftermath of the Lin Biao incident, many officials criticized and dismissed during 1966-69 were reinstated. Chief among these was Deng Xiaoping, who reemerged in 1973 and was confirmed in 1975 in the concurrent posts of Politburo Standing Committee member, PLA Chief of Staff, and Vice Premier.

The ideological struggle between more pragmatic, veteran party officials and the radicals re-emerged with a vengeance in late 1975. Mao's wife, Jiang Qing, and three close Cultural Revolution associates (later dubbed the "Gang of Four") launched a media campaign against Deng. In January of 1976, Premier Zhou Enlai, a popular political figure, died of cancer. On April 5, Beijing citizens staged a spontaneous demonstration in Tiananmen Square in Zhou's memory, with strong political overtones in support of Deng. The authorities forcibly suppressed the demonstration. Deng was blamed for the disorder and stripped of all official positions, although he retained his party membership.

The Post-Mao Era

Mao's death in September 1976 removed a towering figure from Chinese politics and set off a scramble for succession. Former Minister of Public Security Hua Guofeng was quickly confirmed as Party Chairman and Premier. A month after Mao's death, Hua, backed by the PLA,

arrested Jiang Qing and other members of the "Gang of Four." After extensive deliberations, the Chinese Communist Party leadership reinstated Deng Xiaoping to all of his previous posts at the 11th Party Congress in August 1977. Deng then led the effort to place government control in the hands of veteran party officials opposed to the radical excesses of the previous two decades.

The new, pragmatic leadership emphasized economic development and renounced mass political movements. At the pivotal December 1978 Third Plenum (of the 11th Party Congress Central Committee), the leadership adopted economic reform policies aimed at expanding rural income and incentives, encouraging experiments in enterprise autonomy, reducing central planning, and establishing direct foreign investment in China. The plenum also decided to accelerate the pace of legal reform, culminating in the passage of several new legal codes by the National People's Congress in June 1979.

After 1979, the Chinese leadership moved toward more pragmatic positions in almost all fields. The party encouraged artists, writers, and journalists to adopt more critical approaches, although open attacks on party authority were not permitted. In late 1980, Mao's Cultural Revolution was officially proclaimed a catastrophe. Hua Guofeng, a protege of Mao, was replaced as Premier in 1980 by reformist Sichuan party chief Zhao Ziyang and as party General Secretary in 1981 by the even more reformist Communist Youth League chairman Hu Yaobang.

Reform policies brought great improvements in the standard of living, especially for urban workers and for farmers who took advantage of opportunities to diversify crops and establish village industries. Literature and the arts blossomed, and Chinese intellectuals established extensive links with scholars in other countries.

At the same time, however, political dissent as well as social problems such as inflation, urban migration, and prostitution emerged. Although students and intellectuals urged greater reforms, some party elders increasingly questioned the pace and the ultimate goals of the reform program. In December of 1986, student demonstrators, taking advantage of the loosening political atmosphere, staged protests against the slow pace of reform, confirming party elders' fear that the current reform program was leading to social instability. Hu Yaobang, a protege of Deng and a leading advocate of reform, was blamed for the protests and forced to resign as CCP General Secretary in January 1987. Premier Zhao Ziyang was made General Secretary and Li Peng, former Vice Premier and Minister of Electric Power and Water Conservancy, was made Premier.

1989 Student Movement and Tiananmen Square

After Zhao became the party General Secretary, the economic and political reforms he had championed came under increasing attack. His proposal in May 1988 to accelerate price reform led to widespread popular complaints about rampant inflation and gave opponents of rapid reform the opening to call for greater centralization of economic controls and stricter prohibitions against Western influence. This precipitated a political debate which grew more heated through the winter of 1988-89.

The death of Hu Yaobang on April 15, 1989, coupled with growing economic hardship caused

by high inflation, provided the backdrop for a large scale protest movement by students, intellectuals, and other parts of a disaffected urban population. University students and other citizens in Beijing camped out at Tiananmen Square to mourn Hu's death and to protest against those who would slow reform. Their protests, which grew despite government efforts to contain them, called for an end to official corruption and for defense of freedoms guaranteed by the Chinese Constitution. Protests also spread through many other cities, including Shanghai and Guangzhou.

Martial law was declared on May 20, 1989. Late on July 3 and early on the morning of June 4, military units were brought into Beijing. They used armed force to clear demonstrators from the streets. There are no official estimates of deaths in Beijing, but most observers believe that casualties numbered in the hundreds.

After June 4, while foreign governments expressed horror at the brutal suppression of the demonstrators, the central government eliminated remaining sources of organized opposition, detained large numbers of protesters, and required political reeducation not only for students but also for large numbers of party cadre and government officials.

Following the resurgence of conservatives in the aftermath of June 4, economic reform slowed until given new impetus by Deng Xiaoping's dramatic visit to southern China in early 1992. Deng's renewed push for a market-oriented economy received official sanction at the 14th Party Congress later in the year as a number of younger, reform-minded leaders began their rise to top positions. Deng and his supporters argued that managing the economy in a way that increased living standards should be China's primary policy objective, even if "capitalist" measures were adopted. Subsequent to the visit, the Communist Party Politburo publicly issued an endorsement of Deng's policies of economic openness. Though not completely eschewing political reform, China has consistently placed overwhelming priority on the opening of its economy.

Third Generation of Leaders

Deng's health deteriorated in the years prior to his death in 1997. During that time, President Jiang Zemin and other members of his generation gradually assumed control of the day-to-day functions of government. This "third generation" leadership governs collectively with President Jiang at the center.

In March 1998, Jiang was re-elected President during the 9th National People's Congress. Premier Li Peng was constitutionally required to step down from that post. He was elected to the chairmanship of the National People's Congress. Zhu Rongji was selected to replace Li as Premier.

China is firmly committed to economic reform and opening to the outside world. The Chinese leadership has identified reform of state industries as a government priority. Government strategies for achieving that goal include large-scale privatization of unprofitable state-owned enterprises. The leadership has also downsized the government bureaucracy.

GOVERNMENT

Chinese Communist Party

The 58 million member CCP, authoritarian in structure and ideology, continues to dominate government and society. Nevertheless, China's population, geographical vastness, and social diversity frustrate attempts to rule by fiat from Beijing. Central leaders must increasingly build consensus for new policies among party members, local and regional leaders, influential non-party members, and the population at large.

In periods of relative liberalization, the influence of people and organizations outside the formal party structure has tended to increase, particularly in the economic realm. This phenomenon is apparent today in the rapidly developing coastal region. Nevertheless, in all important government, economic, and cultural institutions in China, party committees work to see that party and state policy guidance is followed and that non-party members do not create autonomous organizations that could challenge party rule. Party control is tightest in government offices and in urban economic, industrial, and cultural settings; it is considerably looser in the rural areas, where the majority of the people live.

Theoretically, the party's highest body is the Party Congress, which is supposed to meet at least once every 5 years. The primary organs of power in the Communist Party include:

- The seven-member Politburo Standing Committee;
- The Politburo, consisting of 22 full members (including the members of the Politburo Standing Committee);
- The Secretariat, the principal administrative mechanism of the CCP, headed by the General Secretary; -- The Military Commission; -- The Discipline Inspection Commission, which is charged with rooting out corruption and malfeasance among party cadres.

State Structure

The Chinese Government has always been subordinate to the Chinese Communist Party (CCP); its role is to implement party policies. The primary organs of state power are the National People's Congress (NPC), the President, and the State Council. Members of the State Council include Premier Zhu Rongji, a variable number of vice premiers (now four), five state councilors (protocol equal of vice premiers but with narrower portfolios), and 29 ministers and heads of State Council commissions.

Under the Chinese Constitution, the NPC is the highest organ of state power in China. It meets annually for about 2 weeks to review and approve major new policy directions, laws, the budget, and major personnel changes. These initiatives are presented to the NPC for consideration by the State Council after previous endorsement by the Communist Party's Central Committee. Although the NPC generally approves State Council policy and personnel recommendations, various NPC committees hold active debate in closed sessions, and changes may be made to accommodate alternate views.

When the NPC is not in session, its permanent organ, the Standing Committee, exercises state power.

Principal Government and Party Officials

President--Jiang Zemin

Vice President--Hu Jintao

Premier, State Council--Zhu Rongji

Vice Premiers

Li Lanqing

Qian Qichen

Wu Bangguo

Wen Jiabao

Politburo Standing Committee

Jiang Zemin (General Secretary)

Li Peng

Zhu Rongji

Li Ruihuan

Hu Jintao

Wei Jianxing

Li Lanqing

Full Politburo Members

Chi Haotian

Ding Guangen

Huang Ju

Jia Qinglin

Jiang Chunyun

Li Changchun

Li Tieying

Luo Gan

Qian Qichen

Tian Jiyun

Wen Jiabao

Wu Bangguo

Wu Guangzheng

Xie Fei

Zhang Wannian

Alternate Politburo Members

Wu Yi

Zeng Qinghong

POLITICAL CONDITIONS

Legal System

The government's efforts to promote rule of law are significant and ongoing. After the Cultural Revolution, China's leaders aimed to develop a legal system to restrain abuses of official authority and revolutionary excesses. In 1982, the National People's Congress adopted a new state constitution that emphasized the rule of law under which even party leaders are theoretically held accountable.

Since 1979, when the drive to establish a functioning legal system began, more than 300 laws and regulations, most of them in the economic area, have been promulgated. The use of mediation committees--informed groups of citizens who resolve about 90% of China's civil disputes and some minor criminal cases at no cost to the parties--is one innovative device. There are more than 800,000 such committees in both rural and urban areas.

Legal reform became a government priority in the 1990s. Legislation designed to modernize and professionalize the nation's lawyers, judges, and prisons was enacted. The 1994 Administrative Procedure Law allows citizens to sue officials for abuse of authority or malfeasance. In addition, the criminal law and the criminal procedures laws were amended to introduce significant reforms. The criminal law amendments abolished the crime of "counter-revolutionary" activity, while criminal procedures reforms encouraged establishment of a more transparent, adversarial trial process. The Chinese Constitution and laws provide for fundamental human rights, including due process, but these are often ignored in practice.

Human Rights

China has acknowledged in principle the importance of protection of human rights and has taken steps to bring its human rights practices into conformity with international norms. Among these steps are signature in October 1997 of the International Covenant on Economic, Social, and Cultural Rights and signature in October 1998 of the International Covenant on Civil and Political Rights. China has also expanded dialogue with foreign governments. These positive steps notwithstanding, serious problems remain. The government restricts freedom of assembly, expression, and the press and represses dissent.

ECONOMY

Economic Reforms

Since 1979, China has been engaged in an effort to reform its economy. The Chinese leadership has adopted a pragmatic perspective on many political and socioeconomic problems, and has sharply reduced the role of ideology in economic policy. Consumer welfare, economic productivity, and political stability are considered indivisible. The government has emphasized raising personal income and consumption and introducing new management systems to help

increase productivity. The government has also focused on foreign trade as a major vehicle for economic growth.

In the 1980s, China tried to combine central planning with market-oriented reforms to increase productivity, living standards, and technological quality without exacerbating inflation, unemployment, and budget deficits. China pursued agricultural reforms, dismantling the commune system and introducing the household responsibility system that provided peasants greater decision-making in agricultural activities. The government also encouraged non-agricultural activities such as village enterprises in rural areas, and promoted more self-management for state-owned enterprises, increased competition in the marketplace, and facilitated direct contact between Chinese and foreign trading enterprises. China also relied more upon foreign financing and imports.

During the 1980s, these reforms led to average annual rates of growth of 10% in agricultural and industrial output. Rural per capita real income doubled. China became self-sufficient in grain production; rural industries accounted for 23% of agricultural output, helping absorb surplus labor in the countryside. The variety of light industrial and consumer goods increased. Reforms began in the fiscal, financial, banking, price setting, and labor systems.

However, by the late 1980s, the economy had become overheated with increasing rates of inflation. At the end of 1988, in reaction to a surge of inflation caused by accelerated price reforms, the leadership introduced an austerity program.

China's economy regained momentum in the early 1990s. Deng Xiaoping's Chinese New Year's visit to southern China in 1992 gave economic reforms new impetus. The 14th Party Congress later in the year backed up Deng's renewed push for market reforms, stating that China's key task in the 1990s was to create a "socialist market economy." Continuity in the political system but bolder reform in the economic system were announced as the hallmarks of the 10-year development plan for the 1990s.

During 1993, output and prices were accelerating, investment outside the state budget was soaring, and economic expansion was fueled by the introduction of more than 2,000 special economic zones (SEZs) and the influx of foreign capital that the SEZs facilitated. Fearing hyperinflation, Chinese authorities called in speculative loans, raised interest rates, and re-evaluated investment projects. The growth rate was thus tempered, and the inflation rate dropped from over 17% in 1995 to 8% in early 1996. In 1996, the Chinese economy continued to grow at a rapid pace, at about 9.5%, accompanied by low inflation; the economy has been slowing since then, with official growth of 8.9% in 1997, 7.9% in 1998 and estimates of 7% for 1999.

Despite China's impressive economic development during the past two decades, reforming the state enterprise sector and modernizing the banking system remain major hurdles. Over half of China's state-owned enterprises are inefficient and reporting losses. During the 15th National Congress of the Chinese Communist Party that met in September 1997, President Jiang Zemin announced plans to sell, merge, or close the vast majority of SOEs in his call for increased "public ownership" (privatization in euphemistic terms). The 9th National People's Congress endorsed the plans at its March 1998 session.

Asian Financial Crisis

The regional crisis has affected China at the margin, mainly through decreased foreign direct investment and a sharp drop in the growth of its exports. However, China has huge reserves, a currency that is not freely convertible, and capital inflows that consist overwhelmingly of long-term investment. For these reasons it has remained largely insulated from the regional crisis and its commitment not to devalue has been a major stabilizing factor for the region. However, China faces slowing growth and rising unemployment based on internal problems, including a financial system burdened by huge amounts of bad loans, and massive layoffs stemming from aggressive efforts to reform state-owned-enterprises (SOEs).

Agriculture

Most of China's labor force is engaged in agriculture, even though only 10% of the land is suitable for cultivation. Virtually all arable land is used for food crops, and China is among the world's largest producers of rice, potatoes, sorghum, millet, barley, peanuts, tea, and pork. Major non-food crops, including cotton, other fibers, and oil seeds, furnish China with a large proportion of its foreign trade revenue. Agricultural exports, such as vegetables and fruits, fish and shellfish, grain and grain products, and meat and meat products, are exported to Hong Kong. Yields are high because of intensive cultivation, but China hopes to further increase agricultural production through improved plant stocks, fertilizers, and technology.

Industry

Major state industries are iron, steel, coal, machine building, light industrial products, armaments, and textiles. These industries completed a decade of reform (1979-89) with little substantial management change. The 1996 industrial census revealed that there were 7,342,000 industrial enterprises at the end of 1995; total employment in industrial enterprises was approximately 147 million. The automobile industry is expected to grow rapidly, as is electric power generation. Machinery and electronic products have become China's main exports.

Energy and Mineral Resources

The Chinese have high energy needs but limited capital. As in other sectors of the state-owned economy, the energy sector suffers from low utilization and inefficiencies in production, transport, conversion, and consumption. Other problems include declining real prices, rising taxes and production costs, spiraling losses, high debt burden, insufficient investment, low productivity, poor management structure, environmental pollution, and inadequate technological development. Demand for energy has risen steadily in response to the rapid expansion of the economy over the last 10 years. In order to keep pace with demand, China seeks to increase electric generating capacity to a target level of 290 gigawatts by 2000. An estimated 15,000 megawatts of generating capacity will be added each year, at an annual cost of about \$15 billion. China has imported new power plants from the West to increase its generation capacity, and these units account for approximately 20% of total generating capacity.

Environment

A harmful by-product of China's rapid industrial development in the 1980s has been increased pollution. Although China has passed environmental legislation and has participated in some international anti-pollution conventions, pollution will be a serious problem in China for years to come.

China is an active participant in the UN Environment Program and a signatory to the Basel Convention governing the transport and disposal of hazardous waste. China also signed the Montreal Convention for the Protection of the Ozone Layer in 1991.

The head of China's National Environmental Protection Agency (NEPA) proclaimed in 1991 that environmental protection was one of China's basic national policies, at the same time cautioning that environmental protection must be coordinated with economic development. According to NEPA, \$3.2 billion was spent on pollution prevention and environmental rehabilitation from 1981-85, \$8.8 billion from 1986-1990, and about \$15 billion for the eighth five-year plan (1991-95).

China has sought to contain its increasing industrial pollution largely through administrative procedures and efforts to increase public awareness. The heavily polluted Pearl River delta is one of the first major industrialized areas targeted for clean-up. Officials hope that new sewage treatment plants for cities in the delta area will enable the river to support an edible fish population by the year 2000. A small environmental protection industry has also emerged. However, in some areas of China, pollution has long been considered as one of the costs associated with economic development.

The question of environmental damage associated with the hydroelectric Three Gorges Dam project concerns NEPA officials. While conceding that erosion and silting of the Yangtze River threaten several endangered species, officials say the hydroelectric power generated by the project will enable the region to lower its dependence on coal, thus lessening air pollution.

In March 1998, NEPA was officially upgraded to a ministry-level agency, and renamed the State Environment Protection Agency, reflecting the growing importance the Chinese government places on environmental protection. The Chinese government recognizes the environmental situation in China is grim and that increasing water and air pollution, as well as deforestation and desertification, will threaten the base of China's economic development.

Science and Technology

Scientific and technological modernization has been a growing priority for Chinese leaders. They plan to rebuild the educational structure, continue sending students abroad, negotiate technological purchases and transfer arrangements with the U.S. and others, and develop ways to disseminate scientific and technological information. Areas of most critical interest include microelectronics, telecommunications, computers, automated manufacturing, and energy. China also has had a space program since the 1960s and has successfully launched 27 satellites.

At the end of 1996, China had 5,434 state-owned independent research and development institutions at and above the county level. There were another 3,400 research institutions

affiliated with universities, 13,744 affiliated with medium and large industrial enterprises, and 726 affiliated with medium and large construction enterprises. A total of 2.8 million people were engaged in scientific and technological activities in these institutions.

The U.S. has continued to extend the Agreement on Cooperation in Science and Technology (originally signed in 1979). A five-year agreement to extend and amend the accord, including provisions for the protection of intellectual property rights, was signed in May 1991, and the Agreement was again extended for five years in April 1996. There are currently over 30 active protocols under the Agreement, leading to cooperation in areas such as marine conservation, high energy physics, renewable energy, and health. Japan has also continued to increase science and technology cooperation with China.

Trade and Investment

According to U.S. statistics, China's global trade totaled \$338 billion in 1998; the trade surplus stood at \$39.0 billion. China's primary trading partners include Japan, Taiwan, the U.S., South Korea, Hong Kong, Germany, Singapore, Russia, and the Netherlands. According to U.S. statistics, China had a trade surplus with the U.S. of \$58 billion in 1998 .

China has experimented with decentralizing its foreign trading system and has sought to integrate itself into the world trading system. In November 1991, China joined the Asia Pacific Economic Cooperation (APEC) group, which promotes free trade and cooperation in economic, trade, investment, and technology issues.

China is now in its 13th year of negotiations for accession to the World Trade Organization (WTO)--formerly the General Agreement on Tariffs and Trade (GATT). China has significantly reduced import tariffs. In 1996, China introduced cuts to more than 4,000 tariff lines, reducing average tariffs from 35% to 23%; further tariff cuts that took effect October 1, 1997 decreased average tariffs to 17%. Additional cuts went into effect earlier this year, with the goal of further reducing tariffs.

To gain WTO entry, all prospective WTO members are required to comply with certain fundamental trading disciplines and offer substantially expanded market access to other members of the organization. Many major trading entities--among them the United States, the European Union, and Japan--have shared concerns with respect to China's accession. These concerns include obtaining satisfactory market access offers for both goods and services, full trading rights for all potential Chinese consumers and end-users, nondiscrimination between foreign and local commercial operations in China, the reduction of monopolistic state trading practices, and the elimination of arbitrary or non-scientific technical standards. The United States continues to work with China and other WTO members to achieve a commercially viable accession protocol.

To increase exports, China has pursued policies such as fostering the rapid development of foreign-invested factories which assemble imported components into consumer goods for export.

The U.S. is one of China's primary suppliers of power generating equipment, aircraft and parts, computers and industrial machinery, raw materials, and chemical and agricultural products.

However, U.S. exporters continue to have concerns about fair market access due to China's restrictive trade policies.

Foreign Investment

Foreign investment stalled in late 1989 in the aftermath of Tiananmen. In response, the government introduced legislation and regulations designed to encourage foreigners to invest in high-priority sectors and regions.

In 1990, the government eliminated time restrictions on the establishment of joint ventures, provided some assurances against nationalization, and allowed foreign partners to become chairs of joint venture boards. In 1991, China granted more preferential tax treatment for wholly foreign-owned businesses and contractual ventures and for foreign companies which invest in selected economic zones or in projects encouraged by the state, such as energy, communications, and transportation. It also authorized some foreign banks to open branches in Shanghai and allowed foreign investors to purchase special "B" shares of stock in selected companies listed on the Shanghai and Shenzhen Securities Exchanges. These "B" shares are sold to foreigners but carry no ownership rights in a company. In 1998, China received over \$45 billion in foreign direct investment.

Opening to the outside remains central to China's development. Foreign-invested enterprises produce about 40% of China's exports, and China continues to attract large investment inflows. Foreign exchange reserves total about \$145 billion.

FOREIGN RELATIONS

Since its establishment, the People's Republic has worked vigorously to win international support for its position that it is the sole legitimate government of all China, including Hong Kong, Macao, and Taiwan. In the early 1970s, Beijing was recognized diplomatically by most world powers. Beijing assumed the China seat in the United Nations in 1971 and became increasingly active in multilateral organizations. Japan established diplomatic relations with China in 1972, and the U.S. did so in 1979. The number of countries that have established diplomatic relations with Beijing has risen to 156, while 28 have diplomatic relations with Taiwan.

After the founding of the P.R.C., China's foreign policy initially focused on solidarity with the Soviet Union and other communist countries. In 1950, China sent the People's Liberation Army into North Korea as "volunteers" to help North Korea halt the UN offensive which was approaching the Yalu River. After the conclusion of the Korean conflict, China sought to balance its identification as a member of the Soviet bloc by establishing friendly relations with Pakistan and Third World countries, particularly in Southeast Asia.

In the 1960s, Beijing competed with Moscow for political influence among communist parties and in the developing world generally. Following the 1968 Soviet invasion of Czechoslovakia

and clashes in 1969 on the Sino-Soviet border, Chinese competition with the Soviet Union increasingly reflected concern over China's own strategic position.

In late 1978, the Chinese also became concerned over Vietnam's efforts to establish open control over Laos and Cambodia. In response to the Soviet-backed Vietnamese invasion of Cambodia, China fought a brief border war with Vietnam (February-March 1979) with the stated purpose of "teaching Vietnam a lesson."

Chinese anxiety about Soviet strategic advances was heightened following the Soviet Union's December 1979 invasion of Afghanistan. Sharp differences between China and the Soviet Union persisted over Soviet support for Vietnam's continued occupation of Cambodia, the Soviet invasion of Afghanistan, and Soviet troops along the Sino-Soviet border and in Mongolia--the so-called "three obstacles" to improved Sino-Soviet relations.

In the 1970s and 1980s China sought to create a secure regional and global environment for itself and to foster good relations with countries that could aid its economic development. To this end, China looked to the West for assistance with its modernization drive and for help in countering Soviet expansionism--which it characterized as the greatest threat to its national security and to world peace.

China maintained its consistent opposition to "superpower hegemonism," focusing almost exclusively on the expansionist actions of the Soviet Union and Soviet proxies such as Vietnam and Cuba, but it also placed growing emphasis on a foreign policy independent of both the U.S. and the Soviet Union. While improving ties with the West, China continued to follow closely economic and other positions of the Third World nonaligned movement, although China was not a formal member.

In the immediate aftermath of Tiananmen crackdown in June 1989, many countries reduced their diplomatic contacts with China as well as their economic assistance programs. In response, China worked vigorously to expand its relations with foreign countries, and by late 1990, had reestablished normal relations with almost all nations. Following the collapse of the Soviet Union in late 1991, China also opened diplomatic relations with the republics of the former Soviet Union.

In recent years, Chinese leaders are regular travelers to all parts of the globe, and China has sought a higher profile in the UN and other multilateral organizations. Closer to home, China seeks to reduce tensions in Asia; it has contributed to stability on the Korean Peninsula, cultivated a more cooperative relationship with members of the Association of Southeast Asian Nations (Brunei, Burma, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam), and participated in the ASEAN Regional Forum. The Chinese improved ties with Russia. President Yeltsin and President Jiang announced a "strategic partnership" during Yeltsin's 1997 visit to Beijing.

China has a number of border and maritime disputes, including with Vietnam in the Gulf of Tonkin, with a number of countries in the South China Sea, as well as with Japan, Pakistan and India. Beijing has resolved many of these disputes, notably including a November 1997

agreement with Russia that resolved almost all outstanding border issues.

DEFENSE

Establishment of a professional military force equipped with modern weapons and doctrine was the last of the "Four Modernizations" announced by Zhou Enlai and supported by Deng Xiaoping. In keeping with Deng's mandate to reform, the People's Liberation Army (PLA), which includes the strategic nuclear forces, army, navy, and air force, has demobilized about 3 million men and women since 1978 and has introduced modern methods in such areas as recruitment and manpower, strategy, and education and training.

Following the June 1989 Tiananmen crackdown, ideological correctness was temporarily revived as the dominant theme in Chinese military affairs. Reform and modernization appear to have since resumed their position as the PLA's priority objectives, although the armed forces' political loyalty to the CCP remains a leading concern.

The Chinese military is trying to transform itself from a land-based power, centered on a vast ground force, to a smaller, mobile, high-tech military capable of mounting defensive operations beyond its coastal borders.

China's power-projection capability is limited. China has acquired some advanced weapons systems, including SU-27 aircrafts and Kilo-class diesel submarines from Russia. However, the mainstay of the air force continues to be the 1960s-vintage F-7, and naval forces still consist primarily of 1960s-era technology.

Nuclear Weapons and Arms Control Policy

Nuclear Weapons

In 1955, Mao Zedong's Chinese Communist Party decided to proceed with a nuclear weapons program; it was developed with Soviet assistance until 1960. After its first nuclear test in October 1964, Beijing deployed a modest but potent ballistic missile force, including land and sea-based intermediate-range and intercontinental ballistic missiles.

China became a major international arms exporter during the 1980s. Beijing joined the Middle East arms control talks, which began in July 1991 to establish global guidelines for conventional arms transfers, but announced in September 1992 that it would no longer participate because of the U.S. decision to sell F-16A/B aircraft to Taiwan.

China was the first state to pledge "no first use" of nuclear weapons. It joined the International Atomic Energy Agency (IAEA) in 1984 and pledged to abstain from further atmospheric testing of nuclear weapons in 1986. China acceded to the Nuclear Nonproliferation Treaty (NPT) in 1992 and supported its indefinite and unconditional extension in 1995. In 1996, it signed the Comprehensive Test Ban Treaty and agreed to seek an international ban on the production of fissile nuclear weapons material.

In 1996, China committed not to provide assistance to unsafeguarded nuclear facilities. China attended the May 1997 meeting of the NPT Exporters (Zangger) Committee as an observer and became a full member in October 1997. The Zangger Committee is a group which meets to list items that should be subject to IAEA inspections if exported by countries which have, as China has, signed the Non-Proliferation Treaty. In September 1997, China issued detailed nuclear export control regulations. China is implementing regulations establishing controls over nuclear-related dual-use items in 1998. China also has decided not to engage in new nuclear cooperation with Iran (even under safeguards), and will complete existing cooperation, which is not of proliferation concern, within a relatively short period.

Based on significant, tangible progress with China on nuclear nonproliferation, President Clinton in 1998 took steps to bring into force the 1985 U.S.-China Agreement on Peaceful Nuclear Cooperation. Implementation of this agreement, which establishes a mechanism that will enable the U.S. and China to continue discussing export controls and China's nuclear cooperation with other countries, will give the U.S. an effective basis for continuing to promote progress by China on nonproliferation.

Chemical Weapons

China is not a member of the Australia Group, an informal and voluntary arrangement made in 1985 to monitor developments in the proliferation of dual-use chemicals and to coordinate export controls on key dual-use chemicals and equipment with weapons applications. In April 1997, however, China ratified the Chemical Weapons Convention (CWC) and, in September 1997, promulgated a new chemical weapons export control directive.

Missiles

In March of 1992, China formally undertook to abide by the guidelines and parameters of the Missile Technology Control Regime (MTCR), the multinational effort to restrict the proliferation of missiles capable of delivering weapons of mass destruction. China reaffirmed this commitment in 1994.

U.S.-CHINA RELATIONS

From Liberation to the Shanghai Communiqué

As the PLA armies moved south to complete the Communist conquest of China in 1949, the American embassy followed the Nationalist government headed by Chiang Kai-shek, finally moving to Taipei later that year. U.S. consular officials remained in mainland China. The new P.R.C. Government was hostile to this official American presence, and all U.S. personnel were withdrawn from the mainland in early 1950. Any remaining hope of normalizing relations ended when U.S. and Chinese Communist forces fought on opposing sides in the Korean conflict.

Beginning in 1954 and continuing until 1970, the United States and China held 136 meetings at

the ambassadorial level, first at Geneva and later at Warsaw. In the late 1960s, U.S. and Chinese political leaders decided that improved bilateral relations were in their common interest. In 1969, the United States initiated measures to relax trade restrictions and other impediments to bilateral contact. On July 15, 1971, President Nixon announced that his Assistant for National Security Affairs, Dr. Henry Kissinger, had made a secret trip to Beijing to initiate direct contact with the Chinese leadership and that he, the President, had been invited to visit China.

In February 1972, President Nixon traveled to Beijing, Hangzhou, and Shanghai. At the conclusion of his trip, the U.S. and Chinese Governments issued the "Shanghai Communiqué," a statement of their foreign policy views. (For the complete text of the Shanghai Communiqué, see the Department of State Bulletin, March 20, 1972).

In the Communiqué, both nations pledged to work toward the full normalization of diplomatic relations. The U.S. acknowledged the Chinese position that all Chinese on both sides of the Taiwan Strait maintain that there is only one China and that Taiwan is part of China. The statement enabled the U.S. and China to temporarily set aside the "crucial question obstructing the normalization of relations"--Taiwan--and to open trade and other contacts.

Liaison Office, 1973-78

In May 1973, in an effort to build toward the establishment of formal diplomatic relations, the U.S. and China established the United States Liaison Office (USLO) in Beijing and a counterpart Chinese office in Washington, DC. In the years between 1973 and 1978, such distinguished Americans as David Bruce, George Bush, Thomas Gates, and Leonard Woodcock served as chiefs of the USLO with the personal rank of Ambassador.

President Ford visited China in 1975 and reaffirmed the U.S. interest in normalizing relations with Beijing. Shortly after taking office in 1977, President Carter again reaffirmed the interest expressed in the Shanghai Communiqué. The United States and China announced on December 15, 1978, that the two governments would establish diplomatic relations on January 1, 1979.

Normalization

In the Joint Communiqué on the Establishment of Diplomatic Relations dated January 1, 1979, the United States transferred diplomatic recognition from Taipei to Beijing. The U.S. reiterated the Shanghai Communiqué's acknowledgment of the Chinese position that there is only one China and that Taiwan is a part of China; Beijing acknowledged that the American people would continue to carry on commercial, cultural, and other unofficial contacts with the people of Taiwan. The Taiwan Relations Act made the necessary changes in U.S. domestic law to permit such unofficial relations with Taiwan to flourish.

U.S.-China Relations Since Normalization

Vice Premier Deng Xiaoping's January 1979 visit to Washington, DC initiated a series of important, high-level exchanges, which continued until the spring of 1989. This resulted in many bilateral agreements--especially in the fields of scientific, technological, and cultural

interchange and trade relations. Since early 1979, the United States and China have initiated hundreds of joint research projects and cooperative programs under the Agreement on Cooperation in Science and Technology, the largest bilateral program.

On March 1, 1979, the United States and China formally established embassies in Beijing and Washington, DC. During 1979, outstanding private claims were resolved, and a bilateral trade agreement was concluded. Vice President Walter Mondale reciprocated Vice Premier Deng's visit with an August 1979 trip to China. This visit led to agreements in September 1980 on maritime affairs, civil aviation links, and textile matters, as well as a bilateral consular convention.

As a consequence of high-level and working-level contacts initiated in 1980, our dialogue with China broadened to cover a wide range of issues, including global and regional strategic problems, politico-military questions, including arms control, UN and other multilateral organization affairs, and international narcotics matters.

The expanding relationship that followed normalization was threatened in 1981 by Chinese objections to the level of U.S. arms sales to Taiwan. Secretary of State Alexander Haig visited China in June 1981 in an effort to resolve Chinese questions about America's unofficial relations with Taiwan. Eight months of negotiations produced the U.S.-China joint communique of August 17, 1982. In this third communique, the U.S. stated its intention to reduce gradually the level of arms sales to Taiwan, and the Chinese described as a fundamental policy their effort to strive for a peaceful resolution to the Taiwan question. Meanwhile, Vice President Bush visited China in May 1982.

High-level exchanges continued to be a significant means for developing U.S.-China relations in the 1980s. President Reagan and Premier Zhao Ziyang made reciprocal visits in 1984. In July 1985, President Li Xiannian traveled to the United States, the first such visit by a Chinese head of state. Vice President Bush visited China in October 1985 and opened the U.S. Consulate General in Chengdu, the U.S.'s fourth consular post in China. Further exchanges of cabinet-level officials occurred from 1985-89, capped by President Bush's visit to Beijing in February 1989.

In the period before the June 3-4, 1989 crackdown, a large and growing number of cultural exchange activities undertaken at all levels gave the American and Chinese peoples broad exposure to each other's cultural, artistic, and educational achievements. Numerous Chinese professional and official delegations visited the United States each month. Many of these exchanges continued after Tiananmen.

Bilateral Relations After Tiananmen

Following the Chinese authorities' brutal suppression of demonstrators in June 1989, the U.S. and other governments enacted a number of measures to express their condemnation of Chinese action that violated the basic human rights of its citizens. The U.S. suspended high-level official exchanges with China and weapons exports from the U.S. to China. The U.S. also imposed a series of economic sanctions. In the summer of 1990, at the G-7 Houston summit, Western nations called for renewed political and economic reforms in China, particularly in the field of

human rights.

The U.S.-China trade relationship was disrupted by Tiananmen, and U.S. investors' interest in China dropped dramatically. The U.S. Government also responded to the political repression by suspending certain trade and investment programs on June 5 and 20, 1989. Some sanctions were legislated; others were executive actions. Examples include:

- The Trade and Development Agency (TDA) and Overseas Private Insurance Corporation (OPIC) -- New activities suspended since June 1989.
- Development Bank Lending/IMF Credits -- The United States does not support development bank lending and will not support IMF credits to China except for projects which meet basic human needs.
- Munitions List Exports -- Subject to certain exceptions, no licenses may be issued for the export of any defense article on the U.S. Munitions List. This restriction may be waived upon a Presidential national interest determination.
- Arms Imports -- Import of defense articles from China was banned after the imposition of the ban on arms exports to China. The import ban was subsequently waived by the Administration and re-imposed on May 26, 1994. It covers all items on the Bureau of Alcohol, Tobacco, and Firearms' Munitions Import List.

In 1996, the P.R.C. conducted military exercises in waters close to Taiwan in an apparent effort at intimidation. The United States dispatched two aircraft carrier battle groups to the region. Subsequently, tensions in the Taiwan Strait diminished and relations between U.S. and China have improved, with increased high-level exchanges and progress on numerous bilateral issues, including human rights, nonproliferation and trade. Chinese President Jiang Zemin visited the United States in the fall of 1997, the first state visit to the U.S. by a Chinese president since 1985. In connection with that visit, the two sides reached agreement on implementation of their 1985 agreement on the Peaceful Uses of Nuclear Energy, as well as a number of other issues. President Clinton visited China in June 1998. He traveled extensively in China and direct interaction with the Chinese people included live speeches and a radio show, allowing the President to convey first hand to the Chinese people a sense of American ideals and values.

Relations between the U.S. and China have been strained with the tragic accidental bombing of the Chinese Embassy in Belgrade. The two sides were able to reach agreement on payments to the families of the bereaved and those injured in the bombing in July; talks on damage to our respective missions in Belgrade and in China are scheduled for August.

U.S.-Chinese Economic Relations

U.S. direct investment in China covers a wide range of manufacturing sectors, several large hotel projects, and a heavy concentration in offshore oil and gas development in the South China Sea. U.S. companies have entered agreements establishing more than 20,000 equity joint ventures, contractual joint ventures, and wholly foreign-owned enterprises in China. Over 100 U.S.-based multinationals have projects, some with multiple investments. The 1998 trade deficit of \$ 58 billion with China was the United States' second largest. Some of the factors that influence the U.S. deficit with China include:

- The strength of the U.S. economy.
- A shift of export industries to China from the newly industrialized economies (NIEs) in Asia. China has increasingly become the last link in a long chain of value-added production.
- China's restrictive trade practices, which include a wide array of barriers to foreign goods and services, often aimed at protecting state-owned enterprises. These practices include: high tariffs, lack of transparency, requiring firms to obtain special permission to import goods, unevenness of application of laws and regulations, and leveraging technology from foreign firms in return for market access.
- China's domestic output of labor-intensive goods exceeds China's demand, while U.S. demand for labor intensive goods exceeds domestic output.

The increasingly important U.S. economic and trade relations with China are an important element of the Administration's engagement policy toward China. In economics and trade, there are two main elements to the U.S. approach:

- First, the United States seeks to fully integrate China into the global, market-based economic and trading system. China's participation in the global economy will nurture the process of economic reform and increase China's stake in the stability and prosperity of East Asia.
- Second, the United States seeks to expand U.S. exporters' and investors' access to the Chinese market. As China grows and develops, its needs for imported goods and services will grow even more rapidly.

The United States and China maintain a very active dialogue on bilateral trade issues. In 1995, agreements were concluded on the protection of intellectual property rights (IPR), textiles, and satellite launches. As a result of the IPR agreement, more than 10 million illegal or unauthorized CDs, DVDs, and other publications were seized, and 250 "major criminals" were arrested for their involvement in IPR-related activities in 1996. The United States is China's largest export market for textile and apparel products. A new 4-year U.S.-China Bilateral Agreement on Textile Trade was signed in February 1997. In addition, the two countries held their first Sustainable Development Forum in March 1997, which sought to expand cooperation in the environmental arena.

At the September 1997 Joint Economic Committee meeting in Beijing, the U.S. continued dialogue with the Chinese on macroeconomic issues. The Joint Commission on Commerce and Trade, hosted in Beijing in October 1997, discussed expansion of long-term economic and business ties between China and the United States. Agreements were made to set up seminars on project finance and export controls, to establish a series of exchanges on commercial law, and to further explore ways to assist small and medium-sized U.S. businesses export to China.

At the October 1997 summit, China agreed to purchase 50 Boeing aircraft valued at approximately \$3 billion, participate in the Information Technology Agreement which cuts to zero tariffs on computers, semiconductors, and telecommunications, and allow U.S. financial news services providers to operate on acceptable terms in China.

Economic Relations With Hong Kong

Under the 1984 Sino-British Joint Declaration, Hong Kong became a Special Administrative Region (SAR) of the P.R.C. on July 1, 1997. Hong Kong has autonomy in its international trade and economic relations. The United States has substantial economic and social ties with Hong Kong, with an estimated \$16 billion invested there. There are 1,100 U.S. firms and 50,000 American residents in Hong Kong. The United States was Hong Kong's second-largest market in 1997--the U.S. imported \$10.2 billion. Hong Kong took \$15.1 billion in U.S. exports in that year. (See separate Background Notes on Hong Kong for additional information.)

China's Normal Trade Status

There has been debate in the U.S. regarding the extension of China's normal trade status, which allows non-discriminatory tariff treatment for Chinese exports to the U.S. The reciprocal granting of normal trade treatment was the main pillar of the U.S.-China Trade Agreement signed in 1979, which marked the beginning of normal commercial relations between the two countries. As a non-market-economy country, China's normal trade status must be renewed annually by a U.S. presidential waiver stipulating that China meets the freedom of emigration requirements set forth in the Jackson-Vanik amendment to the Trade Act of 1974. China had received the waiver routinely prior to 1989, but after Tiananmen, although the presidential waiver continued, Congress began to exert strong pressure to oppose normal trade status renewal. In 1991 and 1992, Congress voted to place conditions on normal trade status renewal for China, but those conditions were vetoed by the Bush Administration, which stressed the importance of our relationship with China and the belief that normal trade status was not the correct tool to exert pressure on China and would only result in isolating it.

In 1994, President Clinton decided to delink the annual normal trade status process from China's human rights record. At the same time, the President decided to adopt a new human rights strategy, maintaining human rights concerns as an essential part of the U.S. engagement with China but in a broader context. The President also ordered several additional steps to support those seeking to foster the rule of law and a more open civil society in China.

Revoking or conditioning normal trade status and tariff treatment would remove a beneficial influence for creating a more open China. It would undermine American leadership in the region and the confidence of our Asian allies. It would damage our economy, harm Taiwan and especially Hong Kong, whose economies are closely intertwined with that of the P.R.C.; and it would damage our ability to work with China on vital regional security issues such as North Korea and global security concerns such as nonproliferation. Continuation of normal trade status for China will help further integrate it into the international system and promote the interests of the American people.

Chinese Diplomatic Representation in the U.S.

Ambassador--Li Zhaoxing

In addition to China's embassy in Washington, DC, there are Chinese Consulates General in

Chicago, Houston, Los Angeles, New York, and San Francisco.

Embassy of the People's Republic of China
2300 Connecticut Avenue
NW Washington, DC 20008
Tel.: (202) 328-2500

Consulate General of the People's Republic of China, New York
520 12th Avenue
New York, New York 10036
Tel.: (212) 868-7752

Consulate General of the People's Republic of China, San Francisco
1450 Laguna Street
San Francisco, California 94115
Tel.: (415) 563-4885

Consulate General of the People's Republic of China, Houston
3417 Montrose Blvd.
Houston, Texas 77006
Tel.: (713) 524-4311

Consulate General of the People's Republic of China, Chicago
100 West Erie St.
Chicago, Illinois 60610
Tel.: (312) 803-0098

Consulate General of the People's Republic of China, Los Angeles
502 Shatto Place, Suite 300
Los Angeles, California 90020
Tel.: (213) 807-8088

U.S. Diplomatic Representation in China

Ambassador-Vacant

In addition to the U.S. embassy in Beijing, there are U.S. Consulates General in Chengdu, Guangzhou, Shanghai, and Shenyang.

American Embassy Beijing
Xiu Shui Bei Jie 3
Beijing 100600
People's Republic of China
Tel.: (86) (1) 6532-3831
FAX: (86) (1) 6532-3178

TRAVEL AND BUSINESS INFORMATION

The U.S. Department of State's Consular Information Program provides Travel Warnings and Consular Information Sheets. **Travel Warnings** are issued when the State Department recommends that Americans avoid travel to a certain country. **Consular Information Sheets** exist for all countries and include information on immigration practices, currency regulations, health conditions, areas of instability, crime and security, political disturbances, and the addresses of the U.S. posts in the country. **Public Announcements** are issued as a means to disseminate information quickly about terrorist threats and other relatively short-term conditions overseas which pose significant risks to the security of American travelers. Free copies of this information are available by calling the Bureau of Consular Affairs at 202-647-5225 or via the fax-on-demand system: 202-647-3000. Travel Warnings and Consular Information Sheets also are available on the Consular Affairs Internet home page: <http://travel.state.gov/> and the Consular Affairs Bulletin Board (CABB). To access CABB, dial the modem number: 301-946-4400 (it will accommodate up to 33,600 bps), set terminal communications program to N-8-1 (no parity, 8 bits, 1 stop bit); and terminal emulation to VT100. The login is travel and the password is info. (Note: Lower case is required). The CABB also carries international security information from the [Overseas Security Advisory Council](#) and Department's [Bureau of Diplomatic Security](#). Consular Affairs Trips for Travelers publication series, which contain information on obtaining passports and planning a safe trip abroad, can be purchased from the Superintendent of Documents, U.S. Government Printing Office, P.O. Box 371954, Pittsburgh, PA 15250-7954; telephone: 202-512-1800; fax 202-512-2250.

Emergency information concerning Americans traveling abroad may be obtained from the Office of Overseas Citizens Services at (202) 647-5225. For after-hours emergencies, Sundays and holidays, call 202-647-4000.

Passport Services information can be obtained by calling the 24-hour, 7-day a week automated system (\$.35 per minute) or live operators 8 a.m. to 8 p.m. (EST) Monday-Friday (\$1.05 per minute). The number is 1-900-225-5674 (TDD: 1-900-225-7778). Major credit card users (for a flat rate of \$4.95) may call 1-888-362-8668 (TDD: 1-888-498-3648).

Travelers can check the latest health information with the U.S. Centers for Disease Control and Prevention in Atlanta, Georgia. A hotline at 877-FYI-TRIP (877-394-8747) and a web site at <http://www.cdc.gov/travel/index.htm> give the most recent health advisories, immunization recommendations or requirements, and advice on food and drinking water safety for regions and countries. A booklet entitled Health Information for International Travel (HHS publication number CDC-95-8280) is available from the U.S. Government Printing Office, Washington, DC 20402, tel. (202) 512-1800.

Information on travel conditions, visa requirements, currency and customs regulations, legal holidays, and other items of interest to travelers also may be obtained before your departure from a country's embassy and/or consulates in the U.S. (for this country, see "Principal Government Officials" listing in this publication).

U.S. citizens who are long-term visitors or traveling in dangerous areas are encouraged to register at the U.S. embassy upon arrival in a country (see "Principal U.S. Embassy Officials" listing in this publication). This may help family members contact you in case of an emergency.

Further Electronic Information

Department of State Foreign Affairs Network. Available on the Internet, DOSFAN provides timely, global access to official U.S. foreign policy information. Updated daily, DOSFAN includes Background Notes; Dispatch, the official magazine of U.S. foreign policy; daily press briefings; Country Commercial Guides; directories of key officers of foreign service posts; etc. DOSFAN's World Wide Web site is at <http://www.state.gov/>.

U.S. Foreign Affairs on CD-ROM (USFAC). Published on an annual basis by the U.S. Department of State, USFAC archives information on the Department of State Foreign Affairs Network, and includes an array of official foreign policy information from 1990 to the present. Contact the Superintendent of Documents, U.S. Government Printing Office, P.O. Box 371954, Pittsburgh, PA 15250-7954. To order, call (202) 512-1800 or fax (202) 512-2250.

National Trade Data Bank (NTDB). Operated by the U.S. Department of Commerce, the NTDB contains a wealth of trade-related information. It is available on the Internet (<http://www.stat-usa.gov/>) and on CD-ROM. Call the NTDB Help-Line at (202) 482-1986 for more information.