NEGOTIATING SINO-U.S. RELATIONS: 
AN EXAMINATION OF DISPUTE RESOLUTION

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A Thesis

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Abstract

of

NEGOTIATING SINO-U.S. RELATIONS: AN EXAMINATION OF DISPUTE RESOLUTION

by

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Statement of Problem

This thesis aims to examine how the United States and China resolve their political disputes. Specifically, this thesis examines the idea that there is a relationship between the costs of coercion and both states’ decision to negotiate. Additionally, this thesis also seeks to examine the role of policy preferences at the start of political disputes and to model the negotiation process using the positional bargaining model.

Sources of Data

To examine the relationship between costs of coercion and the decision by United States and China to negotiate, this study examines three well-known disputes between the United States and China since normalization of relations. These cases are the 1996 Taiwan Strait Crisis, the 1999 U.S. bombing of the Chinese embassy in Belgrade, and the 2001 Hainan Incident.

Conclusions Reached

The results from looking at these cases support the idea that there is a relationship between costs of coercion and the decision by United States and China to negotiate. Trade data indicates a growing economic trend of interdependence between the United States and China since 1985 in terms of trade volume. While no negotiations took place during the 1996 crisis, negotiations did take place in the crises that followed in subsequent years. It is suspected that the increase in trade provides an additional deterrent to pursuing coercive policies. Negotiations in both the 1999 and 2001 incidents contained clearly observable outcome preferences at the start of negotiations and those preferences informed what was eventually negotiated over. The positional bargaining model also provides an adequate framework for understanding the tit-for-tat behavior exhibited in these negotiations as well.

_______________________
David R. Andersen, Ph.D., Committee Chair

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Date
DEDICATION

For my father, Gregory Hsieh-Shen Liu, who inspired my studies in political science.
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Daniel Chuan-Jen Liu
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Chapter 1
INTRODUCTION

Background

The relationship between the United States and China is often described as one that shifts between when the mood between the two countries are relatively positive and when they are tenuous. Traditionally when things are positive, the two states tend to treat each other with ambiguity and avoid the issues that tend to cause disagreement. The Clinton Administration’s support of China’s accession to the World Trade Organization during the 1990s (which eventually took place in 2001) can be seen as a period when relations were relatively good. However, relations can often turn tenuous. During this period, the two sides tend to disagree with each other and place emphasis on their mutual differences. These periods can often be caused by one state taking some action that inevitably causes the other to respond in a negative manner. One such example can be made of the United States’ accidental bombing of the Chinese embassy in Belgrade during the North Atlantic Treaty Organization’s (NATO) intervention in the former Yugoslavia. Of interest is if whether the U.S.-China relations are truly cyclical, then what causes relations to recover back to being relatively positive.

It is suspected that there is some mechanism or process that both the United States and China employ to return relations to the status quo. Therefore, the specific direction for research in this project is to understand the reasons behind why relations between these two states have been able to shift from being tenuous to the status quo. To this regard, negotiation theory can offer significant insight into how these two states resolve
their differences. It can offer insight into why the two states choose to seek a negotiated settlement over continuing an existing political dispute.

General Research Questions

This project seeks resolution to the following generalized questions. How does the United States and China address policy disputes? To this end, can a theoretical approach, such as negotiation theory, be employed to explain the behavior between these two states when they experience a political dispute? If so, what then, are the needed conditions for states to choose to negotiate as opposed to continuing the dispute? Lastly, do negotiations contribute to a resolution of the political dispute?

Purpose and Objectives of the Study

The primary purpose of this study is to examine negotiations between the United States and China during periods of political dispute. Its primary concern is to examine whether or not the primary tenets of negotiation theory, along with some rationalist assumptions, accurately describe the conditions under which negotiations start and how they succeed or fail in resolving a political dispute.

In other words, the theoretical approach taken here can describe the conditions leading up to negotiations. Furthermore, negotiation theory also describes a process that parties can use to reach a specific outcome. This project will seek to identify when and where these processes take place when relations when the United States and China experience a political dispute. This paper will also determine if these processes of
negotiation contributed to a resolution of a conflict and a return of relations to the status-quo.

General Organization

In the following pages, this project will be organized into several chapters. It will begin with a detailed literature review. This is followed by a discussion on methods including the general framework used to evaluate the cases collected in this project. The following section will examine the history of U.S.-Chinese relations and track the development and interdependence of both states. The next portion of this project will examine three political disputes between the United States and China since the normalization of relations. These disputes are the 1996 Third Taiwan Strait Crisis, the 1999 U.S. bombing of the Chinese embassy in Belgrade. Lastly, this project will discuss potential directions for future research in terms of utilizing negotiation theory to understand the relationship between the United States and China.
Chapter 2
NEGOTIATION THEORY AND THE CAUSES OF WAR

The major question of this thesis is to ask how the peaceful settlement of policy disputes between the United States and China took place. One observation to make is that all the parties in a policy disputes talked to each other in some way before, during, and after the event that affected the final outcome. Therefore, it is the aim of this section to examine the idea of negotiation in both theoretical terms and its application.

A good starting point for discussing the theory of negotiation is to understand its purpose. Rubin argues that negotiation is focused more on conflict settlement rather than conflict resolution. Therefore, while the involved parties might hate each other dearly, negotiation does not require a change in attitude. Instead, it focuses on bringing the parties together and seeking some common ground in which a deal, that is acceptable to all, can be made to cease the conflict. In a larger sense, the theory behind negotiation assumes that the actors involved are rational as even though the actors may hate each other they are able to see past their differences to achieve a settlement that each will find acceptable. Therefore, negotiations often take place when “the time is right” such that the parties involved take their conflict seriously and that they are all willing to do whatever is necessary to end the conflict. Rubin also points out two kinds of negotiation tactics known as the “carrots and stick” approach and the “joint decision-making” approach.

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2 ibid. p. 10.
3 ibid. p. 11.
Whereas the first takes a more confrontational approach, the other seeks cooperation as the name implies. Of interest within the larger negotiation framework are two key ideas that of the mutually hurting stalemate and positional bargaining.

Mutually Hurting Stalemate

In terms of negotiations, Zartman argues that parties will only negotiate when they are ready to do so and that the timing of when parties will decide to negotiate a mutual way out is worth studying. Zartman’s term “ripeness” is an indicative pointer to when a stalemate has reached a point where it has become too painful for either party to prolong a conflict.4 It also consists of a mutually held perception by both parties that there is a way out of the stalemate via some negotiated solution. Therefore, if both parties are stuck in what they perceive themselves to be in a “mutually hurting stalemate” and that the possibility of a negotiated settlement exists, then the conflict is “ripe” for resolution. Brahm operationalizes this definition somewhat more clearly by stating that mutually hurting stalemates occur as a result of some event such as the depletion of resources on both sides of a conflict. It is also the point in which some sort of equilibrium (in terms of power) between the conflicting parties can be observed where neither side is getting closer to their goals and where neither side is happy about the status quo. Both

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sides at this point realize that the costs of continuing the conflict can greatly outweigh whatever benefits there is to be gained.⁵

The mutually hurting stalemate is usually employed to understand conditions that bring warring parties to the negotiating table. In other words, it is a situation in which neither belligerent side sees the possibility for victory. As a result of their situation they see strong incentives to negotiate or seek mediation. Moradian and Druckman argue that a mutually hurting stalemate is a necessary condition for warring parties to seek a negotiated settlement. In their study of the conflict over the Nagorno-Karabahk region of the Former Soviet Union they produced two major findings. The first is that mediators contributed little to ending the violence. The second finding was that significant changes in the behavior of the belligerent parties only occurred after periods of intensive combat.⁶ Analysis of these findings indicates that the warring parties are the ones who decide if there is a way out of continuing a war. While the mutually hurting stalemate describes a condition for commencing negotiation, there are also formal models that describe the negotiation process once it has commenced.

Positional Bargaining Model

Hopmann’s basic model of bilateral bargaining is an illustration of the positional bargaining method in negotiation. Per his model the issue dimension, over which the

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involved negotiate, is drawn over a horizontal axis. The opposing positions are drawn on the vertical axis on either side of the horizontal axis. Each side’s preference is drawn out as a curve on this graph and the two preference curves intersect at some point on the graph. The intersection of the two preference curves indicates a point of consensus and the area immediately under the curves is an area where both sides would be willing to negotiate over. Furthermore, the preference curves also intersect with and cross the horizontal axis. When this occurs any solution at and beyond the horizontal would essentially be meaningless for the party for which the preferences curve represents and would present the party with an opportunity to seek the next best alternative to negotiation. This model can be graphically represented as:

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8 See Hopmann p.58.

According to Hopmann, the horizontal axis represents the issue dimension and the vertical axis represents gains and losses relative to non-agreement. Line A-A’ represents party A’s preference curve whereas line B-B’ represents the same for party B’. Point “a” and “b” represents each side’s preferred outcomes. Points a’ and b’ represent each sides minimum acceptable outcomes. Finally, point “E” represents the point of “equitable” solution (or a compromise).\(^9\)

In a separate explanation, Spangler notes that positional bargaining such as Hopmann’s involves the parties holding onto some fixed idea or position regardless on

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\(^9\) ibid.
underlying issue as the parties are strongly committed to their present positions. This process is similar to the haggling process that occurs between a consumer and a car dealer searching for the best price to buy and sell a car. The buyer wants to buy a car and the seller wants to sell a product, thus the two parties have a mutual interest. Spangler also argues that while positional bargaining is the first choice for negotiators when entering a negotiation, it is also a less efficient strategy. This is because as the negotiation progresses, negotiators become more committed to their positions thus reducing the possibility of a win-win outcome. It also increases the potential of creating an adversarial feeling between the parties as well.

In this regard, Spangler offers an alternative to positional bargaining method called integrative bargaining. By integrative bargaining, both sides seek to gain a win-win solution to the dispute. It focuses on developing mutually beneficial solutions based on identifying each party’s interests. It is hypothesized that by combining those interests to form some common ground between the parties will work towards creating a solution acceptable to all parties. The caveat of the integrative approach is that there must be multiple issues being negotiated upon such that compromise between the issues that take place thus allowing all the parties to be satisfied with the outcome. Unlike positional bargaining, the parties involved are seen as joint problem solvers with flexible positions.

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11 ibid.

rather than as adversaries on fixed positions. Sebenius also takes a similar position with one difference in that he sees the differences between the negotiating parties, such as differences in tax status, can also be taken advantage of to expand the scope of the issues so that common ground can be found between the parties.

This formal model is useful in understanding negotiation in that it outlines some of the key components of a negotiation process. This model posits that actors in a negotiation process have specific outcome preferences and are negotiating over a specific and known issues horizon. It also suggests that such components should be present in order for negotiations to take place. However, Dupont and Faure argue that the process of international negotiation is difficult to define. This is simply because negotiation processes can be complex. As such, the approaches to understanding negotiation can be further sorted into several categories.

Structural Approach

Zartman notes that perfectly symmetrical distributions of power are hard to find in the real world. In terms of this structural approach, Zartman argues that a theory regarding negotiation must include a power dimension that explores how the actors

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13 ibid.
involved exercise power and how it affects the negotiations. An interesting question Zartman points out is how the exercise of power by one actor might influence the other actor to either yield its position or offer up concessions. In this sense, Zartman argues that the structural approach attempts to explain the outcomes to the distribution of key elements such as the number and power of the parties involved. He proposes a model in which the bargaining situation involves two parties seeking to get a single joint outcome the simplest of which both parties are roughly symmetrical in terms of power. To illustrate this point, both sides are given the power of a veto.

A mutually hurting stalemate also shows that the two parties are roughly equal and the parties’ response to this equality is often to reciprocate each other’s actions. As a result of this reciprocity, a behavioral norm in which the idea of fair play in order to arrive at a mutually agreeable solution is established between the parties can be established when they sit down to talk. To illustrate, parties that give up early concessions might expect to be repaid at a later point otherwise it can still choose the option to veto the result. Therefore, the reciprocity taken by each side is a metaphor for saying that each side is equally powerful in the negotiations.

Interestingly, close approximations of symmetrical distribution of power among the parties have been shown in cases such as the Korean War armistice negotiations. In the case of the Korean War, the U.S. and China had fought the conflict to a rough stalemate for various reasons. However as Fan contends the conflict was not a direct

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conflict between the two parties but as an intervention in a Korean civil war thus making the conflict ripe for negotiation. Fan argues that while the U.S. was a high capabilities state, its reluctance to commit more resources than necessary coupled with China’s strong desire to protect its national boundaries made the two parties into a pair of symmetric powers.19

However, power is rarely so evenly distributed amongst the various parties. Hopmann argues that formal models rarely work well in the real world. Often more than two parties can be involved in negotiations and the power capabilities of each party may be unclear such that the party itself might not understand its full capabilities.20 The distribution of power among the parties to influence the outcomes might also not be equal. As a result, Hopmann argues that the assumption that all parties involved in a negotiation are alike in all aspects should be relaxed.21 This is because negotiations include a distributive element that reflects the differences of bargaining power that each side might bring to the table.

However, several studies have shown that all parties may also desire negotiated settlements even though the distribution of power among the participants is asymmetrical. Winham and DeBoer-Ashworth have shown that in the case of FTA negotiations between the United States and Canada (1985-1987). Canada being the weaker of the two parties, could talk directly to the U.S. given that an agreement would be to the benefit of both the

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21 ibid. p. 101 and it should be noted that Zartman supports this view as well.
U.S. and Canada. In this case, the norms of international trade liberalization had also politically ruled out the option for the stronger party to resort to force to settle the issue. Faure and Klaosen have shown, via their study of Andorra’s trade agreement negotiations with the E.C., that a weaker party could effectively play the stronger parties’ insecurities of each other against them to get what it wants. Zartman and Rubin argue that in a situation of asymmetry the stronger power could pay for a specific outcome if it wanted it badly enough and that the weaker power’s position would be enhanced as a result of being able to name a price. In the case of the US-Canada FTA, that price was a level playing field in terms of trade whereas in the case of the E.C.-Andorra negotiations part of the prices demanded by Andorra was de-facto sovereignty. While the weaker party could not simply demand any price, it did become capable of getting more out of the negotiations than previously stated.

Roger Fisher also responds to the criticism that the idea of power is too vaguely defined in terms of negotiations. Fisher argues that negotiation power is the power to influence and not the power to coerce (via physical harm). Instead, Fisher defines

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23 ibid.
26 ibid.
27 ibid.
negotiation power in six distinct terms. That power includes the skills of the negotiator, that of a working relationship, the presence of a good alternative, an elegant solution, that of the solution’s legitimacy, and the commitment of the parties involved.\textsuperscript{29} In this sense, the use of power (as Fisher views it) could be seen as a process that moves negotiations towards a specific outcome.

Turning Points

Recent studies have examined the relationship between the processes of negotiation and outcomes. More specifically, studies have examined the impact of turning points within negotiations. While the concept of turning points can be broad, Druckman argues that the concept should generally refer to a specific event or process that moves negotiation from one stage to the next. It is also an event or process that signals progress from an earlier stage or negotiation to a later stage. For example, a turning point should be identified as an event that resolves an impasse such as the signing of a framework agreement or agreeing to a formula on which negotiations can continue to proceed.\textsuperscript{30} Druckman argues that turning points are process departures that are precipitated by certain events, either internal or external to the negotiations, which have immediate consequences for progress toward or away from an agreement.\textsuperscript{31} Druckman argues that security-related negotiations have been driven more by events external to negotiations whereas negotiations dealing with non-security issues tend to be driven by

\textsuperscript{29} ibid. p. 130-137
\textsuperscript{31} ibid. p. 521
specific events or processes within the negotiations.\textsuperscript{32} This idea is similar to Zartman’s concept of a mutually hurting stalemate. Whereas mutually hurting stalemate refers to the conditions leading up to a negotiation, turning points refers to a part of the process of the negotiation.\textsuperscript{33}

Behavioral Approach

Kremenyuk points out that the nature of negotiation on the international stage is changing with world events. The emerging system of international negotiations now includes both formal negotiations between governments and informal talks between the officials. The issues being negotiated have also expanded in scope from traditional issues such as arms limitations to newer issues such as transnational drug trafficking and the environment.\textsuperscript{34} He argues that in terms of international negotiation a certain set of norms have emerged focusing on themes such as cooperation, non-violence, and joint decision-making and that it is unfriendly towards those who do not play by the rules. Negotiation should also contribute to the overall stability of the international system.\textsuperscript{35}

Strategic Approach

In terms of strategic options or tools for negotiation, there are several choices open for negotiators to use to suit their needs. The first option is that of problem solving.

\textsuperscript{32} ibid.
\textsuperscript{33} ibid. p. 520.
\textsuperscript{35} ibid.
Pruitt defines this as a process of where the parties try to find ways to reconcile their differences.\(^{36}\) Strategies that could be employed include compromise or logrolling. The second option is where one party attempts to convince the other party to take a specific point of view. The third option Pruitt describes as yielding in which the negotiator reduces the party’s underlying values and the goals sought to quickly settle a conflict. The fourth and final option is to do nothing. Which approach is taken depends greatly on one’s own outcome preferences versus the outcome preference of the other party. If neither side cares greatly about the outcomes, then it is likely that neither side will take any action. If one side cares strongly for its preferences and the other side is perceived to care less, then it is likely that the side that cares strongly for its preferences will contend its position. If one side does not care greatly about its outcome preferences in a certain issue while the other side cares strongly, then it is likely that the side that does not have strong preferences will yield its position. Whereas if both sides feel strongly, then there will be a higher tendency for both sides to engage in problem solving. This is what Pruitt terms as the “dual-concern model”.\(^{37}\)

In his analysis of Russian negotiation behavior, Kimura finds that the Russian perceptions of negotiations heavily influence both their behavior at the table and the tactics they employ.\(^{38}\) For example, some see negotiation as a struggle with power being one of the determining factors. As a result, they tend to prefer to be secretive in their


\(^{37}\) Pruitt, p. 31.

behavior and do not mind suddenly changing their positions. Tactically, Kimura argues the Russians are often better at using time to wear down their opponents and applying divide and conquer tactics to get what they want.\(^{39}\)

**Historical Approach**

Other theoretical analyses of negotiation have drawn on various approaches. Freymond draws on a historical approach understanding negotiation arguing that information from the past might provide useful insights to issues of the present.\(^ {40}\) As international negotiations often deal with legally binding agreements, some have argued that theories of negotiation must also take into account a legal aspect.\(^ {41}\) Kahn and Lewicki argue that organizational theory can also contribute to the literature.\(^ {42}\) Kremenyuk notes that organizational theory can shed light on issues such as the relationship between the unit (negotiator), the organization, and the relationships between the various organizations, and how these relationships can shape the outcomes of negotiations.\(^ {43}\)

This review has sought to summarize the existing literature on negotiation and organize the information into several categories. However, negotiation theory only seeks

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39 Kimura.
to describe and explain how states solve problems with each other. It does not however
address the issue of why states seek to negotiate in the first place.

Rational Causes of Peace and Causes of War

One answer to this problem might simply be the fact that war, or even the
employment of coercion, is a costly endeavor.44 Fearon notes that war is so costly for
states that rational states would seek a negotiated settlement rather than to risk fighting.45
Given the costs of war, rational leaders would have strong incentives to share information
that would contribute to the settlement of disputes. Given this framework, states could
prevent war by simply sharing information. However, wars still do occur. Fearon presents
three variables that could contribute to states choosing to fight rather than to negotiate.
First, states may have a rational incentive to deceive each other and to hide their own
vulnerabilities. Second, power and the anarchic nature of international politics may cause
states to have trouble committing to settlements. Lastly, some of the issues that states
disagree over are non-divisible.

There is also a strong chance that states might misperceive their capabilities or the
capabilities of their opponents. The result of this misperception could result in war. The
idea that states may have a rational incentive to deceive each other increases the risk of
misperception. Jervis argues that in order for one to know how he should behave he must
predict how others around him will behave. However, it is possible that one will

44 Coercion meaning shows of force and saber rattling intended to alter a state’s behavior.
misperceive the others’ actions and intentions. The important caveat in these arguments is that the idea of “misconception” is relatively loosely defined though efforts have been made to narrow the idea. For example, Levy attempts to narrow the definition into two distinct categories of misperceptions of capabilities and misperceptions of intention. In terms of international politics, Jervis argues that war is most likely when states simultaneously overestimate others’ hostility and underestimate their capabilities.

The mutually hurting stalemate is often used to describe a specific situation during a physical conflict between states that increases the likelihood for parties to seek a negotiated settlement. It does not address why states choose to go to war in the first place. To this end, the larger discourse in international relations literature has posited that states can rationally go to war for a number of reasons. One of which is the idea that wars tend to occur when states misperceive each other’s capabilities and intent. However, the literature also posits that rational states will seek a negotiated settlement when possible given the high risk and costs associated with war.

One important explanation for peace can be found within the idea of interdependence. This theory is grounded in the liberal thought that open international markets and increased economic exchanges between states will decrease the chances of

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war. Both military conflict and economic exchange are seen as interchangeable tools for the state to acquire resources that are required for political security and economic growth. The key idea is that as international trade and foreign investment increases there will be less incentive for states to go to war given the costs and risks associated with war. The loss of trade adds an additional element of cost for states in addition to the costs of war. This idea can also be applied to acts of coercion (in addition to the act of war) between states that are strongly interdependent. Economic interdependence is conceptualized in two ways. Sensitivity interdependence means that the economic conditions and events in one country are dependent on the conditions and events of the other. Vulnerability interdependence means it would be very costly for states to either forgo or destroy their existing relationship. Measurement of economic interdependence, while varied, usually involves examining indicators related to the flows of international trade. In sum, international trade and interdependence might also provide a rational explanation for why states choose to negotiate rather than to fight.

This is an important issue for this thesis, as most of the policy disputes between the United States and China since normalization of relations have not ended in war. Therefore, another explanation for why these two states have chosen to negotiate rather than fight should be examined.

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51 Mansfield and Pollins, p. 6
52 The term “most disputes” is used here because the United States and the People’s Republic of China did engage in armed conflict during the Korean War.
Chapter 3
METHODS

The US-China Problem

The last time the United States and the People’s Republic of China found themselves in a situation that is close to the definition of a mutually hurting stalemate was during the Korean War. This situation has yet to repeat itself especially since the normalization of relations between the two countries. Instead, the rational actor framework described earlier can be used to make the argument that the United States and China have found more utility in negotiating than in fighting. However, the mutually hurting stalemate condition is not entirely without utility in this thesis. A stalemate roughly means the inability of either party to unilaterally alter the status quo. This situation could thus be applied to deal with policy disputes in peacetime in which the United States and China would have strong incentives to resolve their political disputes via negotiation.

Hypotheses

First, the development of both the United States and China has followed a pattern that has made coercive behavior between the two states extremely costly and thus increases the likelihood of a negotiated settlement during periods of dispute. The cost of war should also decrease the likelihood of one state unilaterally altering the status quo. Thus, the following hypotheses can be made.
1. The greater the military development of both the United States and China and the greater their economic interdependence, the greater the costs of using coercion to settle a dispute will be.

2. The greater the cost of coercion, the more likely the situation will resemble a mutually hurting stalemate and thus the more likely the United States and China will seek to negotiate.

3. The clearer each side states their outcome preferences at the start of the dispute, the more likely negotiations will take place around these issues.

Variables

For the first hypothesis, the dependent variable is the cost of coercion. The independent variable is the military development of both China and the United States and interdependence between the two states. It predicts a positive association between military development (and economic interdependence) and the costs of using coercion as a means of resolving disputes.

In terms of the second hypothesis, the dependent variable is the mutually hurting stalemate condition and the likelihood of states choosing to negotiate. The independent variable is the costs of coercion. This hypothesis predicts a positive association between the costs of coercion and the likelihood of a mutually hurting stalemate condition existing and the resultant likelihood that the United States and China choose to negotiate.

For the last hypothesis, the dependent variable is the likelihood of negotiations taking place. The independent variable is the clarity of outcome preferences. This
hypothesis predicts a positive association between the clarity of outcome preferences and negotiations taking place.

Definitions

First, it is important to define the idea of coercion. Coercion in this thesis means the show or limited use of military force short of war (or economic sanctions) by one state in an attempt to alter another state’s behavior. It is a behavior that can be characterized as an overt act, a tactic, or overall strategy. Military development is primarily concerned with understanding the state’s traditional power capabilities. Examples of this would be military spending, technologies, and equipment. Economic interdependence is understood using the dual definition of sensitivity interdependence and vulnerability interdependence. Sensitivity interdependence is where the economic conditions and events in one country are dependent on the conditions and events of the other. Vulnerability interdependence is where it would be very costly for states to either forgo or destroy their existing relationship. It will be measured, within this thesis, by using import and export data.

Costs of utilizing coercion (or armed conflict) are understood in terms of the losses sustained by the belligerents. These costs can be varied. It can range from loss of human life, the loss of political capital, to the loss of economic benefits, depending on the outcome of the coercive act. Risk can be roughly measured in terms of political capital to be gained or lost from war. For example, the prospect of defeat or conflict without end

53 See: Mansfield and Pollins
can carry significant political costs for the leadership of belligerent parties. Of interest here is to examine whether trade between the United States and China provides an additional deterrent against the use of coercion to solve disputes.

In terms of the second hypothesis, a special definition must be made in terms of the situation resembling a mutually hurting stalemate. Literature in negotiation theory points to the mutually hurting stalemate as a condition for negotiations to take place during war. While this concept is useful in understanding great power conflict prior to the Cold War and conflict between minor powers in the years after, it is unwieldy at best in describing great power disputes in which a war would end in mutually assured destruction. Neither does the condition take into consideration the use of nuclear weapons and the costs it would exact in a limited capacity. In the nuclear era, studies of mutually hurting stalemates have been necessarily limited to conflict between smaller nations with limited or no nuclear capability. It is so limited because an actual conflict between the great powers (or even powers with significant nuclear capability\textsuperscript{54}) following Second World War has never materialized. Therefore, a mutually hurting stalemate in the traditional sense has not been present in any of the great power struggles in the nuclear age.

Again, this is not to mean that the mutually hurting framework is without utility for this thesis. With some modification, it can still be applied to understand disputes between the great powers. The key modification is that the idea of mutually hurting

\textsuperscript{54} A caveat should be made for India and Pakistan and their ongoing dispute over the territory of Kashmir. While skirmishes occur between the two countries, neither has entered into war with each other over the past ten years that could potentially escalate into a nuclear exchange.
stalemate need not be confined to a stalemate physical fight. Rather it should also include scenarios before physical conflicts take place in which a fight would be so costly that it becomes unrealistic for either party as a first choice policy option. Given this situation, rational state actors will have a much stronger incentive to negotiate or seek mediation or find some other solution to their problems. The end result of this modification is a scenario similar to a mutually hurting stalemate. Therefore, the scenario similar to a mutually hurting stalemate is a situation that is similar to the traditional definition with the exception that it occurs without occurrence of violent conflict.

A rationalist assumption is made here with regards to the mutually hurting stalemate and the United States and China’s willingness to negotiate. Modern technology, especially with the advent of nuclear weapons, has made the prospect of coercive tactics between the major powers incredibly costly. War in general carries a very high cost (and risk) for all parties involved. Coercive acts can also carry a similar risk in that it could also result in the loss of political and economic capital and potentially carry the same risks, as war should the situation escalate into violence. Therefore, the United States and China should have a much higher incentive to seek a negotiated settlement that would avoid the costs and risks associated with pursing coercive policies.55

In terms of the final hypothesis, clarity of outcome preferences points to clearly stated and repeated policy positions made by decision-makers. If a position is well published (such as in the news) and repeated consistently, then that position is considered to be clear.

55 See Fearon
Method of Analysis

This analysis of Sino-US relations will put crisis resolution between the two states within a larger theoretical framework of negotiation theory. As summarized above, the literature on negotiation can be very broad and can extend across a vast number of issues. Thus a truly “elegant theory” cannot hope to incorporate all the various discussions on the practice of negotiation. Instead, this study will first examine the historical developments of US-China relations. It will then make the argument that relations between the two countries have developed to a point where neither side can choose to coerce each other (or unilaterally altering the status quo) without paying significant costs. Thus, the situation becomes similar to that of a mutually hurting stalemate. As such, this thesis will also argue that a mutually hurting stalemate did in fact exist at the outset of policy disputes between the United States and China thus making the scenario “ripe” for negotiation. This thesis will then argue that stated preferences by both the United States and China will contribute to the commencement of negotiations. The thesis will aim to place the issues and various policy statements in terms of the positional bargaining model as a means of illustrating each side’s outcome preferences. The final argument being made is that observable outcomes will contribute to the commencement of negotiations towards resolving the dispute.

In order to test the hypothesis, this project will ask a series of questions when evaluating the cases. First, it will ask if there is a situation similar to a mutually hurting

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stalemate that exists between the two parties at the start of the policy dispute. In other words, do the United States and China have any other alternative other than negotiation to settle a dispute and if so why do they choose not to employ those options? The second question the project will examine is if each side to the dispute has some sort of clearly stated outcome preference in terms of how they would like to see the dispute resolved. If so, the project will examine if the preferences of the two sides might create the possibility of a settlement or compromise. Lastly, if no negotiations took place or if negotiations did not lead to a settlement the project will seek to determine why negotiations failed and what the consequences were. This last question is significant because within Hopmann’s model there is a point where parties to negotiation will pursue their next best option to negotiation because the terms of the settlement do not fit well enough with their outcome preferences.

In terms of these questions, the first question seeks to probe the conditions of negotiations taking place. The mutually hurting stalemate is associated with each party’s willingness to sit down at the negotiating table. Regarding the second question it will seek to establish a relationship between the clarity of each side’s preferences and whether or not those preferences lead to the commencement of negotiations and how. It will also seek to examine if there is an association between the clarity of each side’s preferences and whether it can lead to negotiations. In other words, it is expected that variation in the clarity of outcome preferences is related to whether or not negotiations take place.

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57 This refers to the idea of the best alternative to a negotiated agreement (or BATNAs).
Overall, these questions will examine whether there is a steady pattern of behavior in how the United States and China settle policy crises using negotiation.

Given these tasks, this project is largely qualitative in nature. It will observe the individual crisis points and analyze information from a variety of sources to determine if those crises lead to negotiation between both the United States and China. The cases being examined are mostly past disputes and not currently ongoing ones.

Data and Limitations

Since this thesis is concerned with dispute resolution between the United States and China, the thesis will assume both countries are rational. This is done deliberately to limit the scope of examination of dispute resolution to the United States and China and to avoid a larger discussion about the behavior of rational states in general.

This thesis will seek to examine three major policy disputes between the United States and China from 1979 to present. 1979 is historically significant in that it represents the normalization of relations between the United States and China. This meant that diplomatic recognition of China by the United States shifted from the Republic of China (the regime on Taiwan) to the People’s Republic of China (the regime on China proper). The Three Communiqués between the United States and the People’s Republic of China also set the tone for the current “One China” policy and left the status of Taiwan as unclear. Both the One China Policy and the status of Taiwan is an issue of continued contention between the United States (which is Taiwan’s largest political supporter via the Taiwan Relations Act) and the People’s Republic of China (which views Taiwan as
part of its sovereign territory). Therefore, policy disputes following 1979 generally deals with the regime on Mainland China and not simply Taiwan. Furthermore, as previously noted, the issue of Taiwan is also frequently seen as a topic of dispute between the People’s Republic of China and the United States. This background gives a much richer field of investigation over how negotiation theory might be employed to understand the dynamics behind dispute resolution between the United States and China.

The selection of cases will closely follow the International Crisis Behavior (ICB) data set’s definition of a crisis. Therefore, this project will look for events following 1979 in which leaders perceive threat, time pressure to react, and the heightened possibility of military conflict. The International Crisis Behavior project’s definition can be broken down into four interlinked component parts. (1) A crisis should be seen as a change or event in the internal or external environment which creates (2) a threat to basic values that carries with it a simultaneous or subsequent (3) high probability of military hostilities and (4) the awareness that there is a finite time to respond to this threat. The International Crisis Behavior Project states that international political crises are usually “triggered” by specific events or actions. The resulting crisis is a situation in which decision makers perceive “a threat to basic values, time pressure for response and heightened probability of involvement in military hostilities”.

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Cases

Within these parameters, three major policy disputes stand out: the 1996 Taiwan Straits Crisis, the US bombing of the Chinese embassy in Belgrade in 1999, and the more recent collision of a US Navy EP-3 aircraft with a Chinese fighter aircraft in 2001. All three of these cases represent serious political disputes between the United States and China. The 1996 Tai

To locate information regarding these disputes between the United States and China this thesis will examine multiple sources. These sources will be qualitative in nature with the study focusing on analysis of any given dispute. Academic studies have often focused on different policy issues where there is broad disagreement between the two countries. For example, both Kissinger and Solarz examined Chinese behavior during the 1989 Tiananmen Massacre and the United State’s response. Historical sources can also paint a valuable picture into how leaders and regimes saw issues. Journalistic sources such as James Mann’s About Face gives in depth views on how US policymakers saw their situation and how they would have likely framed the issues related to a policy dispute. It also provides useful insight into the decision making.

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process. Finally, biographical sources such as memoirs can also offer useful firsthand insight into the thought processes of policymakers during a dispute. It can reveal to an extent which options the policymaker considered and how he or she specifically saw the problem.
Chapter 4
SINO-US RELATIONS

Organization

The first hypothesis developed by this thesis posits that the greater the military development and interdependence of both the United States and China, the greater the costs are for using coercion to resolve a dispute. The second hypothesis also posits that the greater the costs of coercion, the more likely rational states will choose to negotiate. This chapter will aim to test these statements. To do so, this chapter will examine the military and economic development of both the United States and China. It will then argue that given the interdependence between the two countries has greatly increased the costs of coercion. Organizationally, this section will begin by examining the recent history between the United States and China from both a historical and a political point of view. It will then evaluate military and economic capabilities of both countries. Lastly, using the information obtained, this section will argue that the cost of using coercive tactics to affect outcomes between the United States and China is so great that rational leaders should choose to negotiate.

A Brief History

The relationship between the United States and China is a complex story. Therefore, it is useful to briefly introduce this relationship. The complex nature of this relationship itself is a primary cause behind much of the disagreements between the United States and China. For example, it was not until 1979 with the Shanghai
Communiqués and the Taiwan Relations Act do we arrive at our present understanding of Sino-US relations. Up until that time the United States recognized the Republic of China as the sole legitimate government of China. In practicality, the territory of the Republic of China extended no further than the island of Taiwan (or Formosa) and a few minor possessions (notably Quemoy and Matsu). The People’s Republic of China governed China proper. However, the People’s Republic of China’s (PRC) involvement in the Korean War and strong anti-communist sentiment in American domestic politics combined with an active pro-Taiwan lobby prevented the United States from formally recognizing the PRC as the legitimate government of China.62

This attitude changed beginning in the 1960’s and 1970’s. The 1960’s saw the United States drop its support of the Republic of China retaining a seat in the United Nations (and the Security Council) and the admission of the People’s Republic of China to the organization in its place. Spence notes that momentum had built in the United States to build closer ties with the People’s Republic of China. Likewise, in China, Mao Zedong had grown distrustful of the Soviet Union as the result of a number of border conflicts and a Soviet military buildup. Furthermore, other practical considerations, especially with regard to the ability to produce oil, required both resources and expertise of the United States. The domestic momentum in the United States and the needs of the People’s Republic of China resulted in the subsequent Three Communiqués and the eventual “normalization” of relations between the two powers.

Between the United States and China, these three communiqués set the tone for relations between the two countries. The first, or Shanghai Communiqué (1972), stipulated that both countries would agree to respect each other’s sovereignty. More importantly, it set the U.S. policy of strategic ambiguity towards Taiwan in which it accedes to the P.R.C. view of “One China”. Yet it deliberately leaves the political status of Taiwan unresolved.63 The second communiqué, the Joint Communiqué on the Establishment of Diplomatic Relations (1979), creates formal diplomatic relations between the United States and the People’s Republic of China. The third communiqué in 1982 deals with U.S. arms sales to Taiwan. Within this document, the United States indicated that it would limit, both quantitatively and qualitatively, the weapons it sells to Taiwan with an eye towards reducing those sales in the future.64

While the joint communiqués were intended to signal diplomatic progress between the United States and the People’s Republic of China, it also highlighted the two sides’ mutual differences. Spence argues that in this sense the documents highlighted both sides’ opposing views without attempting to reconcile them.65 Nowhere is this more apparent than on the issue regarding the Republic of China (herein referred to as Taiwan).

In addition to the three communiqués, the United States established informal ties with Taiwan via the Taiwan Relations Act. An important part of this act is a U.S. commitment to respond to threats to Taiwan (ostensibly from the mainland) and U.S.

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64 Shanghai Communique article 5, in Ross p. 265.
65 Spence, p. 632.
interests in the area. The argument is that the Taiwan Relations Act sets U.S. policy to treat Taiwan as if it were a state without formally recognizing it as such. In addition to the Taiwan Relations Act, the United States also provides a series of assurances to Taiwan. This document specifically indicates that the United States would not set a deadline to terminate arm sales to Taiwan neither would it consult with China prior to making a sale. It also specified that the United States would not pressure Taiwan into resolving its differences with China.

To date, no concerted effort has been made towards reconciling the differences between Taiwan and China. The U.S. policy of strategic ambiguity towards the political status of Taiwan and pursuing a policy that maintains the status quo in the Taiwan Strait remains in place today. Furthermore, the status of Taiwan continues to be a source of disagreement and tension between the United States and China.

As some of the literature below will point out, an armed conflict between the United States and China has not been ruled out by either party. Ross argues that within this contemporary context, security has become an important priority for US policymakers. The 1996 Taiwan Strait Crisis only highlighted the urgency of US security concerns in the region. Furthermore, the administration of George W. Bush felt that armed conflict within the Taiwan Strait was so likely that it was within the US national

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66 See: Taiwan Relations Act, United States Code Title 22 Chapter 8 Sections 3301-3316, 10 April 1979
interest to bolster US relations with Taiwan (both diplomatically and militarily). It is also likely, given stated US policy positions, that Chinese policymakers often regard the United States, reciprocally, with a similar attitude of weariness and distrust. Thus it is within this atmosphere that we find the current state of relations between the United States and China.

Political Analysis

There is a general pattern to be found within scholarly literature dealing with US-China relations that can roughly be split into three groups. The first group is literature dealing with economic issues between the two nations. The second view is that China is a rowing threat and the third view is that China is not a threat. In regards to whether China is friend or foe, there is wide disagreement between both scholars and policymakers.

In terms of the economic point of view, scholars tend to understand the vastness of China’s economy and the potential trade benefits that may be gained from stable relations. Julia Chang Bloch writes in this direction. She observes that China possesses a “huge economy [and] huge market”. This is significant such that even if only 10% of the Chinese population could afford American goods, the sheer amount of earnings from just of 10% a billion (and more) people is by itself staggering. She further observes from polling data that most Chinese seem to “want to become rich and buy televisions,

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washing machines, refrigerators, and video cassette players”. 70 She also notes that the jobs lost to outsourcing as a result of investment in China are mostly due to a shift in technology. 71 However, this loss to outsourcing also results in the “more than 200,000” jobs created in the United States to support related trade activities. 72 In this sense Chang Bloch argues that the US and China have more in common than their differences and that a clear policy should be enacted to lessen bilateral tensions. 73

Writing in a different light, Kenneth Lieberthal looks at the domestic determinants of US-China policy. He argues that the domestic perceptions, especially in terms of US-China relations, play a large role into how leaders make their policy. 74 Lieberthal looks at the Tainanmen Massacre in 1989 as one key event that colored American perception of the regime in China in a negative way. 75 Furthermore, the US trade deficit, totaling $6.235 billion, was also a cause for debate among American unions and businesses over job security and potential economic gain from doing business with China. 76 All these factors have some impact on how policy is made at both the legislative and executive level. 77

It may also be useful to remember at this point that trade imbalances have caused war between China and Western powers in the past. A trade deficit between Britain and

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70 Chang-Bloch, p187.
71 Chang-Bloch, p191.
72 Chang-Bloch, p191.
73 Chang-Bloch, p216.
75 Liberthal, p257-260.
76 Liberthal, p259.
77 Liberthal, p260-264.
China was at the heart of the cause of the Opium Wars during the mid 1800’s. The British attempted to solve their growing trade imbalance with the Qing Imperial Court by importing opium to China in defiance of Chinese prohibition laws. When the Imperial Commissioner in Canton began seizing and destroying the British East India Trading Company’s opium shipments, as part of an effort by the Qing Court’s attempt to enforce their laws, the British Government declared war. To be sure, trade (and to a smaller degree opium) informed the British decision to force open the doors of the Chinese market. A result of this conflict was the signing of the Treaty of Nanking in which the Qing Court ceded Hong Kong to the British.\(^{78}\) Perhaps as a result, Chinese perceptions exist that they were once victims of Western hegemony. This perception likely also colors their approach to policymaking.\(^{79}\)

In this sense, issues such as national pride and international image are to have more importance in Chinese policy consideration than other issue areas. Lieberthal concludes that while the US and China enjoy numerous official and unofficial ties, the insensitivity of leaders to the internal politics of each other’s nations have constantly restrained policy choices.\(^{80}\)

Speaking of perceptions, the Tainanmen massacre did leave American policymakers and commentators with a debate over the benevolence of the Chinese regime. In terms of this incident, Henry Kissinger issued a defense of the Chinese regime.


\(^{79}\) Fairbank and Goldman, 263-264.

\(^{80}\) Fairbank and Goldman, p274-275.
and its leader Deng Xiaoping. Kissinger initially argues that “no government in the world would have tolerated” the widespread actions taken by the protesters.\(^{81}\) He also argues that a display of weakness on behalf of the regime would have encouraged “regionalism” and “warlordism”.\(^{82}\) As such, in his mind a crackdown was unavoidable.\(^{83}\) Kissinger argues that if such disintegration were allowed to happen it could lead to the destabilization of the region, which would in turn affect the region’s balance of power with the Soviet Union.\(^{84}\) Kissinger defends Deng as a reformist seeking to introduce market economics, a stable judiciary, and to forestall the decline of communist power who eventually ran out of options.\(^{85}\)

More importantly, in Kissinger’s opinion, Deng saw the protests tied closely to the cohesion to the entire nation.\(^{86}\) Allowing the protests to succeed (or otherwise gain further momentum) would jeopardize the very survival of the Communist Party. Such an outcome could potentially (in the views of the Chinese Government) entice foreign powers may be free to divvy up China as they had done in the past\(^ {87}\). Kissinger argues that punitive measures for past actions will not be effective. He also questions whether the United States even understands the complexities of the Chinese regime to be able to pass judgment on its behavior at Tiananmen.\(^ {88}\) Lastly, Kissinger argues that Chinese leaders realize that reforms cannot move forward without the support of a well-educated

\(^{81}\) Kissinger, p101.
\(^{82}\) Kissinger, p101.
\(^{83}\) Kissinger, p101.
\(^{84}\) Kissinger, p101.
\(^{85}\) Kissinger, p102.
\(^{86}\) Kissinger, p103.
\(^{87}\) Kissinger, p103.
\(^{88}\) Kissinger, p103.
political base, therefore a solution to the problems of Tiananmen will be eventually sorted out in a practical fashion.\textsuperscript{89}

Kissinger’s defense drew sharp criticism however. Stephen Solarz describes Kissinger’s actions as a “kowtow” to a regime he believed to be justified in violently crushing the protests at Tiananmen.\textsuperscript{90} Solarz attacks Kissinger for placing US strategic interests ahead of human rights.\textsuperscript{91} He further argues that Kissinger saw nothing wrong with continued military cooperation between US-China and further arms sales to the Chinese Government.\textsuperscript{92} Solarz argues that the actions taken by Congress were calculated moves reflecting public opinion that the American public would not deal with such a brutal regime.\textsuperscript{93} Solarz concludes that Kissinger could employ better use of his time by explaining to the Chinese why they were being shunned by the international community and to convince them to put more emphasis on human rights.\textsuperscript{94}

While a good deal of literature is spent analyzing the potential gains or dangers confronting US-China relations, most do not explain the cause of why armed conflict has not occurred when relations are extremely bad and why the two powers continue to view each other with suspicion when thing are good. It also points out that interdependence between both countries are increasing with both countries seeing opportunity in each others’ markets.

\textsuperscript{89} Kissinger, p104.
\textsuperscript{90} Solarz, p.105.
\textsuperscript{91} Solarz, p.105.
\textsuperscript{92} Solarz, p.106.
\textsuperscript{93} Solarz, p.106.
\textsuperscript{94} Solarz, p.107.
Examining Development and Interdependence

The first hypothesis for the project predicts that greater development between the United States and China will increase the costs of a war. Given the historical background of the relationship, this section will examine the development of both nations.

To examine the development of each country, one must evaluate both the power capabilities of both states and their economic capabilities as well. The resultant information could also be used to assess the potential costs of a conflict thereby providing valuable data in evaluating the feasibility of a war for policymakers. The evaluation of power is important as it is often seen as the ability to achieve the outcomes that one wants (and to do so by force if need be).95 While traditional concepts of “power” focus on a state’s military capabilities, Nye argues that today’s definition increasingly makes use of additional elements such as economic strength, political stability, territory, natural resources and so forth. Nuclear weapons and the difficulty of an outside entity ruling over an educated local population have so significantly increased the costs of utilizing military force and pursing a policy of conquest such that it is almost unrealistic. This then warrants a shift in how the idea of power is considered.96 Furthermore, war is less acceptable as a policy choice today than it was a century ago. For many nations today, the use of force would likely also jeopardize their national economic interests.97 While this is not to say that the traditional definition is outmoded, it does mean that other elements, especially national economies, should be examined in the understanding of a state’s

96 Nye.
97 Nye, p. 6.
power. Thus the evaluation of power capabilities of each state, both the United States and China, will consist of both the traditional aspect of military capabilities and the additional element of economics.

The People’s Republic of China

In terms of the traditional definition of power, the military capabilities of the Peoples’ Republic of China are as follows. The Chinese military, also known as the Peoples Liberation Army (PLA), is organized into several branches. These include the ground forces, Navy (which includes aviation and marines), Air Force, Second Artillery Corps (strategic missile force), People’s Armed Police, and the PLA Reserve Forces. Military expenditures account for roughly four percent of China’s GDP. According to SinoDefence, a United Kingdom-based non-governmental organization specializing in the research of the Chinese military, China maintains the world’s largest military force based on manpower with some 2.3 million troops. The PLA in general operates under the leadership of the Chinese Communist Party via the Central Military Commission with the chair of the commission being the commander-in-chief. It is given three objectives: to defend against foreign invasion, preserve internal security, and to assist in economic development.

99 Ibid.
In achieving these goals, SinoDefence notes that Chinese leaders are continuously trying to modernize their military. Efforts have included phasing out their inventory of weapons and technology acquired in the 1960s and 1970s with newer equipment. The PLA has also been pursuing internal reforms aimed towards war fighting in the information age. Specifically it is interested in being able to challenge a technologically superior power utilizing asymmetric warfare. This is most likely an effort to deter against a American intervention in the Taiwan Strait.\textsuperscript{101} Of additional importance is the PLA Strategic Missile Force, which is believed to possess around 140 nuclear weapons on a variety of delivery vehicles (both IRBM and ICBMs).\textsuperscript{102} The Chinese Government spent roughly $144.5 Billion USD on defense in fiscal year 2007.\textsuperscript{103}

This brief data of China’s traditional power capabilities indicates that the PLA (and all its branches) is a growing and modernizing military force possessing nuclear weapons. As Nye had previously argued, the presence of nuclear weapons alters the capabilities of the state and potentially gives it more options compared to states without such weapons. At a minimum, the presence of these weapons increases the potential cost of a military confrontation for the belligerent parties. Economically, the situation in China is similar to its military given its size and growth.

\textsuperscript{101} ibid
As previous literature has already pointed out, the Chinese market is a large market that is growing at a fast pace. The Chinese economy has changed dramatically over the past 30 years going from a centrally planned system to a more market oriented economy.\textsuperscript{104} Gradual reform and liberalization of the economy has opened the Chinese market to international trade. This has allowed it to become a major competitor on the international market. Foreign direct investment in China grew to 84 billion US Dollars in 2007\textsuperscript{105}. This would signal a growing interdependence with its trading partners. Reform and liberalization has also lead to rapid growths in Chinese GDP over the last thirty years. Real GDP growth rate in 2008 was estimated to be around 9%. GDP in 2008 was estimated to be $6000 per capita. Its economy has a very large export component providing foreign markets with completed goods such as apparel, textiles, electrical equipment and so forth with the United States being one of its primary consumers.\textsuperscript{106} Thus industry is the largest sector accounting for 48.6% of the Chinese economy. Services and agriculture make up the remaining 40.1% and 11.3% of the economy.\textsuperscript{107}

Presently, one only needs to visit an American shopping mall or business chain to witness the wide variety of products that are produced in China. Literature by Chang-Bloch also


\textsuperscript{105} ibid

\textsuperscript{106} ibid

point to an increasing interdependence between the Chinese and American economies with the prior also becoming a consumer of American goods and services.\textsuperscript{108}

When evaluating this information on Chinese power it becomes apparent that both China’s military and economy are growing. Information regarding its economy indicates that it is becoming increasingly connected with its international business partners as seen with the growth in FDI. The PLA itself can be seen improving its capabilities to meet more modernized Western standards. This is likely also indicates that its military capabilities lag behind that of more developed nations (such as members of the OECD). Yet perhaps an important game-changer is their possession of nuclear weapons. As Nye has previously pointed out, the possession of these weapons can potentially (especially with the right delivery vehicles) make war with a country armed with nuclear weapons extremely costly regardless of the adversary. Next the power capabilities of the United States should also be briefly examined.

The United States of America

In terms of military power, the United States is by far the global leader in defense spending totaling some $660 billion USD in fiscal year 2007. In perspective, the United States spent more money on defense in 2007 compared to the next 14 largest spending countries combined.\textsuperscript{109} The Department of Defense’s budget request for fiscal year 2010

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totaled $663.8 billion reflecting a $1.3 billion dollar increase from fiscal 2009. This figure includes continued funding for operations in Iraq and Afghanistan. This budget seeks to continue to improving upon its current capabilities with various next generation systems with $186.1 billion dollars set aside for modernization. Examples of this include funding of the Navy’s Aircraft Carrier Replacement Program and DD-1000 class of destroyers. While the general objective of the United States armed forces is to “provide a common defense”, its recent concerns revolve around addressing transnational threats arising from the activities of extremist organizations (non-state actors) and the proliferation of weapons of mass destruction. Also, note that the Department of Defense’s budget request for fiscal year 2001 was $305.4 billion. Like the 2010 request, this budget continues to provide for the procurement of next generation weapons systems. In sum, the United States continues to spend a large amount of resources on defense and continues to maintain a large modern fighting force that is widely deployed around the world.

In terms of the American economy, the United States possesses the largest market-based economy in the world. As of 2008, it had a GDP of $42,000 per capita.

Furthermore, the American economy is largely service oriented with services accounting

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113 Hellman.

for roughly 79.6% of the economy. Industry and agriculture account for the rest at 19.2% and 1.2% respectively. This economy is also interdependent on its many international trading partners. In the global sense, the Department of Commerce reported $132.8 billion in exports compared to $174.6 billion in imports for an overall trade deficit of $36.4 billion in the single month of November 2009. China as of 2008 was the United States’ third largest trading partner in terms of overall exports. This figure signals strong sensitivity interdependence between the two countries. China was also the United States’ second largest trading partner in terms of overall imports behind Canada.

Analysis

This brief examination of American capabilities reveals the well-known size and complexity of both the American armed forces and the economy. With this information in hand it is now possible to return to the original question posed at the beginning of this section. Given the development of both the United States and China, the above information has already begun pointing out the costs of adopting either one country.

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116 ibid
adopting coercive policies towards the other. Military development and economic
development (and inter-development) over the past fifteen years has significantly
increased the cost of war (as a means to solve disputes) such that it is unlikely to occur.
More importantly, it also provides supporting evidence for the idea that both increasing
military capabilities and especially growth in trade (and economics) is also making
coercive acts (as a means of resolving problems) an increasingly expensive and risky
endeavor between the United States and China. Therefore, the next question that needs to
be resolved is whether this development sufficient to provide a strong incentive for
leaders to prefer to negotiate rather than to resort to coercion?

One caveat that should be made here is that much of the data on the capabilities of
both states being presented above represent the most up to date information. However,
chronologically speaking, this data does not fit fully with cases like the Hainan Incident,
as that crisis occurred during 2001 almost eight to ten years prior to some of the data
collected above. This study can only extrapolate the capabilities of both states during
2001 without examining the specific datasets for the year 2001. However, given that the
national economies and military capabilities of both states have developed steadily since
2001, a modern comparison of the two states should still be relatively accurate.

Given the capabilities of both the United States and China, a situation similar to a
mutually hurting stalemate could have existed from the outset of most policy disputes
following normalization of relations such as the 2001 Hainan Incident. Given the costs of
adopting coercive policies, it is unlikely that such an event would take place between the
United States and China. One must take into account the possession of nuclear weapons
and the ability to deploy those weapons (at least theoretically). While the PLA might not be able to defeat the United States in a conventional armed conflict, it could potentially make an American victory very costly by utilizing its arsenal of strategic nuclear weapons. Yet there are also strong international norms against using nuclear weapons. This stigma combined with the costs and risks associated with adopting coercive policies would likely mean that both the United States and China would have a stronger incentive to utilize negotiation to resolve their disputes. Yet the growth of trade relations between the United States and China, since the normalization of relations, might also add an additional deterrent for pursuing coercive policies between the two countries.

Economically, the United States and China are closely related. Trade between China and the United States has been growing since the Chinese Government embarked on its economic reforms and market liberalization under the leadership of Deng Xiaoping. To illustrate this relationship, recent State Department statements have indicated the importance of interstate cooperation between the United States and China to solve a wide variety of issues from economic recovery, climate change, to international security.\(^{120}\) It also points to the growing phenomenon of interdependency between the two countries in terms of both the sensitivity and vulnerability definitions. For example, the recent economic downturn in the United States has also lead to lowered demand for Chinese exports that in turn have resulted in growing Chinese unemployment.\(^{121}\)

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Historically speaking, Spence argues that the alliance between the United States and China was borne out of practical considerations for issues precisely such as economic growth.\textsuperscript{122} Adopting coercive foreign policies by either country would surely place this trade relationship in jeopardy. In this case, the United States would stand to alienate or lose one of its biggest trading partners. This in turn would almost surely have immediate and devastating economic consequences on the American market. This phenomenon also suggests that there is considerable vulnerability interdependence present in the U.S.-Chinese relationship as well. Therefore, an armed conflict would bring in a new dimension of risks and costs for policymakers when considering using coercion as a means of problem solving between states.

The development of both the United States and China, in terms of both their military capabilities and economic relations, has increased significantly the costs of coercing each other (and armed conflict). As such, there is stronger incentive for policymakers to choose to negotiate rather than to jeopardize their existing relationship. Furthermore, the utility of adopting coercive acts to produce the outcomes preferred by either state is also questionable (as seen in the 1996 Taiwan Strait Crisis). Furthermore, it is also reasonable to assume that leaders on both sides would have taken into account the costs of coercion or armed conflict prior to making their policy decisions. Thus, the United States and China would have strong incentive to explore other avenues of resolving their disputes before resorting to coercion.

\textsuperscript{122} Spence p. 520
This is not to say that the United States and China had not tried to resolve crises and disputes in the past by resorting to violence. Prior to the normalization of relations in 1979, the United States and China engaged in armed conflict during the course of the Korean War. Spence argues that because of the Korean War, the United States and the People’s Republic of China only had limited diplomatic and commercial contact with each other until Nixon’s visit to China\textsuperscript{123}. However, since the normalization of relations and especially since the gradual liberalization of the Chinese market, Chinese diplomatic and commercial contact with the United States has increased exponentially. This phenomenon makes more interesting the question of how the United States and China would go about resolving their policy disputes given the framework of this new relationship.

Thus, have the United States and China sought to resolve their disputes through negotiation given their military development and close economic ties? The following case studies will seek to answer this question. The cases will also seek to examine the clarity of policy preferences of both the United States and China during their disputes. This study posits that clear policy preferences should have a positive impact on negotiations taking place (and possibly even playing a role in them). Therefore it is also important to evaluate whether or not the policy positions of both sides could be clearly discerned. The following sections will examine the various publicly stated positions of both the United States and China at key political disputes and to see if negotiations did take place.

\textsuperscript{123} Spence, p. 524
This section and the following sections aims to test the two hypotheses that A) given the high cost of coercion, rational states will likely choose a negotiated settlement rather than to resort to coercion and B) that clear outcome preferences at the start of negotiations will contribute to the start of negotiations. This chapter specifically will examine how the 1996 Taiwan Strait Crisis was resolved.

Anatomy of the Crisis

The 1996 Taiwan Strait Crisis followed the visit of Lee Tung-Hui (then president of Taiwan) to the United States in June of 1995. Washington’s decision to grant Lee a visa to enter the United States stemmed from an embarrassing situation during an earlier stopover in Hawaii made by Lee in 1994. Not wanting to anger China in 1994, the State Department barred Lee from leaving the airport lounge in Honolulu. This caused Lee to make the decision to spend the night in his aircraft. Mann writes that the State Department’s treatment of Lee angered the U.S. Congress. The U.S. Senate would later vote 94-0 on a resolution calling on the State Department to grant visas to visiting officials from Taiwan. Taiwan’s supporters in the Senate would also send a letter inviting Lee back to the United States. In 1995, Taiwanese officials began planning Lee’s return to the United States in a private trip to Cornell University to attend a class reunion.

\[124\] See: Mann, p. 315-318.
This time, the State Department and the Clinton Administration would give in to near unanimous Congressional pressure to allow Lee to make the trip.\textsuperscript{125}

While in the United States, Lee met with a number of U.S. Senators and Members of Congress to discuss Taiwan’s marginalized position in the international community. During the trip, Lee gave a speech at his alma mater at Cornell in which he “hinted” at Taiwan’s frustration over its standing in the international community.\textsuperscript{126} The International Crisis Behavior project notes that Lee’s visit to the United States was a reversal of standing U.S. policy to restrict high-level contacts between U.S. and Taiwanese officials.\textsuperscript{127} The visit, in general, drew strong protests from the Chinese government who argued that the visit violated the principles of the Three Communiqués and the United States’ commitment to the “One China” policy. Note that at around the same time the Chinese president Jiang Zemin was also seeking an invitation from the Clinton Administration to visit the United States.\textsuperscript{128}

That Lee was able to visit the United States ahead of Jiang might have been seen a significant loss of face for the Chinese leader. On June 17, the Chinese government announced that it was recalling its ambassador to the United States in response to both Lee’s visit and what it saw as a

\textsuperscript{125} Mann notes, the House of Representatives voted 396-0 and the Senate vote 97-1 in a non-binding resolution calling for Clinton Administration to admit Lee.


\textsuperscript{128} Mann, p.321.
change in Washington’s policy towards China. The Chinese Government would also delay its formal acceptance of James Sasser as the next American ambassador to China. This would be the first time that both countries would not have ambassadorial representation in each other’s countries since the normalization of relations in 1979.

China followed this diplomatic gesture with a series of military exercises in the Taiwan Strait starting in July lasting through March of the following year. These exercises included the test firing of surface-to-surface missiles that landed within 60 miles of the Taiwanese-held Pengjia Islands. At the same time, a large number of People’s Liberation Army troops mobilized in China’s Fujian Province. As a result of these missile launches and exercises Taiwan’s stock market fell by 4 percent in a single day and posted a 33 percent drop in the weeks after. Local fishermen stayed in port while major airlines altered the routes of their flights to avoid targeted areas. Politically, Mann notes that popular support for Taiwanese independence also declined as a result.

The Chinese military followed up on these tests with a series of large-scale joint service exercises emphasizing amphibious assaults during the latter half of 1995. Subsequent exercises and additional missile tests were timed to coincide with Taiwan’s first democratic presidential elections in an attempt to dissuade Taiwanese voters from

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130 Mann, p. 328.


132 Note: Fujian Province is located directly across the Taiwan Strait.

133 Mann, p. 329.

voting for Lee Tung-Hui. These missile tests also involved targets that crept ever closer to Taiwanese populations centers. For example, the Chinese Government announced that missile tests scheduled for March of 1996 would involve target areas just 25 to 30 miles of Taiwan’s major shipping ports in Kaohsiung and Keelung. The Chinese Government’s message to the Taiwanese electorate was electing Lee would mean war.

In March of 1996, the U.S. response was to deploy two carrier battle groups to waters off Taiwan for the duration of the Taiwanese elections in a show of American power. This represented the largest deployment of American armed forces in the Pacific since the Vietnam War. Privately, American policymakers would sternly warn Beijing that any Chinese military action towards Taiwan would have grave consequences for China. Mann notes that these warnings, while vague in nature were also unprecedented in American’s relationship with China since normalization of relations in 1979. The Chinese reacted by carrying out more military exercises in the region.

To some degree, the 1996 Taiwan Strait Crisis was a culmination of events that threatened China’s basic values in terms of its “One China Policy”. Ross traces the causes of the 1996 crisis to several key events. In 1992, the Bush Administration

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138 Mann, p. 336
139 Mann, p. 336
approved the sales of 150 F-16 aircraft to Taiwan. Then in 1994 the Clinton
Administration revised the official protocol of the treatment of Taiwanese diplomats in
the United States in favor of Taiwan. Lastly, the speech given by Taiwanese leader Lee
Teng-Hui at his alma mater at Cornell University further inflamed United States relations
with China.141

These events are all problematic to the relations between the United States and
China in several ways. First, the arms sale approved by the Bush Administration was
protested by China. China saw the act as being contrary to its agreement with the United
States via the Three Communiqués in which the United States agreed to reduce the
quantity of arms sales to Taiwan. However, Mann argues again that China deliberately
toned down much of its protests in 1992 as not to derail Bush’s reelection effort.142
Secondly, the Three Communiqués also established the People’s Republic of China as the
sole legitimate government of China. The Clinton Administration’s formal revision of the
official status of Taiwanese diplomats in the United States was also viewed as being
contrary to the spirit of the Communiqués.

Lee’s visit to the United States was arguably the last straw prompting the Chinese
view that the United States was trying to alter the policy agreements outlined in the
Communiqués especially with regards towards the issue of Chinese sovereignty. Note
that Lee’s visit takes places immediately after a series of cross-strait dialogue between
Taiwan and China had taken place regarding how to resolve the issue of reunification.

141 Robert S. Ross, “The 1995-1996 Taiwan Strait Confrontation: Coercion, Credibility, and Use of
142 See Mann p.271.
The two parties were represented through their respective quasi-official organizations. It was the Chinese view that by allowing Lee to visit, the United States was increasing Taiwan’s diplomatic standing and creating a “One-China; One Taiwan” scenario replacing the stated “one China” policy.¹⁴³ This new order of “One China; One Taiwan” would thus replace any need for Taiwan to seek reunification with China.

Establishment of the Crisis

The 1996 Taiwan Strait Crisis is formally coded as a crisis by the International Crisis Behavior (ICB) project. ICB indicates that the triggering event was the U.S. announcement that it would allow Lee Tung-Hui to visit the United States. This caused a threat to Chinese principles in that it violated the agreement outline in the Three Communiqués, threaten perceptions of Chinese sovereignty, and threatened reunification with Taiwan.¹⁴⁴ The military exercises and subsequent missile tests off Taiwan also created a difficult position for the United States. The Taiwan Relations Act specifically indicates that the United States would help defend Taiwan in the event of an attack.¹⁴⁵ This would put the United States in between Taiwan and China should China attack Taiwan.

¹⁴⁵ see: Taiwan Relations Act, United States Code Title 22 Chapter 8 Sections 3301-3316, 10 April 1979.
Mutually Hurting Stalemate?

Given the growing interdependence between the United States and China and the continuing expansion of their military arsenals, a military confrontation between the two countries would be extremely costly for both parties. The cost of war would be so great that leaders would have strong incentive not to fight. As a result, the situation would resemble that of a mutually hurting stalemate in which neither side can alter the status quo yet maintain the crisis would continue to hurt everyone involved.

However, in the case of the 1996 Taiwan Strait Crisis, the situation did not resemble a mutually hurting stalemate. Neither did it seem apparent that leaders had strong incentive to seek a negotiated settlement. To be sure, the International Crisis Behavior Project lists that there were no instances of mediation during the crisis.\textsuperscript{146} It also notes that the Chinese response to the crisis was multiple non-violent military acts (missile tests and exercises).\textsuperscript{147} Finally, the project notes that the outcome of the crisis was ambiguous.\textsuperscript{148} This is due to the fact that the crisis did little to resolve the political status of Taiwan.

This section will seek to examine the behavior of the United States and China during the crisis and seek alternative explanations to why negotiations did not take place. It will argue that economically the United States was only beginning to develop stronger economic ties with China. However, the two countries were not so interdependent with

\textsuperscript{146} “Mediation Taiwan Strait IV”, \textit{International Crisis Behavior Project}, http://www.cidcm.umd.edu/icb/dataviewer/ (accessed 4/2/2010).


each other that coercive acts between the two would become prohibitively costly. Instead, given this lack of interdependence, policymakers on both sides had the rational option to bluff than to share information to resolve the crisis.

Interdependence theory posits that states are considered interdependent when the economic conditions in one country will have a direct impact on that of the other. A parallel definition is that states are also considered interdependent if terminating a relationship between states will result in high economic costs for both parties. As a result, economically interdependent countries would have stronger incentive not to go to war with each other. Regarding U.S.-China relations in the early 1990s, Mann makes the comment that while China was the “dream of the future” for American businesses, Taiwan represented “today’s profits”. This statement points to an interesting idea that the United States was more economically closer with Taiwan than it was with China at the time of the 1996 crisis. If true, it would mean that the United States would rationally see more interest in maintaining its relationship with Taiwan compared to its relationship with China. Thus, the argument that the economic considerations would provide a credible deterrent to a war between the United States and China becomes a weak one in this situation. To be sure, trade flows between the United States and China and between the United States and Taiwan should be evaluated.

Mansfield and Pollins indicated that interdependency is commonly measured by trade flows between states. Therefore, trade flows should give an idea towards how

\[149\] Mansfield and Pollins, p. 2.
\[150\] Mann, p. 318
\[151\] discussed later
economically interdependent the United States was with both China and Taiwan. Census data indicates that for the year of 1996, U.S. maintained a trade deficit with China totaling some $39.5 billion. Imports totaled roughly $51.5 billion and exports totaled roughly $12 billion.\textsuperscript{152} In terms of U.S. trade with Taiwan, census data indicates that for 1996 there was a similar trade deficit totaling $11 billion with imports totaling almost $30 billion. Of interest here is that U.S. exports to Taiwan totaled $18 billion.\textsuperscript{153} This figure is higher than the total U.S. exports to China for the same year. This may substantiate Mann’s rationale that Taiwanese business, at the time, still represented the majority of “today’s profits”. Mann also argues that business interest in Taiwan was growing stronger year after year. For example, Mann notes that the U.S. defense industry was waiting to see if the 1992 sales of F-16s to Taiwan would translate into more arms sales in the future (which it would).\textsuperscript{154} The U.S. defense industry would not have similar access to the Chinese market given the moratorium on arms sales to China following the 1989 Tiananmen Massacre.

To be fair, U.S. exports to both China and Taiwan have been growing since 1985.\textsuperscript{155} However, trade volumes with China in 1985 looked very different quantitatively compared to trade volumes with Taiwan during the same year. Census data indicates that the U.S. exported a total of $3.8 billion to and imported a total of $3.8 billion from China

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\textsuperscript{154} Mann, p. 318.
\textsuperscript{155} Census data available online traces Sino-U.S. and U.S.-Taiwan trade to 1985.
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for a trade deficit of around $6 billion.\textsuperscript{156} Compared to Taiwan, U.S. exports in 1985 already stood at $4.7 billion and imports stood at $16.3 billion for a deficit of $11.6 billion.\textsuperscript{157} This data shows that in 1985 U.S. trade with Taiwan was actually greater than its trade with China. The significance of this information for 1996 is that while U.S. trade with China was sizable at the time, its growing trade with China was still a relatively new occurrence. In 1996, Taiwan was still a substantial trading partner for the United States. Given this data, China was in fact more dependent on the American market for exporting their products than the American market was for exporting its goods to China.

In sum, trade data reveals that while Chinese trade with the United States was growing in 1996, it was by no means interdependent with the U.S. market. In 1996, the United States exported more goods to Taiwan than it did to China. Therefore, in 1996 the economic deterrent for war between the United States and China was weaker than compared to subsequent years. The United States, given Mann’s perspective, might even have had a strong and compelling interest in maintaining its relationship with Taiwan. To be fair however, if the Chinese market represented the future of U.S. trade relations in the region, then the United States might also have had a compelling reason not to entirely sour its relationship with China as well. This might help explain the coercive but non-violent actions these two states took in their respective attempts to resolve the 1996 Taiwan Strait Crisis.


Both the United States and China employed a series of ever escalating non-violent coercive behavior to affect a resolution to the 1996 crisis. Neither party sat down to seek a negotiated settlement. In the case of the Taiwan Strait there might have been compelling reasons for neither state to simply share information and resolve the crisis. As such, it is possible to analyze the reasoning behind each state’s policy choices during this crisis.

The Chinese Rationale

For China, Taiwan represents an important issue of sovereignty. China’s experience with Western Powers at the end of the Qing Dynasty and the resultant period of internal fragmentation continues to inform its policy choices regarding the maintenance of territorial sovereignty. Therefore, the political status of Taiwan becomes indivisible for Chinese policymakers in that the state would not be able to tolerate a separate or independent Taiwan. Under these circumstances, it would be very rational for the Chinese government to rattle the saber at Taiwan in an attempt to steer Taiwanese voters away from candidates Beijing views as politically troublesome. It also makes sense for the Chinese government to rattle the saber at the United States in a dual effort to ensure that Washington keeps its commitment to the Three Communiqués and to convince it to stay out of Chinese politics. It is likely that the Chinese behavior here is also a rational attempt to hide its own internal weaknesses. An independent Taiwan or an American alteration of the status quo would have dire effects on Chinese domestic perceptions of the Chinese government’s ability to govern (and thus, its legitimacy). As
such, any price would be rationally acceptable compared to the loss of the Mandate of Heaven for Chinese policymakers. Therefore, two overriding Chinese concerns can be found. The first concern is to maintain territorial sovereignty by discouraging Taiwanese independence and American involvement in the matter. The second is to dissuade Taiwanese voters from voting for Lee Tung-Hui, whom Beijing viewed as most likely to be problematic for its policies. These background factors may all help explain why the Chinese government acted in the way it did in 1996. This set of reasoning, however, is qualitatively different from why the United States also did not choose to negotiate.

The American Rationale

The United States’ response to the 1996 Taiwan Strait Crisis is largely tied to its standing policies towards both China and Taiwan. In terms of Taiwan, Washington’s policies are contradictorily defined through both the Three Communiqués with China and the Taiwan Relations Act. On the one hand, it states that there is only one China yet on the other, it has tied itself to the defense of Taiwan in the event of a Chinese attack. Washington’s response of deploying aircraft carriers to the Taiwan Strait as a result of Beijing’s actions should be predictable given the provisions of the Taiwan Relations Act. The issue of whether Washington can choose to negotiate with Beijing during this crisis was dependent on Beijing’s behavior towards Taiwan.

In supporting Taiwan in 1996, Washington was also protecting a key national interest. As stated earlier, American exports to Taiwan in 1996 and the years prior were greater than American exports to China. After all, Taiwan was the United States’ sixth
largest trading partner. As a result, Washington had a much stronger incentive to bluff or coerce Beijing than to negotiate with it. While China represented a growing market, a downward spiral of the Taiwanese economy as a result of Chinese behavior would have had immediate consequences on many aspects of the American market. Politically, Mann argues that memories of the Tiananmen Massacre were still fresh in American memory and those memories called into question Washington’s need to avoid offending Beijing.\textsuperscript{158} Therefore, much of Washington’s actions in 1996 were in fact dependent on Beijing’s behavior towards Taiwan. The lack of strong economic ties removed an additional element of risk and costs for adopting coercive policies. This gave Washington greater decisional freedom to coerce China rather than to seek a negotiated settlement or to resolve the matter through diplomatic channels. It is also interesting to note that a negotiated settlement in this case (over the issue of Taiwan in 1996) might have not turned out in favor American national interests either. However, it is likely that during this crisis, the United States also had a strong rational incentive not to negotiate with China.

Outcomes

In the case of the 1996 Taiwan Strait Crisis, there are no formal mediation attempts or rounds of negotiation. To be sure, the situation in 1996 did not resemble that of a stalemate between the United States and China. There is no strong argument in this case that coercive acts between the United States and China would be so costly that

\textsuperscript{158} Mann, p. 318
policymakers would have a strong incentive to negotiate. Instead, China had strong incentives to employ coercion or a non-violent show of force to maintain the status quo in the Taiwan Strait. It also saw incentive to attempt to coerce the United States. On the other hand, the United States also saw rational incentive to coerce China and defend its interests in Taiwan.

The crisis in 1996 would end after elections were held in Taiwan. It was clear from the results of the election that China’s coercive strategy towards Taiwan had backfired. Instead of damaging Lee Tung-Hui’s electoral chances, Chinese coercion boosted Lee’s popularity at the polls. Mann argues that Chinese behavior during the crisis also caused Japan to reaffirm its security agreement with the United States.\textsuperscript{159} This, however, is not to say that both China and the United States left the crisis empty handed. The Chinese Government, through the extensive series of military exercises and missile tests it held during the crisis, had demonstrated the capabilities of the People’s Liberation Army in a very clear way. Ross argues that both China and the United States got what they were looking for at the end of the crisis. China was able to demonstrate to Taiwan that independence would be very costly for Taiwan at least for the time being. The United States was able to demonstrate its resolve for supporting its allies to both Chinese and regional leaders.\textsuperscript{160}

The overall result was that at the conclusion of the Taiwanese election the Chinese Government called off the military exercises having achieved, at least in part, its

\textsuperscript{159} Mann, p. 338
\textsuperscript{160} Ross, “Taiwan Strait Confrontation”, p.2
original goals. The United States reciprocally withdrew its aircraft carriers effectively ending the crisis. Regardless, the events of 1996 would not alter the overall status quo in the Taiwan Strait.

However, historical hindsight indicates that not all of the disputes between the United States and China since the normalization of relations have ended in a confrontation. Between 1996 and 2010 there would be at least two more occasions in which the United States and China would find themselves publicly at odds with each other. In all of these disputes, none has ended up with the confrontational behavior present in the 1996 crisis. Therefore, this project will examine two more disputes between the United States and China. It will examine how they resolved their differences and why both states have since leaned away from confronting each other.
Chapter 6
THE 1999 US BOMBING OF THE CHINESE EMBASSY IN BELGRADE

Anatomy of the Crisis

The next policy dispute takes place three years after the Third Taiwan Straits
Crisis. This event takes place during the U.S.-led NATO Operation Allied Force against
the Federal Republic of Yugoslavia during the Kosovo War in May of 1999. On May 7,
elements of the U.S. Air Force’s 509th Bomb Wing dropped five bombs on a building in
the city of Belgrade that turned out to be the Chinese Embassy.161 As New York Times
writer Steven Lee Meyers notes, the US was closely involved in the planning and
ultimate execution of the mission.162 Specifically, Meyers reports that the Counter-
Proliferation Division of the CIA had conducted initial planning and target selection.163
The target was presented as a Yugoslav military installation instead of the Chinese
Embassy.164 Furthermore, President Clinton ultimately approved the target.165 As a result,
NATO forces mistakenly bombed the Chinese Embassy. While there was debate over
whether the bombing was deliberate166, Meyers attributes the cause as faulty mission

161 Craig R. Whitney, “U.S. Military Acted Outside NATO Framework During Kosovo Conflict, France
=&pagewanted=all (accessed 5/18/2008)
163 ibid
164 ibid
165 ibid
166 see Sweeney, Hosloe, and Vulliamy, “NATO Bombed Chinese Deliberately” in The Observer,
planning and an accident.\textsuperscript{167} This was also the position of the President Clinton who mounted an effort to repair ties with China.

In the events leading up the bombing of the Chinese embassy, Clinton wrote that he was determined to prevent another human rights disaster similar to the one that took place in Bosnia.\textsuperscript{168} NATO’s intervention took place after diplomatic attempts by the Clinton Administration to reach a resolution with Milosevic had failed.\textsuperscript{169} Furthermore, the U.S. Senate had also voted to authorize the use of force in the event that diplomacy did not work.\textsuperscript{170} NATO’s use of force was closely tied to US decision making as the NATO military commander was American and the NATO civilian leadership had obtained the backing of Clinton Administration.\textsuperscript{171} Furthermore, as an aerial campaign, the primary forces would be aircraft and precision munitions rather than ground troops. Clinton found the use of ground troops hard to justify in two ways. The first was, by the time ground troops arrived, the situation on the ground would have had more time to worsen.\textsuperscript{172} The second was that deploying ground troops would put more civilians at risk compared to just using air strikes.\textsuperscript{173} In some sense, the tactics employed by NATO and the United States might have contributed to the targeting of the Chinese Embassy.

\textsuperscript{167} Meyers.
\textsuperscript{169} Clinton, p849-850.
\textsuperscript{170} Clinton, p850.
\textsuperscript{171} ibid.
\textsuperscript{172} Clinton, p851.
\textsuperscript{173} ibid.
Establishment as a Policy Dispute

The bombing of the Chinese embassy in Belgrade represents a serious issue between the United States and China. The event would have undoubtedly also created an immediate threat to basic values for both parties. This is attributable to the various international norms and laws regarding the territorial sovereignty of a nation’s foreign embassies and the protection of diplomatic personnel. For example, it is generally accepted that the premises of a state’s mission is inviolable174. By bombing the Chinese embassy, the United States would have clearly violated these norms of international conduct. For either side it would have created a fundamental threat to basic values. As with similar incidents when a state suffers an unexpected attack, there is always a heightened possibility of a military response from either state. Given the bombing on the Chinese embassy, both the United States and China should have been aware of a limited time pressure to respond.

In either case, the accidental bombing of the Chinese Embassy is a serious incident in terms of both international norms and the United States and China. Such an incident would have significant impacts on how the two countries interact with each other. How each state chooses to resolve this matter thus becomes an interesting question for this thesis.

Mutually Hurting Stalemate and the Rational Choice to Negotiate

This case presents another opportunity to test the hypothesis that given the increased costs of coercion, the United States and China will seek a negotiated settlement. As previously mentioned, the disputes between the United States and China since normalization of relations have been numerous. This dispute over the accidental bombing of a Chinese Embassy by American forces provides another opportunity to observe if policymakers had incentive to avoid using coercive tactics to resolve the issue. The development of both the United States and China increases the cost of coercion such that both countries would have strong incentive choose to negotiate. However, the previous case indicated that there was no strong incentive for either the United States or China to talk to each other as a means of resolving their dispute over Taiwan. Analysis of that case showed that trade did not provide an additional deterrent to the coercive tactics adopted by the United States or China to resolve the crisis. The embassy bombing in 1999 allows an opportunity to reexamine this statement. Specifically it presents another opportunity to observe trade between the United States and China to determine if the two countries are more economically interdependent. It also provides another opportunity to examine if the growing trade between the United States and China (which would support arguments for interdependence) provided a stronger incentive for both sides to resolve their dispute using negotiation.

Once again, it is possible to look at United States trade activity with China to determine if there is some sort of trade relationship between the two countries. Census data reveals that U.S. exports to China was $13.1 billion and imports from China totaled
In sum, an argument can be made that the potential costs of war have increased in the three years since the 1996 Taiwan Strait Crisis. The prediction of this thesis is that greater costs of coercion will increase the chance that leaders will seek a negotiated settlement. In the case of the 1999 Embassy Bombing incident, negotiations did in fact take place. There is correlating economic evidence to support the idea that the costs of

$81.7 billion.\textsuperscript{175} Compared to the trade volume in 1996, imports from China had grown by roughly $30 billion while exports had also grown by roughly $2 billion. Imports from China to the United States had increased tenfold since 1985 and American exports to China had increased by $10 billion. The significance of these numbers for the 1999 dispute is not so much that the United States and China are interdependent. Instead, these numbers show that resorting to coercion between the United States and China to resolve dispute would have cost more economically for both sides in 1999 than compared to any other time prior. Coercive acts (including economic sanctions) would have a strong impact on both Chinese and American economies given these growing trade figures. The potential disruption or loss of roughly $81.7 billion in imports (and $13 billion in exports) as a result of coercive tactics adopted by the United States and China should also be factored into costs of pursuing such a policy. If anything, given the volume of trade between the United States and China, the incentive to seek a negotiated settlement is stronger in 1999 compared to 1996.

coercion may have influenced the states’ decision to negotiate. But how did the states negotiate? What were the salient issues? The next few sections will aim to examine the process of negotiation and to see if the parties’ initial policy statements contributed to the negotiations that took place. These sections will also examine if negotiations can be understood using the positional bargaining model.

Initial Outcome Preferences of the United States

The outcome preferences of the United States can be examined via various news sources and information stemming from published memoirs. While initial reports in the Western media only describe the incident, a more detailed policy position can be eventually discerned.\(^{176}\) Follow up media reports paint the incident as an accident per initial press releases made by NATO of which the United States is a member.\(^{177}\) NATO would go on to make at least two public apologies. NATO’s official apology called the attack a “tragic mistake” and reiterated that it does not intentionally target civilians. It expressed its condolences to the victims of the bombing and expressed hopes that the attack would not jeopardize policy consensuses that it had reached with China during the prior G-8 meetings.\(^{178}\) NATO Secretary General Javier Solana would later issue his own apology saying that NATO would review the incident and make available the results. Solana indicated that NATO planners had thought that they had attacked the Federal


Directorate for Supply and Procurement and that they had mistakenly targeted the wrong building due to old maps. While these reports focus on NATO press releases, it is useful to remember that the United States is a key partner in the alliance especially with regards to the combat operations in Yugoslavia. The United States’ own public positions would correlate very closely with the NATO position on the incident. The United States’ role and policy positions become important as it became clear that it had conducted both the planning for and the actual attack.

In terms of the bombing, President Clinton’s personal memoir, *My Life*, offers an insightful picture into what issues were most important to the president and what actions he took following the bombing. Clinton mentions that the bombing of the Chinese embassy (and attacks on civilians) were one of the things his administration tried hard to avoid. Clinton saw the bombings as a mistake in which the target, the Chinese embassy, had been “erroneously” identified as a Serbian Government building. He wrote that he was “dumbfounded” and “deeply upset” at the events and immediately placed a called to the Chinese leader Jiang Zemin to apologize. Clinton notes that while Jiang believed that Clinton would not deliberately attack a Chinese embassy, Jiang did say that he believed there were people in the US defense and intelligence community who would. Clinton wrote that he shared those sentiments and that relations were eventually

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180 Clinton, p. 849.
181 Clinton, p855.
182 ibid
Senior members of Clinton’s cabinet, including Secretary of State Madeline Albright and CIA Director George Tenet, have also been noted for repeating this position in the subsequent days following the bombing. Clinton did however also indicate that NATO military operations would continue until it met the objectives of the intervention in Yugoslavia.

Given these statements by NATO and President Clinton’s own recounting of the events, it is discernable that the United States’ position on the matter was to portray the incident as an accident and to try to repair relations with China. An additional position for the United States appears also to be the unfettered continuation of NATO operations in Yugoslavia. At this initial point in the crisis, it is still unclear what measures the United States would be willing to take, asides from apologizing, to satisfy these outcome preferences. These positions however stand in contrast to the observable Chinese position on the matter.

Initial Outcomes Preferences of China

The initial Chinese preferences and attitudes towards the bombing of their embassy in Belgrade can also be observed through a series of public statements. Initial Chinese preferences can perhaps be organized into two general categories: to politically protest NATO acts and to demand an apology from the United States.

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183 ibid
The political protest side of the initial Chinese preferences is largely made of public condemnations of U.S. and NATO behavior. A public press release by the Chinese Government on May 8, 1999 branded the incident as a gross violation of Chinese sovereignty. The statement placed blame on the United States for carrying out the attack and demanded an apology. It also stated that the bombing constituted a rare and grave offense of the Vienna Conventions and the norms of international politics. This statement also publicly condemned the bombing and stated the Chinese Government’s rights to pursue further action.\(^{186}\) The Chinese Vice President Hu Jintao also called for an emergency meeting of the United Nations Security Council to discuss NATO activities in Yugoslavia.\(^{187}\) This statement might also be seen as a wider criticism of the NATO activities given China’s own emphasis on national sovereignty and its lukewarm attitude towards the idea of humanitarian intervention. However, there is also a more concrete side to initial Chinese towards resolving the crisis.

This concrete aspect of Chinese preferences involves the demands of apology and reparation from the United States. This aspect is considered more concrete because the Chinese Government conveys specific issues to be addressed. It is also more concrete given that resolution of these demands could serve a specific function or lead to a resolution of the dispute. The Congressional Research Service (CRS) reports that the Chinese government demanded four specific issues to be met. These included an apology, an investigation, prompt publication of the results of said investigation, and punishment


of individuals found to be responsible. CRS also notes that the Chinese government would later add an additional demand for reparations from the United States to pay for damages and loss of life.\textsuperscript{188} This position seems to reflect widespread Chinese skepticism of the American explanation that the bombing as an accident. While the Chinese Ambassador never directly admits to this, and PBS is perhaps correct to point this out, this position also reflects Chinese domestic perceptions that the Chinese embassy was targeted deliberately.\textsuperscript{189}

In a slightly divergent note, these statements were also reflective of Chinese domestic anger directed at the United States. Perhaps, given the historical and cultural context, such a reaction from both the highest echelons of government and the people should be expected and should be taken into account when analyzing China’s initial preferences for eventually resolving the crisis. While it might be accurate to say that the Chinese Government had a hand in either allowing or promoting the domestic anti-American sentiment, some have also argued that the populist anger in China against the United States was genuine.\textsuperscript{190} Regardless, few states would be willing to tolerate surveillance over-flights by another state near its national borders. This historical experience should also be considered a part of the Chinese initial policy position on the crisis.


Given this information, initial Chinese preferences towards this situation were twofold. The first part was to broadly protest the United States and NATO in terms of their conduct in Yugoslavia. The second and more concrete preference was to demand a series of apologies and reparations from the United States Government for damages. Not that any country would tolerate the bombing of its embassy, the Chinese response might also be taken in light of its historical and cultural experience such that it is unique in terms of the reasoning behind its behavior and demands. As such, it is possible to examine how well these preferences fit into the positional bargaining model used to understand negotiation behavior. In other words, is it possible to see if these initial preferences contributed to the negotiations?

Observing the Negotiations using the Positional Bargaining Model

Historical hindsight indicates that negotiations, although not widely publicized, did in fact take place. Given the initial policy positions, it is possible attempt to use the positional bargaining model to examine the ensuing negotiation process. Again, it is useful at this point to recall Hoppman’s positional bargaining model as given above.

The horizontal issue axis can be relatively easily defined in terms of how the parties would resolve the crisis. It is possible to assign the initial outcome preferences as the optimal policy outcomes for each state. Therefore, in terms of the United States, the preference would be to portray the incident as an accident, repair relations, and continue with the NATO campaign in Yugoslavia. In terms of China, their position would be to, at least, obtain the four initial demands made to the United States. Both the United States
and China’s preference curves would be defined by the political concessions each side was willing to make to advance the negotiation process.

The United States’ early apology may have strongly signaled that it was willing to talk to the Chinese government and perhaps even meet some of their potential demands. The rational actor assumption suggests that China’s rational choice would have been to seek a peaceful settlement instead of to fight things out. These combined factors might indicate that both side’s preference curves already intersect in that both parties have the common goal of resolving the crisis.

The negotiation process in this case thus begins to look like a tit-for-tat bargaining process in which both parties search for a mutually acceptable resolution. The major question for both parties thus becomes how to resolve the crisis instead of questioning if the crisis will be peacefully settled. CRS indicates that the primary issues being negotiated over were the four initial demands made by the Chinese Government.191 Given the Chinese Ambassador’s comments, it seems that while a U.S. apology has been pro-offered early during the crisis, the Chinese Government did not necessarily agree that the apology is substantively acceptable.192 In addition, the Chinese Government did not accept the outcomes of the U.S. official investigation into the incident. However, the United States did agree to inform the Chinese Government of any disciplinary actions resulting from investigations into the incident. CRS reports that in 2000 the Central

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Intelligence Agency (CIA) did in fact fire a number of employees as a result of errors made in the selection of targets in Belgrade.\textsuperscript{193}

The major part of the negotiation process appears to be the issue of monetary compensation. CRS reports that the United States agreed to pay the victims’ families a sum of four and a half million U.S. dollars to avoid acknowledging legal liability in terms of the deaths and injuries stemming from the incident. It also agreed to pay the Chinese Government a sum of $48 million to cover damages done to the Chinese embassy. However, the United States also asked the Chinese Government to pay for damages to the U.S. embassy and consulate centers resulting from protests following the bombing. CRS further reports that acceptance of these terms by both sides would effectively bring the issue to a close and the Chinese Government would no longer seek redress in terms of the bombing.\textsuperscript{194}

This process of agreeing to specific issue, especially in terms of the monetary compensation, is highly reflective of the tit-for-tat process that the positional bargaining model attempts to describe. The CRS report illustrates part of the negotiation process by describing the options available for both states to agree to. A formal agreement was announced on July 30, 1999. The United States would make payments, as agreed, to the Chinese Government as soon as possible thus putting an effective end to the dispute.

This negotiation process between the United States and China fit well within the positional bargaining framework. The optimal outcomes of each state could be well


\textsuperscript{194} ibid, p. 5.
defined, as could the issues the states were negotiating over. The intersection of both states’ preference curve could be said to exist when both sides showed a willingness or preference to negotiate and resolve the crisis.

Discussion

The 1999 embassy bombing does show that both the United States and China chose, deliberately, to employ negotiation to resolve the dispute. There is supporting economic evidence to make the argument that the costs of utilizing coercive policies may have contributed to the states’ decision to negotiate. The negotiation theory framework provides an adequate means of describing the resolution of the 1999 embassy bombing. The individual state’s individual policy preferences towards resolving the dispute could also be observed clearly through official policy statements and press releases. It also turns out that the initial outcome preferences stated by each country did contribute to the negotiations in several ways. The initial apology by the United States could be seen as a willingness to negotiate from the outset. The initial disagreement over blame and responsibility eventually became the starting points for talks. Lastly, Hoppman’s positional bargaining model adequately describes the tit-for-tat process in which the two states sought a mutually acceptable resolution to the dispute. In general, negotiation in this case was able to resolve the dispute to both parties satisfaction (however grudgingly).

In sum, this case helps support the following hypotheses. First, it supports the notion that the greater the costs of coercion are, the more likely states will choose to
negotiate. Second, this case also supports the notion that clear policy preferences towards resolving the dispute will contribute to negotiations taking place.
Chapter 7
THE 2001 HAINAN INCIDENT

Anatomy of the Crisis

This third point of political dispute between the United States and China takes place in April of 2001 during George W. Bush’s presidency. As the BBC reports, on April 1 of 2001, a US EP-3 electronic surveillance plane (operated by the US Navy) collided with one of the Chinese J-8 jet fighters sent to intercept it off the coast of China.\(^{195}\) The EP-3 involved was forced to make an emergency landing at an airport on the Chinese island of Hainan for which the incident has since been named.\(^{196}\) Meanwhile, the Chinese fighter pilot was able to eject out of his damaged plane, but the pilot was never found and was later presumed to be deceased.\(^{197}\) With regards to the collision itself, the BBC reported that the US Navy had become aware that Chinese fighters were being routinely dispatched to intercept the aerial surveillance missions.\(^{198}\) Following the emergency landing made by the US aircraft, the Chinese Government decided to hold the 24-man crew instead of releasing them and the plane.\(^{199}\) This crew would not be released until April 11 2001 following intensive negotiations between the United States and China. The US Ambassador, Joseph Prueher, had also complained that his office had


\(^{196}\) ibid

\(^{197}\) ibid

\(^{198}\) ibid

been unable to contact the crew or to ascertain their status further heightening tensions between the US and Chinese Governments.\textsuperscript{200}

Politically, this dispute can be analyzed in two components. The first component dealt with what caused the collision and its subsequent debate over who was at fault. A second component involved whether the United States had a right, under international law, to collect intelligence within China’s 200-mile exclusive economic zone.\textsuperscript{201} In other words, did the US aircraft violate Chinese airspace in conducting its mission? These questions would become the centerpiece of the political dispute between the United States and China.

Organizationally, this chapter will seek to do several things. First it seeks to place the Hainan Incident as a political dispute roughly following the International Crisis Board’s definition for political crises. It will then seek to determine whether the two states chose to seek a negotiated settlement to their dispute. Then this chapter will seek to examine whether or not policy preferences for resolving the crisis could be clearly determined and if this led to subsequent negotiations. Lastly, this chapter will examine if the stated initial outcome preferences of both states contributed to the negotiation process.

\textsuperscript{200} ibid.
Defining the Incident as a Dispute

The collision between the United States’ EP-3 and the Chinese aircraft sent to intercept it marks a serious incident between the two countries as it involved military units from both parties. The nature of the collision was sudden. It created a sense of threat to basic values for the Chinese Government given that they argued that the US Navy EP-3 had violated Chinese airspace. This threat was perhaps heightened as a result of the electronic surveillance capabilities of the American aircraft. It also created a similar threat to the new American administration as explained below especially when the Chinese Government refused to release the American crew and aircraft. Furthermore, once the US diplomatic team was able to make contact with the detained aircrew, the Chinese Government refused to release both the crew and aircraft until the United States agreed to certain concessions. Disagreement over who was at fault and the release of the aircrew and aircraft represented a serious (and public) dispute between the United States and China.

Mutually Hurting Stalemate and Rational Choices to Negotiate

Once again, this case will attempt to test the earlier statement that the costs of pursuing a coercive policy are so great that leaders will have a strong incentive to seek to instead. This case presents an additional opportunity to evaluate the idea of economic costs related to utilizing coercion within a short time period. It also presents an opportunity to examine if either the United States or China had clear outcome preferences for how they would like to see the dispute resolved. Lastly, this case study will examine
if the positional bargaining model can be used to describe the negotiations. This step aims to achieve two things. First, it attempts to describe the actual negotiations (if they took place). Second, it attempts to apply the positional bargaining model to a real world dispute.

Over the course of the last two disputes, the argument was made that the costs of pursuing coercive policies between the United States and China were growing. By 1999, increased trade volumes presented an additional element of risks and costs for pursuing coercion for both states. It is thought that increased trade between the two countries will add an additional deterrence to utilizing coercion. The 2001 Hainan Incident presents another opportunity to test this statement.

Once again, it is possible to evaluate trade volume between the United States and China to observe for possible traits of continued economic growth (and interdependence) between the two countries. Census data indicates that for 2001 imports from China stood at $102.2 billion. Exports to China stood at $19.1 billion. \(^{202}\) Exports had grown by roughly $3 billion from the year 2000 and roughly $6 billion since the 1999 dispute. Imports also grew by $2 billion from 2000 and by $20.4 billion from 1999. Compared to the 1996 Taiwan Strait Crisis, by 2001 exports to China had grown by $7.2 billion and imports by $50.7 billion. Compared to 1985 \(^{203}\) imports and exports stood at roughly $3.9 billion for both categories. These trade figures show that trade between the United States and China has been growing steadily and significantly since 1985. The significance of


\(^{203}\) Which is the earliest date available for trade information from the Census Bureau’s online database.
this data is that coercion between the United States and China in 2001 would have an additional dimension of cost in that it puts at risk a trade relationship topping $102 billion dollars. Compared to trade figures observed in the 1999 Embassy Bombing, trade between the two countries has continued to increase over time. As such, the costs for pursuing coercive policies by the United States and China towards each other are continuing to grow. This added dimension of cost should provide additional incentive for policymakers to negotiate rather than to coerce. Given that coercive acts would entail ever-greater costs for both parties, the situation in this case (and to some degree the case in 1999) resembles a situation similar to a mutually hurting stalemate. This is because resolution of the dispute by coercive means would result increasingly higher costs that the United States and China would have stronger incentive to negotiate.

In terms of the Hainan Incident, negotiations did take place. Policymakers on both sides ultimately did resolve the dispute using negotiation. The states did not utilize the sort of non-violent military coercive tactics to resolve their differences as found in the 1996 Taiwan Strait Crisis. The negotiations themselves help support the idea that costs of coercion may have informed policymakers’ choice to negotiate. As such it is possible to evaluate what were each side’s preferences for resolving the crisis and if the negotiations could be described using the positional bargaining model.

Initial Outcome Preferences of the United States

The United States’ outcome preferences can be understood and placed by analyzing U.S. public statements. This event marks the first foreign policy crisis
experienced by George Bush and his new administration, taking place roughly four months into his presidency. In his first public statement since the collision of the two aircraft, President Bush called for the return of the crew and the aircraft. The statement also called upon the Chinese Government to allow US diplomats access to the aircrew.\(^{204}\)

In a further statement, State Department Spokesperson David Boucher argued that the Chinese decision to grant access to the aircrew on April 2 instead of immediately was “not a complete response”.\(^{205}\) PBS also noted then U.S. Ambassador to China Joseph Preuher’s argument that the U.S. aircraft enjoys sovereign immune status and is not subject to search and detention by a foreign power without prior U.S. consent.\(^{206}\) Another issue that U.S. policymakers brought up is the assignment of fault for the accident. Seeing that the U.S. Navy’s aircraft was bigger and less maneuverable compared to the Chinese fighter, U.S. commanders argued that the Chinese were at fault for failing to yield, as is customary, to the larger and more cumbersome aircraft.\(^{207}\) Later, U.S. Secretary of State Colin Powell further reiterated that the U.S. aircraft was operating in international airspace and that he had hoped the Chinese would see this incident as an unfortunate accident rather than as a deliberate provocation.\(^{208}\)


\(^{206}\) Ibid.


It is possible, at this point, to assess how Bush and his advisers perceived their position internally. This is possible through the availability of a range of secondary accounts of the Bush White House. As Bob Woodward explains, the Bush Administration had sought to keep the situation from turning into another Iranian Hostage Crisis. They thought that the Iranian Hostage Crisis and the later Iran-Contra Scandal had imbued a general sense of “impotency” upon both presidencies involved. More importantly, the Administration was determined to prevent an image of “powerlessness” from overshadowing their policy choices.

In sum, initial U.S. concerns focused on two major issues. First, it sought access to and the subsequent release of the detained aircrew and aircraft. The second issue was likely to defend their operations off the coast of China by assigning blame for the incident to the actions of the Chinese aircraft. The positions taken by U.S. policymakers differ significantly from their Chinese counterparts.

Initial Outcome Preferences of China

Similar to the United States, the initial outcome preferences for the Chinese government can also be discerned. Much of their initial preferences were made public via direct policy statements released to the media. The first Chinese statement was in response to the collision between the two aircraft. This initial statement came from the

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210 ibid.
211 ibid.
Chinese Foreign Ministry in which spokesperson Zhu Bangzao who labeled the collision a violation of Chinese sovereignty. Zhu reported that the collision occurred 104 miles off the Chinese coast and that the American aircraft had made an unauthorized landing at Lingshui Airport on the Chinese island of Hainan. He faulted the American aircraft for making a sudden turn that subsequently caused the collision between the EP-3 and the Chinese fighter plane.\textsuperscript{213} In addition, the Chinese Government argued that the U.S. surveillance mission violated international law regarding “over-flight rights” near Chinese waters or airspace as it posed a threat to Chinese national security. More importantly, Zhu argues that it was appropriate for the Chinese fighters to follow the U.S. aircraft within the Chinese economic exclusion zone\textsuperscript{214}. The idea of over-flight rights within these exclusion zones is contained within the United Nations Convention on the Law of the Sea.\textsuperscript{215} This position was further echoed by the Chinese ambassador to the United States who argued that the United States needed to apologize for its actions and allow China to conduct an investigation.\textsuperscript{216} Chinese president Jiang Zemin issued a similar statement on April 3 stating that it was the Chinese position that the United States should take responsibility for the accident and demanding that future flights of similar nature be prevented.\textsuperscript{217}

\begin{itemize}
\item \textsuperscript{214} ibid.
\item \textsuperscript{215} Cheng and Ngok, p. 67.
\item \textsuperscript{217} Cheng and Ngok, p. 67.
\end{itemize}
Academic sources have since made it possible to understand why Chinese policymakers took these positions. Huang and Bedford argue that the Hainan Incident was culturally significant for the Chinese policymakers, as it was perceived to potentially damage the image of the Chinese Government. This cultural analysis points out that Chinese policymakers felt responsible for seeking out justice for the death of their pilot and the apparent humiliation the incident caused the state.\textsuperscript{218} As a result anti-American sentiments portraying the United States as a bully in the international community became popular within Chinese citizens and commentators.\textsuperscript{219} If these positions are accurate, then the underlying concern of Chinese policymakers can be analyzed as an overall desire not to look weak and to save “face” (or reputation). This can be explained by the strong Chinese desire for an American apology.

Did Negotiations Take Place?

In sum, the policy positions of both states are clearly visible. The United States sought the return of its aircraft and crew. It also sought to avoid blame for causing the incident. The Chinese sought to assign blame to the United States for causing the incident and demanded an apology. Both sides felt pressure, for the above stated reasons, not to look weak. However, while both the United States and China sought to place political blame on the other and not to look weak internationally, both states understood that the costs of seeking to resolve the dispute by coercion would be extremely costly. In


\textsuperscript{219} Huang and Bedford, p. 4.
addition, since the policy positions of both countries were relatively clear, given the various public statements, this situation was “ripe” for negotiation. Especially since other alternatives such as using force would involve significantly higher risks and costs. Hindsight informs us that the Hainan Incident provoked an extensive series of negotiations between the United States and China that lasted for quite some time. Thus, an attempt can be undertaken to model the process.

Modeling and Describing the Negotiations

Since the policy positions on both sides are clear, it is thus both possible and interesting to model the negotiations utilizing Hopmann’s positional bargaining model. One reason for this is to both examine the nature of the negotiations taking place and also to determine how well a formal model can describe a negotiation between two countries.
In this case, the preferred outcome of the United States can be represented by point “a” and the preferred outcome of China can be represented by point “b”. Line A-A’ can be used to represent the preference curve of the United States and line B-B’ can be used to represent China’s preference curve. The horizontal axis can be used to represent the issues the sides are negotiating over. Therefore, point “a” would be the United States’ policy preference and “b” being China’s. Anything within points “b’” “E” and “a’” would represent issues that both sides would be willing to negotiate over. Any point below the horizontal axis would represent solutions that are unacceptable to either party. So the
major question here is how do the policy positions of both countries and the events of the incident correspond to this model?

In terms of the United States’ preferences, several things are immediately clear. Their preferred outcome or point “a” would be the return of both the aircraft and its crew without suffering humiliation for the incident. This position seems clear given the statements examined earlier. The horizontal axis itself would represent the issues of how to get the crew and aircraft returned and what concessions need to be made to achieve the policy preferences. Given the official statements, the United States’ bottom line would be to at least obtain the return of the crew and the aircraft. Hindsight informs us that most likely the issue of assuming responsibility or suffering some sort of political humiliation for the incident was a negotiable issue for U.S. negotiators. Thus, the U.S. preference curve can be thought of as such. The curve’s highest point would represent the U.S.’s ideal outcome and would trend downwards in terms of the concessions it would have to make to achieve those goals. The more concessions that need to be made the less, the solution would coincide with the policymakers’ original preferences. In addition, the less a proposed solution coincides with policymakers’ preferred outcomes, the less likely those policymakers will pick that option. So far, the information found in US policy preferences is well described using the positional bargaining model. The next question is to see how well Chinese preferences fall with the model.

Chinese policy preferences can also fit into the model with a reasonable degree of accurateness. Their preferred outcome or point “b” would be a statement of apology from the United States with the United States taking responsibility for causing the accident.
The horizontal axis remains the same in that it represents how the aircraft and crew would be returned and under what circumstances. China’s bottom line was to obtain at least some form of apology. A further observation to make is that as part of the bottom line, it was never the intention of the Chinese Government to hold either the aircraft or crew indefinitely. Given their initial preferences, the Chinese Government likely intended to use the American aircrew as bargaining chips at the negotiating table to obtain policy concessions from the United States. Thus, the Chinese preference curve would start at their initial outcome preference and curve downwards depending on what the United States was willing to concede to in order to satisfy its own objectives.

At this point, the positional bargaining model is beginning to describe a tit-for-tat game. In this situation, both sides to the negotiations would respond dynamically to each other’s actions. For example, a concession made by one party might translate into a similar reciprocal act by the other to either further the negotiations along or to attempt to bring the issue to a close. This push-and-pull behavior means that both sides are essentially looking for a potential point of compromise. Thus, point “E” on the model will remain in motion, similar to how the center point on a supply and demand graph, until an outcome is achieved.

Can this behavior be observed? The answer to this question is yes. In the case of the Hainan Incident, it is known that an official apology on the part of the United States would cause an equal concession on part of the Chinese Government. Per Chinese wishes, the administration would eventually release a public apology for violating
Chinese airspace. However, the specific wording of the apology was set such that it could be interpreted in many different ways within the confines of Chinese politics. For example, Prueher’s letter to the Chinese Government indicates that the United States specifically “regretted” the loss of the Chinese pilot and expressed “sorrow” to his family. The letter also apologizes for entering Chinese airspace and then landing without first securing verbal permission. Woodward points out that the administration specifically apologized for the violating Chinese airspace only and did not apologize for the actual intelligence-gathering mission. Yet, this letter was taken by the Chinese to mean that not only was the United States apologizing for its actions it also meant that the United States was admitting fault for causing the incident. This effort was apparently enough to satisfy initial outcome preferences for the Chinese Government such that they responded by releasing the crew of the downed aircraft. It is likely that the release of this statement on part of the United States also constitutes the “turning point” in negotiations allowing the negotiations to move forward in a productive way to quickly bring a resolution to the crisis.

As a result, at this specific point in time, point “E” on the formal model had been found. The issues remaining to be resolved could thus be left up to further negotiation. In this case, everything below this point of compromise included how the United States and China would agree to the release of the damaged aircraft. This further defines the area

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220 Huang and Bedford, p29.
222 ibid.
223 See: Druckman, p. 520.
under point E on the positional bargaining model. This was eventually done with the help of Prince Bandar of Saudi Arabia.\textsuperscript{224} Internally Donald Rumsfeld (Secretary of Defense) began a series of reviews into how and why the missions the EP-3 was conducting were taking place in what would eventually become an overhaul of the Pentagon.\textsuperscript{225} Rumsfeld’s reviews and subsequent decision to halt surveillance flights near Chinese airspace were likely what the Chinese wanted out of these negotiations all along.

In this sense, the formal model posited by Hopmann worked well in describing the negotiation process that took place to resolve the Hainan Incident. It accurately describes the tit-for-tat behavior that took place between the United States and China as both parties searched for an equitable solution.

Discussion

The negotiation behavior in this case supports the hypothesis that the greater the costs of coercion are, the more likely states will seek a negotiated settlement. Supporting evidence for this claim can be found in the growth of U.S.-Chinese trade volume in year over year data. During this dispute, the cost of coercion was likely high enough that it allowed for negotiations to take place. While the traditional mutually hurting stalemate describes a physical confrontation between two belligerents, this thesis posits that a physical fight between two parties need not be present to indicate a stalemate. Both sides must simply recognize that coercive policies would translate into costs so high that

\textsuperscript{224} Woodward, p. 29-32
\textsuperscript{225} Woodward, p29-32.
neither side would be willing to bear them. The situation in this case resembles that of a mutually hurting stalemate in that attempts to resolve the dispute using coercive tactics would have entailed such high costs that it was an unrealistic solution for policymakers.

Initial outcome preferences of China and the United States for resolving the dispute could be clearly observed. These preferences did contribute to the negotiations that took place. Finally, the actual negotiations are described well by the positional bargaining model.
Chapter 8
FINDINGS AND DIRECTION FOR FUTURE RESEARCH

The Costs of Coercion

The initial hypotheses presented in this thesis was that the greater the military development (including the development of nuclear weapons) and economic growth (and interdependence) between the United States and China, the greater the costs of coercion between the two. The greater the costs of coercion, the more likely policymakers will choose to negotiate.

Military development between the United States and China has grown significantly since normalization of relations to be sure. China is actively seeking to modernize their military arsenal and equipment. The People’s Liberation Army (and its counterpart components) still represents one of the largest standing militaries in the world. The United States continues to maintain and develop its well-known military capabilities in the post Cold War world. The continued military development of both countries continues to provide the traditional costs that would deter the two states from pursuing coercive policies. These costs of utilizing coercion include the heightened possibility of armed conflict. These costs can also include political risks of not having coercive acts achieving the desired outcomes.

Economic interdependence between the United States and China has also grown over the past thirty years as well. This economic growth between the United States and China also seems to provide an additional cost for adopting coercive policies between the two countries. This is because coercive tactics, such as non-violent shows of military
force and economic sanctions, can have a negative impact on domestic markets. Census data regarding trade flows between the United States and China point to a growing economic trend in terms of both imports and exports. More significantly, in 1996 the United States and China did not negotiate during the Third Taiwan Strait Crisis but did do so in subsequent disputes. The data shows that trade between both countries grew significantly in following years. This suggests that the additional economic costs of coercive tactics may have contributed to the states’ willingness to negotiate. The observed negotiation behavior between the United States and China in 1999 and 2001, contributes supporting evidence to suggest that the costs of coercive policies may have prompted both states to negotiate rather than to coerce. The increased cost of coercion may also cause disputes between the United States and China to resemble mutually hurting stalemates. In this situation, neither side can coerce or fight the other without paying significantly high costs while doing nothing will only compound the problems of each state.

This thesis follows the liberal thought that interdependence will act as an additional deterrence to acts of coercion. A caveat to be made here is that while interdependence is measured by observing trade flows, this study only looks at import and export data. There is a strong possibility that interdependence can also be measured by examining volumes of foreign direct investment. Another aspect of measuring interdependence can also take into account states’ holdings of each other’s debt as well. This thesis examines only import and export data for the sake of parsimony. This is not to suggest that a future study examining interdependency should ignore these additional
factors. On the contrary, examination of these factors in the U.S.-Chinese trade or political relationship should provide an interesting direction for a future project.

Negotiation

With the exception of the 1999 Taiwan Strait Crisis, negotiations can be observed in both the 1999 Embassy Bombing and the 2001 Hainan Incident. At the outset of these disputes, each side presented their preferences toward how it would like to see the dispute resolved clearly. These preferences were featured prominently in the media outlets of both countries. Interestingly, these initial preferences also informed subsequent negotiations by defining the issues to be negotiated and each state’s starting or optimal position. These findings support the third and final hypothesis posited by this thesis that clear policy positions contribute to the negotiation process. This thesis also found that negotiations in both the 1999 case and the 2001 case fit well within the positional bargaining model. The model was also able to describe the tit-for-tat behavior present in the negotiations.

Comparison of the Cases

This thesis has sought to examine three well-known cases of political dispute between the United States and China. While this theses has concerned itself with why the United States and China chose to negotiate, the causes of these respective cases is also worth discussing. The Third Taiwan Strait Crisis was triggered by a political disagreement over the issuance of a visa. This is a relatively peaceful act compared to the
triggering events of the following two disputes. The 1999 Embassy Bombing and the 2001 Hainan Incident were both more violent in nature and involved the loss of life. As previously stated, embassies are generally protected under international law and there are strong stigmas related to attacking them. Furthermore, in the case of the Hainan Incident, the surveillance missions being carried out by the United States were also provocative in their own right. This is because few states would tolerate another state conducting surveillance missions along their national borders.

Of interest here is that the peaceful act of issuing a visa resulted in non-violent coercion\textsuperscript{226} between the United States and China, whereas both the violent acts of the bombing of an embassy and airplane collision did not. This thesis posits that the cost of coercion between the United States and China had increased since the Third Taiwan Strait Crisis such that there was a stronger incentive for both states to negotiate rather than to rattle the saber at each other. However, an alternative explanation to why both the United States and China resorted to coercion in the case of the Taiwan Strait Crisis should also be discussed.

As mentioned previously, the political status of Taiwan is intertwined with Chinese sovereignty. As a result, given Chinese policy priorities, the issue of altering the status quo, in favor of anything other than reunification, is likely to trigger a strong response from the Chinese Government. Furthermore, the Chinese actions during that crisis may also have been rational in the sense that by employing coercion, it was

\textsuperscript{226} These are coercive act but also symbolic shows of force that included missile launches and muscular posturing of deploying aircraft carriers to international waters off Taiwan.
demonstrating to Taiwan the potential costs of independence. Perhaps, an actual armed conflict in 1996 was never part of the decision-making calculus. In this case, the escalation of these coercive acts risked the possibility of armed conflict. However, sharing information about the true intention of Beijing’s war games would have defeated the purpose of bluffing. This reaction may also be unique compared to the disputes of 1999 and 2001.

While the disputes of 1999 and 2001 were triggered by violent acts, and even resulted in the loss of life, they did not present the same kind of challenge to the issue of Chinese sovereignty as did the political status of Taiwan. This thesis posits that in the cases of the embassy bombing in 1999 and the Hainan Incident, the costs for pursing coercive policies for both the United States and China would be very high. Given the accidental nature of both the 1999 and 2001 disputes, it is likely that, alternatively, negotiation would have offered more utility and less risk in resolving the disputes than compared to saber rattling. Perhaps, given these cases, the United States and China are more willing to negotiate on disputes that do not trigger threats to basic values even when the triggering events are violent in nature (such as an airplane collision). However, this statement likely in need of further testing and may be an interesting direction for future research.

Directions for Future Research

It seems that as the relationship grows between the United States and China, the less likely the two states are to coerce each when faced with a dispute. Trade and
indicators of economic interdependence seem to add an additional deterrent to war beyond the traditional military and political costs. This phenomenon is curious. The United States and the People’s Republic of China started out as rivals at the start of the Cold War. Yet today they are fast becoming allies despite their differences. This relationship is starkly different from that of the United States and the Soviet Union. Instead of finding ways to reconcile their differences, the two great powers competed for resources both material and political. The reasons for why the relationship between the United States and China turned out so differently compared to the relationship between the United States and the Soviet Union may warrant additional future research. What role did economic growth between the two powers (if any) contribute to the resolution of the Cold War? This question could potentially lead to a future comparative study of both U.S.-China and U.S.-U.S.S.R. relations and perhaps shed more light on the causes of war and the causes of peace between great powers.
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