Economics almost invariably have a role to play in diplomacy, and—as William Burr’s accomplished article demonstrates—the relationship between the two is often far from straightforward. As a rule of thumb, economics tend to bulk larger in periods when other issues are on the back burner. During the 1990s, for example, in the aftermath of the Cold War the United States actively promoted the dismantling of barriers to trade and investment around the world. The spread of what was known as globalization even encouraged a heady sense that humanity had reached “the end of history,” with the acceptance and growth of what had become the new orthodoxy of liberal democratic capitalism virtually a \textit{fait accompli}, and mere tweakings and refinement of this system all that could be expected in the future. Such periods tend to be shortlived. The events of September 11, 2001 brought the threat of terrorism and ideological rivalries between Islam and the West to the forefront of U.S. policymakers’ consciousness, rather ironically permitting other rising powers, notably China and India, to make inroads into American domestic and overseas markets and the provision of services and, in China’s case, to compete with the United States for scarce raw materials.

Classic liberal tenets of international relations called for foreign trade and investment to be free and unhampered, an ideology to which twentieth-century governments in the United States largely subscribed in theory, though in practice American tariff barriers diluted the country’s commitment to unfettered economic intercourse. John Hay’s famous Open Door notes of 1899 and 1900 demanded that U.S. business interests be allowed access to Chinese markets on the same terms that nationals of other powers enjoyed. Trading, investing, living, and working overseas, Americans—like nationals of other states—acquired property and assets in foreign countries, whose protection became a matter of concern for their own government. Fiscally challenged states were often tempted to default on their obligations to foreign bankers and investors; revolutionary
governments frequently expropriated foreign-owned businesses and properties, in some cases charging that non-nationals had only been able to acquire these assets due to unfair business practices, backed in some cases by outside force majeure. In the nineteenth and early twentieth centuries, Western governments often dispatched gunboats or on occasion fullscale military expeditions to protect the lives and property of their own nationals overseas, as with the 1900 Boxer expedition to China. As the twentieth century wore on, outright gunboat diplomacy and the employment by Western powers of military force became less internationally acceptable, and such disputes were increasingly settled through negotiations, though it often took several decades before any resolution could be reached. As William Burr argues in this article, the employment of accommodationist tactics rather than outright big-stick intervention was often regarded as a postimperialist strategy, one adopted by relatively strong nations that had nonetheless been compelled to appreciate the limits of their own power.

Foreign assets often became hostages to poor relations and ideological differences between states. Countries at war often seized the assets of nationals of their opponents, not just those belonging to the governments with which they were at odds, with compensation only to be expected once the conflict had ended. When the Bolsheviks took power in Russia in late 1917, they soon repudiated the debts the Tsarist government owed to foreign governments and bankers, and seized many foreign-owned properties and investments. Foreign governments, for their part, soon blocked Bolshevik access to overseas assets of the Tsarist regime and the provisional government that briefly succeeded it. In the Russian case, such measures usually went hand in hand with the refusal by Western governments to recognize the new Bolshevik regime. Only when recognition of some kind was negotiated were agreements—sometimes never properly honored—reached on the outstanding claims nationals and governments of each state had against each other. Private claimants often discovered, much to their chagrin, that in pursuit of broader international interests, their own countries’ governments were prepared to sacrifice and downgrade the claims of their nationals and businesses. Nor, at least in the United States, was there always strong support for government efforts to defend the overseas prerogatives of American businesses and nationals. During World War I, non-interventionist congressmen and anti-war activists asked why their country should be prepared to risk war to support the right of American businessmen to trade with belligerents and the freedom of American citizens to travel on shipping in waters where they were subject to attack by enemy submarines and other vessels. The various Neutrality Acts of the late 1930s placed restrictions on American trade with belligerent nations; when this was permitted at all, all risks were to be borne by the purchasers. While the U.S. government might and eventually did place economic sanctions or commercial embargoes on countries that were at war or of whose policies it disapproved, these were often perceived primarily as means of keeping the United States at arm’s length from ongoing conflicts, and only secondarily as expressions of American distaste for or disapproval of the actual policies of the nations involved.
Somewhat ironically, it would be the Cold War, supposedly waged in defense of free market capitalism against communism, that would bring the most extensive efforts by the United States to use economic sanctions as weapons against its opponents. One reason for this may have been the fact that, given the potentially disastrous consequences of a fullscale nuclear war, American policymakers tended to look round for other means of demonstrating their displeasure with a particular regime. In the second half of the twentieth century a suite of tactics, including diplomatic non-recognition and embargoes on private U.S. trade with, investment in, or travel to a specific country, as well as the sequestering of assets of that country’s government or nationals held in the United States or in American-owned banks, would become standard fare against governments with which the United States was at odds: not just China, but also Cuba, post-1975 Iran, Libya, Iraq, North Korea, and others. Although the United States government tried to establish international regimes of economic embargoes or sanctions against its opponents, and pressured its own allies to join it in imposing these restrictions, for the most part they remained unenthusiastic. The British, for example, mindful of the fact that their continued control of Hong Kong, which handled much of China’s trade with the outside world, depended upon mainland acquiescence, often turned a blind eye when Hong Kong businessmen evaded the COCOM sanctions imposed upon China. Other West European nations, pre-eminent among them the German Federal Republic, sought to develop commercial links with the mainland.1

When the United States and Chinese governments began to move normalization, in the early 1970s, the Nixon administration also began to relax economic controls, especially in such non-strategic areas as medical supplies. In 1971, China exported goods worth US$5 million to the United States; in 1972 the comparable figure was $32 million, and Chinese imports from the United States amounted to $79 million.2 Before progress in trade and investment could advance very far, the two countries needed to resolve two parallel issues, namely, private American claims against the Chinese government for compensation for property of various kinds, valued at approximately $106 million, seized in China after the 1949 revolution; and the Chinese government’s title to around $80 million of assorted assets in U.S. banks that had been frozen by the United States government since the early 1950s. Failure to settle these outstanding problems, by then dating back two decades or so, might expose the Chinese government and its representatives and assets in the United States to court action by aggrieved American claimants, while the Chinese government refused to allow American banks to operate in China until the matter of blocked assets was resolved. Although President Richard Nixon

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and Henry Kissinger, his national security adviser and eventual secretary of state, were primarily interested in the broad strategic and intelligence implications of the opening to China, they and their staffers showed some interest in developing Sino-American trade, in part for economic reasons, even though they expected the immediate advantages to be extremely limited, and also as tangible public evidence that the new relationship was developing well. The Shanghai Communiqué of February 1972 specifically mentioned “bilateral trade as another area from which mutual benefit can be expected.”

William Burr of the National Security Archive, best known for the volume *The Kissinger Transcripts*, a book that focused primarily upon the strategic relationship between the United States, the Soviet Union, and China during the Nixon and Ford presidencies, has now supplemented his earlier work with a meticulously detailed account of the Sino-American negotiations over these two economic issues, based upon exhaustive research in all the U.S. sources currently available. One caveat is perhaps in order. This article is based almost entirely on American documents, and even some of these, notably records of discussions between the State and Treasury Departments on these issues, are not yet open to research. For the Chinese side of the negotiations, documents on these subjects are still not open, and Burr is forced to rely heavily on recent trans-national scholarship on this period of Sino-American relations that, while making heavy use of Chinese oral histories and memoirs by participants, is not backed by the same kind of extensive primary documentation from Chinese archives.

That being said, it is clear that the twin issues of claims and blocked assets, which Nixon and Kissinger initially assumed were second-rank technical problems that, with goodwill on both sides, could easily be settled, soon became surprisingly contentious. Again, this was something fairly unique to the United States, reflecting both its position as Cold War hegemon in its camp and the continuing reluctance of American officials to abandon Taiwan. The British recognized the People’s Republic of China in 1950; France followed suit in late 1963; and as soon as the United States began openly to move toward normalization in 1970, a flurry of American allies did likewise. By the time the United States opened a liaison office or quasi-embassy in Beijing numerous allied nations, including Japan, Italy, West Germany, Austria, Belgium, the Netherlands, the Scandinavian countries, Australia, New Zealand, and Canada, had all recognized mainland China and were busily setting up their own embassies. Most if not all of the new arrivals on the Beijing embassy scene withdrew formal diplomatic recognition from Taiwan simultaneously with opening relations with the mainland. Several had already reached agreements with the Chinese government over similar outstanding claims on both sides, and others were negotiating these, without encountering too many setbacks. All optimistically looked forward to increased trade with China, a prospect that the global economic downturn that began in 1973 made ever more attractive.

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For the United States, the road was less smooth. Kissinger showed very little interest in either expanding Sino-American trade or the claims-assets issues, and during Nixon’s February 1972 visit to China economic topics were among those second-rank matters relegated to Secretary of State William Rogers, who throughout his time as Nixon’s top diplomatic official was invariably greatly overshadowed by the dominating national security adviser. The eminent David Bruce, first head of the U.S. Liaison Office in Beijing and a close ally of Kissinger, was like his patron skeptical as to prospects for expanded Sino-American trade, writing in his diary shortly before he departed for China in spring 1973: “Many members of our business community are enthused over the prospect of capturing a goodly part of a market of 800 million people, and would like to board this gravy train before it leaves the station. At present, there is little gravy on the train, and will not be unless and until the PRC decides to contract large debts.”

The private claims did, however, feature on National Security Council and State Department lists of matters requiring resolution, and so made their way onto the agenda, helped, perhaps, by demands from David Rockefeller of Chase Manhattan Bank for a settlement. In November 1973, when Kissinger visited Beijing, it seemed that he and Premier Zhou Enlai had successfully negotiated a deal, whereby the funds from the blocked Chinese assets in the United States would be used to pay American claimants around 40 cents on the dollar. While scarcely payment in full, since most of the claimants had long since given up hope of receiving anything, they were likely to perceive such partial payments as an agreeable and unexpected bonus, rather than too little and too late. Soon, however, this understanding disintegrated. One reason for this may have been, paradoxically, that at this stage trade was not high on the Chinese agenda. As Burr recounts, in October 1971 Xiong Xianghui, one of Zhou Enlai’s aides, told State Department and NSC officials outright: “I am not interested in this question.” (Burr, 322) Stalling the claims-assets negotiations was therefore an ideal low-cost means of indicating Chinese displeasure over the U.S. failure to break diplomatic relations with Taiwan and move to full recognition of China, policies that Nixon’s rapidly escalating problems over the Watergate scandal, which ended his presidency in August 1974, made politically infeasible.

If domestic factors in the United States made the Taiwan situation more intractable, the same was probably true of China. By early 1974 Zhou Enlai, already suffering from cancer, was under attack from Chinese radicals—encouraged, at least sporadically, by Chairman Mao Zedong himself—for being willing to defer progress on Taiwan indefinitely. Diplomatic missteps by American representatives during the claims-assets negotiations also set Chinese alarm bells ringing. Personalities, too, may have played a part. The recent memoir by Chinese Foreign Ministry official Ji Chaozhu was surprisingly frank about the existence of rival factions within that bureaucracy. The top Chinese negotiator

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on claims-assets was often Lin Ping, head of the Foreign Ministry’s American and Oceanian Department, described by one American diplomat as "at that time not a very pleasant fellow." He seems to have taken a certain stubborn delight in being uncooperative. Burr speculates that Chinese officials feared the impact on public opinion of any announcement that they had compensated American businesses, missionaries, and others for the seizure of properties which, for over twenty years, the regime had claimed had been justifiably confiscated. Given the past ability of the Chinese leadership to execute 180-degree turns on far larger questions, such as relations with the Soviet Union and the United States, or the status of such prominent communist leaders as Liu Shaoqi and Lin Biao, a skeptic may wonder whether concern for mere consistency would have inhibited the Chinese Politburo from striking such a deal.

But, with a succession crisis looming in China, as Mao’s health deteriorated only slightly less rapidly than that of Zhou Enlai, no Chinese politician wished to be seen as overly conciliatory on the far more emotionally laden topic of Taiwan. Even though it was clear that China would not win most-favored-nation (MFN) trading rights in the United States until the claims and assets were settled, this was insufficient inducement for Chinese officials, many of whom regarded with great suspicion the prospect of increased commercial and other economic relations with American corporate capitalism, as steps that would inevitably mean abandoning hallowed communist principles. And the eagerness of non-American businesses to arrange commercial deals with China left the Americans in a poor bargaining position. In summer 1974 several Chinese officials, among them Deputy Prime Minister Deng Xiaoping, recently returned from disgrace to take over many of Zhou’s duties, told delegations of visiting American politicians and businessmen that further progress on Sino-American trade would have to wait upon American policies toward Taiwan that the mainland found acceptable. In the following three years Chinese imports from the United States fell dramatically: in 1974 they were worth $949 million, in 1975 $334 million, in 1976 reached a low of $149 million, and in 1977 recovered only slightly, to $171 million.

Burr ends his story in 1975, during the Ford administration. The American claims were not resolved until March 1979, after the United States had switched recognition from Taiwan to the People’s Republic, the same day that the U.S. embassy in Beijing opened. Previous approaches were abandoned, and the negotiators started with a clean slate. The Chinese made a lump sum payment which gave American claimants 41 cents on the dollar, while their frozen assets were unblocked. By that time Mao Zedong was dead and Deng Xiaoping, whose first priority was economic development and modernization, had won firm control of the Chinese political apparatus. Deng was also prepared to settle for American withdrawal of diplomatic recognition from Taiwan, without insisting on the


7 U.S. Congress, China: A Reassessment of the Economy, 743.
island’s immediate return to the mainland. Within a year, China had also won MFN status, a move that marked the beginning of ever greater intertwining of the U.S. and Chinese economies.

Burr has ably elucidated the evolution of one often neglected thread in the complicated tapestry of Sino-US relations during the years leading up to full diplomatic normalization. One hopes that he will take it further, and explore in similar detail the ramifications of this issue during the presidency of Jimmy Carter, and how and why a settlement was finally reached. It is also to be hoped that more documents giving the Chinese side of the story will soon become available. More broadly, his account suggests that, when economic progress becomes a top priority for any particular country, politically freighted issues related to trade and commerce that might at other times serve as obstacles to such development are perhaps more easily resolved. For three decades, China has made economic modernization its highest objective. For China and the rest of the world, the results have been phenomenal. For well over a century, Americans had pursued what often seemed a chimerical China market. Rather ironically, in the late twentieth and early twenty-first centuries, China discovered the American market. In the shifting but always inter-related calculus among strategic, geopolitical, and economic factors, by the early twenty-first century it had become clear that, for China, economic might was rapidly enhancing the country’s international weight and prestige, winning it new respect and clout around the world and in trans-national institutions. Given the massive current global economic downturn, the question almost inevitably arises: will China’s economic miracle and the international imbalances of trade, investment, and influence to which this has given rise themselves become major sources of global strategic rivalry, competition, and suspicion between China and other powers? Or will they lead China to become a major player in world politics and a massive force for international stability?

**Priscilla Roberts** is an Associate Professor of History at the University of Hong Kong where she is also Honorary Director of the Centre of American Studies. She is also an Adjunct Professor with the Foreign Studies College of Northeastern University, Shenyang, China and an Honorary Professor at Shanghai International Studies University. She has edited the Chinese Diaries of David Bruce, George Bush’s predecessor as head of the U.S. Liaison Office in Beijing. Her research interests focus upon the development and influence of the US foreign policy elite. She is currently working on a biography of the banker Frank Altschul, and a study of Anglo-American think tanks and the making of China policy.