Incentivizing US-China Trade from the Bottom Up:

Entrepreneurship and Economic Entanglement

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1949 saw the victory of the Communist Party in China. A new communist power, the PRC, thus rose in Asia. Strongly aligned with the Soviet Union and the socialist bloc, it was a huge threat to the US policy of containment and its Asian allies such as Japan and South Korea. Due to ideological and geopolitical tensions, few in the capitalist bloc saw the economic potential of the most populated country in the world. China was reeling from a decade of war against Japan and civil war, it was generally agricultural and had a severely underdeveloped industry, and its leaders were seen as "fanatical" communists. Yet this would all change in the latter half of the 20th century. Following the general movement of détente with the Soviet Union, the US began to explore the possibility of economic interactions with China; the Sino-Soviet split further catalyzed this notion. As argued by Evelyn Goh in her book on US-China trade transformation[1], the Kennedy and Johnson administrations started seeing trade as a potential tool for engagement, a tool to draw China away from the socialist bloc. Nixon and Kissinger further prioritized rapprochement with China to counterbalance the Soviet Union. This would culminate in Nixon's visit to China that lifted the trade embargo that had been in place since the Korean War with the Shanghai Communiqué. Nixon's historic visit to China would establish the foundation of a blooming trade relationship. Deng's reforms, succeeding the cultural revolution laid the practical groundwork for trade. As Ezra

Vogel puts it, Deng emphasized modernization, foreign trade, and investment as tools to develop China's economy.[2] By securing MFN status, Vogel emphasizes, China and the US established a strong bilateral trade and led to a process of gradual interdependence in which the US provided China with much-needed technology and investment while the US served as a major export market for the newly born Chinese labor market. The Cambridge History of China[3] offers a deeper analysis of the booming trade, detailing how China's export-oriented economic strategy in the 1980s relied heavily on the US as a key market. Chinese exports to the US of manufactured goods grew significantly. At the same time, US investment would establish a mutually beneficial relationship: China gained access to advanced technology, while US companies benefited from low labor costs. In general, the US and China had become deeply intertwined economically, with trade serving as a stabilizing force in the bilateral relationship.

Former studies have succinctly described the process of change in the US-China trade relationship, and the story on the executive level is clear and undoubted. However, this paper believes that the perspective of businessmen and consultants on both sides is underrepresented in former studies; they are the foot soldiers of the trade, the ones who went hands-on to change the relationship. Their narratives are invaluable as we try to unpack the complete picture of the trade, not only on the level of the leaders of both countries, but also on the level of the businesses and merchants who actively engaged in the trade. The problems they faced and the experience they gathered are still invaluable today as relations between the two countries deteriorated. Their story is one of partnership and cultural exchange, crucial to understanding today's world. Utilizing non-governmental papers from business groups and narratives as well as oral history from individual entrepreneurs, this paper offers a unique grassroots narrative of the burgeoning moments of US-China trade and how it developed from an uncertain venture to the focus of the world economy. Thus, in line with firsthand sources and narratives from both sides, this study aims to complete the picture of US-China trade during the latter half of the 20th century and reflect upon today's Sino-US relationship.

The Chinese trade embargo 1950-1978

The founding moment of the US-China trade relationship occurred on a very ominous occasion: the Korean War, which practically destroyed the US-China trade relationship. However, the embargo was also a defining moment in the trade relationship; it put the relationship into hibernation to wait for the "spring." In a way, it was beneficial to the relationship by "saving it for later." Chinese was an emerging socialist superpower closely aligned with the Soviet Union, with its strongly ideological leader Mao Zedong seeing America as a capitalist empire to be toppled. In contrast, the anti-Soviet sentiments were strongly rising in the US. To the US government, China was a critical failure in its strategy of containment; having strongly supported the Kuomintang government in hopes of seeing a western-leaning China, its hopes had been destroyed by the Communist Party. Naturally, the new Chinese government inherited most of China's former trade with the US, and US traders and politicians were optimistic. Yet considering the strong ideological opposition and global atmosphere, the trade would easily deteriorate beyond redemption, giving later reformists and less ideological leaders no chance to save it. The embargo saw both sides slowly explore and learn about each other at a safe distance. For the trade to gain momentum and the potential to eventually bloom into life in a friendlier political environment, this period is essential. This part aims to show, through the following mainly US materials, how the US government sponsored extensive reports on the China trade and continued exploring it as a political tool as well as an economic one, and also how conventional activists advocated the opening of trade.

Ever since the communist takeover of mainland China, the US had exercised control over Chinese trade in line with its policy of restricting trade of strategic materials with the Soviet bloc, though it still allowed a considerable amount of trade to continue flowing. In December 1950, following Chinese military intervention in the conflict on the Korean peninsula, the US government levied a total embargo on all exports, strategic and nonstrategic, to China. In May 1951, the United Nations followed suit. This embargo was largely ineffective toward a communist China, which conducted nearly two-thirds of its trade with the Soviet bloc and had acquired a 300-million-dollar loan from the Soviet Union to fight the Korean War.[4] As Xin-Zhu J. Chen states: “Instead of weakening China economically, as the trade embargo was designed to do, it thrust China deep into the arms of the Soviet Union.”[5] The embargo faced limited criticism during the war as China actively fought UN forces. However, the US decision to maintain the embargo unilaterally, especially as all other major Western powers chose to wind down the restrictions, was largely protested by bureaucrats and businessmen alike. A journal article in 1957 titled “Should U.S. Trade with Red China?”[6] defined the protested problem as the “China differential.” As the author explains:

> Few demanded the end of all restrictions. The pressure was rather for their relaxation to the point where they were no more severe than similar limitations maintained on trade with the Soviet Union and its satellites.[7]

The problem gained even more sentiment when the export control list for the European bloc was downgraded to a looser standard, while there were no corresponding adjustments to the Chinese embargo. In the same year, the US Department of Commerce conducted its first study on “All aspects of policy on United States trade with Communist China.”[8] Its eventual recommendation was that the present policy of total embargo remain unchanged. However, it expressed several concerns that would later be used to attack said policy. It concluded, "The abolition of the China differential by our principal allies has made the United States embargo less effective than previously.”[9] The report also prophetically admitted that “mainland China, under favorable political conditions, might well represent an important potential market for U. S. products and that protracted U.S. unilateral abstinence from that market might create serious barriers to future development of that potential.”[10]

In 1959, a State Department paper outlined the different views of the US executive level on the embargo. The council chairman on foreign economic policy, Clarence Randall, believed that “the U.S. should do away with its embargo on China trade.”[11] The Secretary of

Defense, Charles E. Wilson, also “felt fairly close to Randall's point of view.”[12] Though the majority of the executive board sided with the Secretary of State, John Foster Dulles, in believing that a relaxation of the embargo would deal a heavy blow to eastern Asian allies and potentially erosive the US security position, this is one of the first accounts of executive officials voicing support for the relaxation or abolition of the embargo.

Soon after, this process was again greatly catalyzed by Chinese circumstances. To ascertain Mao’s goal of rapid industrialization to western levels he initiated the “Great Leap Forward”. The result was undoubtedly disastrous, culminating in the “Great Chinese Famine” claiming close to 55 million lives.[13] This undoubtedly convinced China of its need for imports of grains and industrial technology. The Sino-Soviet break in 1960 further pushed China towards the US. Ever since the Truman administration, US bureaucrats had been pondering the possibility of using trade as a “carrot” to lure China away from the Soviet bloc.[14] A 1962 CIA summary of a Department of State policy planning meeting noted how several specialists had indicated that “(the) relaxation of trade embargo on China would help encourage (the) Chinese to stand firm.”[15]

After the break, the US government started seriously considering loosening of the embargo as well as promoting the improvement and détente of US-China relations. A significant change in US executive understanding of the embargo question can be seen in a 1966 White House memorandum to National Security Advisor Walt Rostow. The key decision mentioned was that “(Secretary of State) Rusk authorize the Department to begin certain small modifications of our total embargo on trade and transactions with Communist China."[16] The executive level was not united in their attitudes toward this recommendation, as suggested in the memorandum: "I anticipate resistance at the top of the Department even to these minimal steps."[17] However, it clearly outlined the motive behind this move. In "alter(ing) a substantive element"[18] of its previously rigid defensive stance against China, the US government hoped to display to its allies a "welcome degree of confidence and flexibility."[19] In the long run, they also hoped to "communicate a new and supportive message to elements within mainland China that are pushing for policies of pragmatism and accommodation with the outside world."[20]

The memorandum showed that Lyndon B. Johnson's speech on East Asia on July 12th, 1966 had a significant positive influence on the decision to adjust the embargo. The President, in his speech, had expressed his great faith in Asian peace and cooperation, especially "reconciliation between nations that now call themselves enemies."[21] He had outlined the extensive efforts the US had made to establish contact with communist China. He emphasized that these efforts would be persistent and continual. The speech, in the words of the memorandum to Rostow, "went far in words toward changing our China posture at the highest level."[22]

The softening of the executive position undoubtedly encouraged conventional and social efforts at examining the prospects of Chinese trade. At the same time, the government focused on the benefits for the US's security and international position. The private sector focused more on the economic benefits of the softening of the embargo. Key groups such as the Quakers had long advocated for the opening of the relationship, as examined by Bingyi Gong in her extensive paper on the Quakers' positive impact on US-China Relations. However, these groups had long only exercised regional influence. The change came in 1966 when an organization that would be the vanguard of civic interactions with China for the next decade, the National Committee on US-China Relations (hereafter referred to as "NCUSCR"), was founded by "a broad coalition of scholars and civic, religious, and business leaders."[23] In the following years of increased trade and dialogue with China, this committee served as the main organization to host workshops, organize conferences, and sponsor in-depth studies on Chinese trade that were greatly informative to the general public and businessmen. Even to this day, it keeps one of the most holistic records of US-China trade, which has proven to be a crucial source for this paper.

In its year of establishment, NCUSCR published the results of its first extensive study on US-China trade. It firmly reached the conclusion that "steps towards modifying the present embargo on trade with China should be taken to maintain and protect the leading position of US business and technology."[24] It had identified how a continuing deficit in trade for the US has "increased Government support and encouragement for any efforts to expand U.S. exports."[25] Another interesting observation it made was that since the embargo barred US technology and goods from going to China, it hurt companies in Japan and Europe who were at liberty to trade with China but also dependent on US tech. Thus, this could encourage the abandoning of US tech and goods by Western businesses or damage Western European and Japanese business interests.

Due to the evident interest of both the private and public sectors in US-China trade, a series of studies was sponsored. Prominent among them were reports by esteemed college professors and Chinese experts, such as Dana I. Robinson of the University of Illinois, Dwight H. Perkins of Harvard, and Robert F. Dernberger of the University of Michigan. All three published holistic reports in the short interval of 1969-1970, not only displaying the great extent to which America was interested in Chinese trade from the top down but also providing an academic viewpoint and fairly objective evaluation of the present and future of US-China trade.

In 1967, Dana I. Robinson was invited to write a report for the UN delegation on trade with China. Her stance was largely pessimistic and conservative. She believed, “The combination of Chinese suspicions of foreigners and their determination to avoid any possible dependence upon outside support or approval for their economic development will be reflected in the prompt payment terms of any contract and the avoidance of long-term credit for even rather substantial purchases.”[26] Moreover, China’s economic and political stance would generally be “basically Anti-Foreign in its outlook for the next 15 to 20 years.”[27] Nevertheless she saw that “it is possible to separate economic from political matters to some degree in relations with Communist China.”[28] She predicted that “it is another market which offers opportunities for both short-term and long-term interest.”[29]

In February 1970, the NCUSCR commissioned Robert F. Dernberger of the Economics Department of the University of Michigan to conduct a study on US-Chinese trade, eventually titled *The China Trade: What's in It for the US? An investigation of the economic liberalizing the United States restrictions on trade with China*. Dernberger reached a much more optimistic and progressive conclusion. He displayed the absurdity of the embargo in banning direct trade between the world's largest exporter, the US, and China, "whose volume of trade would place it in the top twenty trading nations of the world."[30] Like Robinson, Dernberger pointed out that trade with China could be independent of political considerations and be purely for the economic benefit of both countries. In addition, Dernberger largely believed the embargo to be ineffective both politically and economically, something left over from the pre-détente Cold War era that "contributed to the maintenance of hostile relations between the two countries."[31] He clearly outlined the various motives behind public and governmental advocacy for the drop of the embargo. Prominent among them were using it as a first step towards formal recognition and normalization of relations, relieving the distress of US businessmen who had been forced to enforce this embargo at their own expense, and encouraging China to adopt a more moderate foreign policy beneficial to the US. After informed and extensive speculations of US-China trade in the future, Dernberger recognized that for Chinese trade with the US to truly bloom it needed "the ability of U.S. businessmen to overcome the residue of China's hostility by aggressive and competitive sales efforts."[32] He identified that there would be fierce competition from already well-established trade networks between China, Japan, and Western Europe. However, he optimistically speculated that "as China industrializes and demands more complex and specialized producer goods," the US would gain competitive edge. In hindsight, this came more swiftly than anyone had expected.

Nearly all academics and study participants of that era made assumptions that greatly underestimated China's economic ability, such as that its economy would remain stable and deeply bonded to traditional agriculture production practices without much fluctuation, that its general economic and political policy would remain hostile to foreign trade, and, of course, that only nominal growth of its economy was to be expected. They were understandably wrong.

The government sponsored its own departmental study of embargo and trade with China in 1969. As can be seen in National Security Decision Memoranda (NSDM) no. 17, the report ordered by the President incorporated two main alternatives aside from keeping the present policy as it was. One was the intensified isolation of Beijing through strong enforcement and tightening of the embargo, while the other was the relaxation of trade. The report found limited advantages to the first alternative while having disadvantages such as "be(ing) resisted or ignored by US allies"[33] and increasing political tensions with both friends and foes. While the second alternative had significant benefits for the US, such as sending a message of goodwill to China, thus deescalating tensions. The report also identified that reducing the trade embargo would pose no threat from the US security or political standpoint. At this point the government was clearly inclining towards loosening the embargo. At the end of year, the inclination was turned into action as the embargo was greatly loosened to allow non-strategic material trade with China. Businessmen pounced on the long-awaited opportunity.

Many took matters into their own hands to approach the Chinese government, believing that "the remaining curbs will be lifted before long."[34] The Chinese Chamber of Commerce encouraged these efforts informally by expressing "a belief that those companies that came forward with the earliest proposals would be given priority if a trading arrangement could be concluded."[35] Leading business leaders also shared their hopes and predictions for the Chinese market in the years after the loosening of the embargo. In 1971, Najeeb E. Halaby, President of Pan U.S. World Airways, titled his speech at a symposium for US-China trade at the University of Pittsburgh, "The trader as a diplomat"[36]. He sharply criticized the embargo as meaningless, figuratively saying, "It wasn't a dam; it was a sieve, and the exports of our allies were pouring through it while those of our own companies were screened out."[37] He emphasized, by his title, that businessmen needed to have a "full understanding of China's history, culture, attitude and purpose"[38] to trade successfully and acquire a profit. In the same year W. M. Blumenthal, President and COO of the Bendix Corporation, shared his thoughts regarding Chinese trade with the San Francisco World Affairs Council. He believed that US-China trade would bloom into a complex network comprised of not only imports and exports but also broader "economic relations"[39] such as the exchange of know-how, technology, and capital. He also believed that US businessmen in the 1970s were much less ideological after the downgrading of the Cold War, knowing that "a fruitful economic interchange with people in other countries can be attained without necessarily agreeing with their particular form of government."[40] He was clear that there were many obstacles that needed to be breached, economic and political. Still, he was largely optimistic that US companies would be able to adapt to the Chinese market and make a large revenue. The hopes for further cutting down trade restrictions and exchange opportunities did not keep waiting for long.

Soon afterwards, drastic changes took place in both countries. In the general election of 1969, Richard Nixon acceded to the presidency, and with him came nearly unlimited power for his national security advisor and later Secretary of State, Henry Kissinger. Kissinger was keen on rapprochement with China and, in a carefully orchestrated secret trip, visited China in 1971, taking a giant step towards normalization of relations. In China, the Cultural Revolution reached its height as Lin Biao's coup was thwarted and the Gang of Four came to power as Mao became increasingly weak and blurry. The economy was stagnating, and China was at a crossroads of sinking further into the abyss of the Cultural Revolution or implementing massive reforms to save the economy. Vice Premier Zhou Enlai was very supportive of initiating US-China trade to save the economy. It was under his support that both sides finally came to a consensus. With the historic visit of Nixon to China and the Shanghai Communique, the embargo lasting from 1950 was finally lifted, and a new era of US-China economic relations began. US businesses started surging into China, and public interest spiked.

Only two years after the end of the embargo did the US-China trade skyrocket, reaching 9 million dollars, surpassing the Soviet Union.[41] Christopher H. Philips, President of the national committee of US-China trade, addressed over 150 top executives of leading US businesses at the committee's first annual meeting in June 1974. He contextualized the great progress of US-China trade: "in three years, we have moved from virtually no trade with China to become the PRC's third largest trading partner."[42]

US businesses trying to export to China grappled with the unfamiliar and complicated processes of licensing and production authorization. Imports of Chinese products took the lead in the trade. A prominent example is that of Charles Abrams and Great Wall Vodka. In 1975, the New York Times published a report on how the pioneer in Chinese trade had secured "the first direct-mail advertising campaign from China to the United States"[43] for his Great Wall Vodka. *The New York Times* described his product as "stand(ing) to make a profit for himself and the Chinese."[44] In 2024, *Foreign Policy* published a long article on his journey with Chinese exports, crediting him with being a leader of a new generation of US businessmen who transformed the role of China in trade "from a place to sell U.S. goods to a site of cheap labor."[45] As the first company to import Chinese liquor commercially since 1949, he cleverly used elaborate marketing strategies ranging from "advertisements, department store displays, and vodka-shaped balloons" to make Chinese products "exotic" and thus attractive. He even worked with leading boxing promoter Don King to advertise his vodka. It can be seen that through the efforts of businessmen like Abrams, "Made in China" became culturally accepted and has grown to what it is today. In the words of the article's ending, merchants who imported from China helped aid a transition that "recast China from Cold War foe to trade partner—from 'Red China' to 'Made in China.'"[46]

It did not take long for US businesses seeking to import to China to find their chance in swift and effective reforms in China itself. After Mao Zedong's death in September 1976, the Gang of Four was overthrown by Hua Guofeng. Hua broke with the Cultural Revolution era and adopted a reform agenda that made economic development a high priority. Deng Xiaoping replaced Hua in 1978 as the Premier of China. That same year, the 3rd plenary session of the 11th Central Committee of the CCP marked the pivotal moment of the beginning of the reform and opening up period in China. National-level economic reforms were underway, many of them directed at increasing foreign trade.

During the period from 1972 to 1978, both sides saw drastic changes that encouraged the swift growth of trade. As the US transitioned out of "Cold War mentality" with détente in general and toward rapprochement with China, the trade was further explored both by governmental and civil organizations. Entrepreneurial pioneers started testing the Chinese export and import potential. The Chinese, after seeing a major shift in power and choosing Deng's reform over Mao's social-communist revolution, began seeing US trade as vital to the growth of a new market economy. The 3rd annual plenum of the CCP in 1978 marked the beginning of the Chinese reform and opening up period and what would be the start of the boom of US-China trade.

Reopening of Sino-US relationship 1978-1989

For US merchants, Deng's decision to embrace the world economic order was one of the biggest events for their entrepreneurship in the Asian market and opened for them the door to a 1.4-billion-person market. Following the increasingly friendly policy of the Chinese government and its vast market and low production costs, US corporations rushed in. This part aims to illustrate the numerous developments and challenges of the beginning of the trade with a newly born yet huge market economy, many unexpected and surprising, through narratives and accounts of businessmen and organizations actively participating in the trade, as well as key media reports. As both sides grew to learn from each other and adapt, the stability and future expectations of the trade were put to test after the 1989 Tiananmen Square protests. Not only was the resolve of the Chinese to maintain their reforms and the strategy of opening up to capitalist influences questioned, but the US' determination to put economics first and ideology second after the Cold War was also tested. They both passed, and the trade went on to maturity and reshaping after this.

In November of 1978, *The New York Times* reported on the increasing state of Chinese trade with America. Quoting the National Council for US-China trade, *the Times* reported that transactions already totaled more than 1 billion that year. Stanley Young, the Vice President of the Council, commented that "Next year will bust this wide open, unless there are unforeseen political complications."[47] The first big deals made with China mainly involved two sectors: hoteling and resource development, with joint ventures first beginning to emerge. Intercontinental hotels and Hyatt international both signed deals with the Chinese in 1978 to build hotels with a total worth over 1.3 billion dollars while leading US oil and gas development companies rushed to Beijing to bid for key deals. The Chinese executive level was eagerly meeting key US CEOs, as China's main newspaper *People's Daily* reported the Vice Premier of China, Chen Muhua, had met various US CEOs during the period of 1978-1985. The newspaper had published more than ten individual reports of the Vice Premier meeting representatives of corporations ranging from Rockefeller to Pfizer. The *Times* report also mentioned how key Chinese delegations had been visiting America in order to study technology from dam-building to satellite communications. In February 1979, *the New York Times* published yet another report on Chinese trade, this time titled "*The China Trade: Companies Mob Peking*". It described how company representatives were grouping in Beijing to bid for a bonanza of future deals totaling a whopping 70 billion. In the words of a US banker in Hong Kong: "Anyone who doesn't sign a contract with China is going to have to explain why not to his board of directors."[48] The trade was only beginning to boom.

The experiences of US lawyer and consultant Eugene Theroux perfectly illustrate the experiences of US merchants at the beginning of US-China trade. Amid the large atmosphere of growth and positivity surrounding the Chinese trade, he critically unraveled the many practical problems faced by US merchants in China. Nevertheless, he started his interview with *the New York Times* on a positive note: "A country with a labor force that large, with needs that large, can't be ignored by any business." He added that "the Chinese are now mesmerized by the size of the US market the way US has always been mesmerized by the size of the Chinese market."[49]

"One of the most experienced in the field,"[50] Theroux had first visited China as special counsel to the Congressional Joint Economic Committee and majority and minority leaders of the House of Representatives. After he went into the private consultancy business, he became renowned for his China knowledge, having visited 11 times by 1973, representing renowned companies such as General Motors and Pepsi. He identified two long-term problems for Chinese trade. One was the political problem of Taiwan; he believed that until the US recognized Beijing as the sole representative of the Chinese, trade would never truly bloom. The second problem, he believed, was "China's limited capacity to absorb new technology." "China is still 85 percent rural," he explained, "and it can't be converted overnight to an industrial society."[51]

Moving on to doing practical business with China, he sharply criticized the Chinese's conservatism, comparing them to "my parents, who thought a checkbook was one of Satan's works."[52] He also noticed that the Chinese were eager to spend their limited foreign exchange on sophisticated technology instead of consumer goods, which the US was more interested in exporting. Probing the brand-new market and assortments of products, Theroux described studying the Chinese's obscure needs as "reading tea leaves."[53] When commenting on Chinese exports, he found "the quality and style of many Chinese products unimaginatively stereotyped."[54] After giving several specific examples, he went back to a positive stance on the future of the trade, saying that there is "a labor force of one-half billion people out there that has yet to be unleashed."

His experiences clearly illustrate that both sides had a lot to learn and reach a consensus on for the brand-new trade and markets. The good thing was that the Chinese were fast learners of market conventions, and the US was quick to understand and cater to their specific needs.

A 1973 extensive report by *the New York Times* on ventures in China for US companies reaffirmed the fact that the Chinese were unwilling to import consumer products in large quantities and instead were only interested in those high-tech products that they could not produce. It also criticized the liabilities of the complex bureaucracy of China, complaining about "procrastination, inefficiency, nit-picking, secrecy, and internal rivalries, not to mention a hazy legal system that leaves potential investors confused about their rights."[55] The report didn't fail to describe a variety of different misunderstandings and arguments between the two sides originating from ideological and cultural differences and even disdain.

Businessmen also criticized US protectionist policies. *The People's Daily* cited Christopher Philips, the chairman of the National Committee on US-China Trade, to develop the argument that prolonged trade certification issuing, tight export controls, and the US government's failure to adequately support US companies were the main reasons that the trade was experiencing problems.[56]

The Chinese, however, were not oblivious to the many complaints and problems faced by their new trading partners, who soon reached third place on their import list. The deputy minister of the Chinese Ministry of Foreign Economic Relations and Trade emphasized at the first major US-China investment conference that one of the major focuses of the reform policies of the central government was to create a better investing environment to attract more foreign investors and utilize their investments of catalyze the economy.[57] He commended the farsightedness of US businessmen and encouraged them to be confident in the Chinese market.

An interview with Jack Shamash, a leading broker for US companies trying to enter the Chinese market, clearly illustrates the changes that China made to accommodate the US and reduce friction. He engaged in arranging multiple joint ventures for US companies to better invest and sell in China. He pointed out that the availability and profitability of these ventures were largely due to measures taken by the Chinese government, such as "greatly sweetened tax and other incentives to attract foreign capital."[58] He emphasized the importance of economic development zones blooming along the coast at major ports and gradually progressing inland. "Companies in designated economic zones can import components duty-free, are given much greater freedom to hire and fire workers, and they benefit from a tax on profits of only 15 percent, as opposed to 30 percent elsewhere in China,"[59] he explained. These measures not only reduced friction between the two sides as previously mentioned but also opened the door to more ambition on the US side. In Shamash's words: "They know that exporting finished goods is not the long-term answer. Rather, it is to get into China and produce in China."[60] He also mentioned the importance of *ren mai*, or key connections in Chinese, something deeply imbedded in thousands of years of Chinese culture and bureaucracy. As the US learned the ropes, they found out that "personal relationships are critical in China, once they know you. You gain their trust, you're a friend of theirs for life, and all doors are unlocked for you without lengthy red tape."[61]

At this point, the US-China trade had made a huge transition. From a political "carrot" with limited economic benefits during the embargo period to an export source of "exotic" products, technology, and resource extraction skills at the beginning of free trade, and eventually a place of cheap labor and a vast consumer market generating lucrative interests for US companies during and after the reform and opening up period. The exponential growth of trade and increased interaction between the two countries set the tone for both sides for the next 20 years.

In 1988, a meeting on US-China industrial trade and economic development was held in the Great Hall of the People in Beijing. Being the biggest unofficial bilateral meeting since the normalization of relations, more than 2000 traders and officials from both sides participated. The meeting identified how the Pan Pacific region was taking a lead role in international economic development, and the US and China, on the two sides of the Pacific, were the core of the development. Both needed to ride the tide of the boom in trade and adjust to new trends and developments. Internationalization was inevitable. Aside from the strategic overviews, there were also more down-on-the-ground observations. They identified middle and small businesses as the leading force in economic development and believed that policies should better support them. According to a report by *The People's Daily*, more than 600 middle and small businesses had established trade with the Chinese market, covering a huge variety of industries. Also, during the meeting, as many as 350 US representatives signed up for visits to various provinces and cities to explore further possibilities for trade and investment.[62] Problems were also discussed during the meeting which were very much homogenous with those mentioned in this paper, such as China's bureaucracy problems and cultural attitude of self-reliance and isolation. The Chinese openly admitted these, and the US commended them on having done well to implement reforms, while the US government's policy of restriction on Chinese trade and reluctance to give China MFN status was also criticized.

On June 4th, 1989, the Tiananmen Square protests triggered upheaval and slight panic in US merchant circles. Businessmen suffered considerable losses and expressed profound concern about China's precarious political situation: "What happens if and when there's another Tiananmen? We saw our business cut in half overnight when that happened," worried the President of the Survey Research Group, the first joint venture market research company in China, Jerry Stafford.[63] But the Chinese were quick to reassure them of safety and stability. This incident showed how both sides had cultivated confidence and even reliance on each other, that even such a political upheaval did little to impact the booming of the trade. *The*

People's Daily reported just one month after the incident, the confidence that US companies still had in China and that they would not retreat or refrain from further bargains. It paraphrased a *New York Times* report in which a Federal Reserve economist expressed that Jiang Zemin's ascendency to Chinese Premier was a sign of hope for Chinese politics and economy to recover from the upheaval. *The Times* also quoted several business leaders who collectively believed that the political scandal was not affecting the way the Chinese were conducting business, and the advantages of trading with China remain unchanged. In general, they were optimistic about the future, and the potential of the Chinese market was too good to give away to foreign competitors.[64]

August of 1989 saw *The People's Daily* interview the head of the consultancy center for international products in New York, Chinese businessman Chuck Yao, revealing further assurances for the stability of the trade. He said many US businessmen had called him after the protests, inquiring whether their products would be delivered on time or if China would remain open to foreign investment and trade. After convening with key Chinese officials such as Vice Premier Li Lanqing, who oversaw foreign trade, and members of the Chinese State Council, he produced the loud and clear conclusion that the present reforms supporting the opening of the Chinese market to foreign trade and investment would not only remain unchanged but increase in effectiveness and efficiency of execution.[65] This message undoubtedly encouraged countless US merchants to re-evaluate the turmoil in Beijing. Trade survived the political upheaval; it was stable, lucrative, and ambitious for more growth.

However, the events of Tiananmen Square also set into motion a series of events in China itself. A new wave of conservatism swept through China, and skepticism about US-China trade grew with skepticism about the reform and opening up movement itself. Economically, China was experiencing its fiscal problems as it transitioned to a market economy. Investment in important sectors such as infrastructure saw increasingly low returns as the world economy dipped. China had to convince itself and the world that it was determined to continue pursuing reforms and the market economy. That was exactly what it did when Chinese leadership saw this problem and decided to intervene with defining moments such as Deng's southern tour talks.

Intensification of globalization and further opening up of China 1989-2000

The period of 1989 to 2000 witnessed the peak of trade. However, scrutinized clearly with informative sources, the seeds of the trade war and competition today are evident as well. Having once again firmly stayed on the course of an open economy and trade relationship with the US, the Chinese market, catalyzed by an astonishing amount of foreign trade, quickly gained professionalism and international leverage. It was no longer just a cheap factory; it became more valued for its vast consumer market. Undoubtedly, the US had benefited, yet Chinese local companies were also growing, innovating, and flooding foreign market with "Made In China". Fed by ambition to become world-class, tensions started to form between the trading partners right up to the Chinese joining the WTO in 2000, making the US finally realize that what had been a gold mine had now become a major competitor. This part supports and continues that narrative with in-depth media reports and interviews of businessmen and government leaders.

In 1992, having seen the rise of conservatism and doubt about reform and opening up since 1989, Deng embarked on a southern tour. On this historic tour, not only did he set the bases for key economic zones and cities such as Shenzhen, but he also assured the general public and resolutely supported the reform efforts through a series of speeches. He famously pointed out that a planned economy did not mean socialism the same way a market economy does not mean capitalism—a socialist state can very well have a market economy since both forms are simply tools for economic prosperity.[66] Establishing the concept of a form of market economy unique to Chinese socialism, he further pushed reforms and opening up. As a German businessman explained, by enlarging Chinese exports, Deng accumulated large amounts of foreign exchange, which in change attached higher value to Chinese investment products.[67] He was not alone in his acclaim of Deng's actions. *The People's Daily* published a whole report on various figures applauding the reforms in 1992, titled "Please Go to China". In it, the US *Prosperity* magazine emphasized the "legendary potential of the Chinese market." Margaret Thatcher applauded how Deng's policies sped up the economic reforms, creating many jobs and ushering in a swift age of development for the Chinese economy and society, which would bring great prosperity in the future. The Chairman of the Sino-British trade group pointed out that he would not have encouraged people twenty years ago to invest in China, but now, he would tell people that if they were looking for short-term profit, they should go to the US or Europe; but if they wanted long-term profit, they should go to China since not only is the Chinese economy booming but also Deng's talks had secured the policies of reform, stabilizing the newborn market economy.[68]

After securing his reforms and leaving a fortune of wisdom in political and economic policy for his successors, Deng gradually stepped down after the tour and eventually retired. The Chinese executive level changed at this point. Seeing Jiang Zemin ascend to premiership was a good sign for the US as they saw it, while his ally Zhu Rongji was even more applauded. Known as the "Economic Tsar" of China, Zhu helped US-Chinese trade reach its climax with daring reforms and clear-cut policies. The economist had called him "one-chop Zhu" for his willingness to strike deals and give foreign merchants huge tax breaks and lucrative opportunities.[69]

As the volume of the trade became increasingly huge, taxes turned into a huge consideration. Its embodiment was MFN status granted to China by the US. As mentioned before, the government's reluctance to grant MFN status had triggered great criticism from US merchants. By 1989, MFN status for China had to be debated in both the Senate and the House in order to be extended. Ying Li, in her study of US-Chinese trade and MFN status, proposed that the period of 1990 to 1995 had been the period in which whether or not to extend MFN status to China was most fiercely debated.[70]

The Chinese attached great importance to this issue. Li Lanqing and head of the reform committee Chen Jinhua emphasized this during a press conference, saying that the mutual grant of MFN status was the most important clause of the Sino-US trade agreement, and was the anchor to economic relations of the two countries. They emphasized that any US action canceling MFN status for China or attaching conditions to it would greatly damage the trade relationship and US customers and businesses involved.[71]

The US businesses obviously realized the implications and importance of the MFN status. When Clinton announced the extension of MFN status to China in 1994 and his decision to consider the decision devoid of human rights considerations, he was applauded by more than 800 leading companies, including Boeing and Chrysler. As reported by *The People's Daily* the merchants believed that the President's decision avoided a major trade war between the US and China, which would have caused great damage to business interests. They prophesied that the Chinese market would be increasingly important to the US, since it would become one of the world's biggest and most powerful economies by the 21st century.[72] Special correspondent on Chinese trade Robert Kapp pointed out that "MFN/NST is not a gift to China—the US receives MFN/NST from China, too. MFN/NST is, however, the basic policy prerequisite for US-China progress, both in and beyond the trade arena."[73]

After the clear-cut stance of the Chinese and pressure from US corporations, the US government backed down. The trade with America undoubtedly matured the Chinese export and import markets, making them fit for expansion and internationalization. In contrast to the medium and small companies exploring China in the 1970s and 80s, now, the big corporations were moving in. *The People's Daily* regularly published reports of "firsts" in the trade, and of leading corporations setting up offices in China. Key corporations such as J.P. Morgan, McKinsey, Airbus, and General Motors were among the companies moving into China. In 1993, *the Wall Street Journal* used 20 pages to publish an extensive report on the Chinese market, heading it "Opening the Chinese Market" as it pointed out that with an unprecedented 13% GDP growth rate, the market that had rapidly matured since 1978, with 1.1 billion economically prosperous consumers. It was time to heavily invest in and dive into the Chinese market. The rest of the report featured interviews of experienced US merchants, a description of key economic development zones, and fax and phone numbers of key Chinese trade ministries and regional governments. It was the "opportunity of the generation."[74] The New Jersey World Trade Council themed their yearly meeting, "China, the Next Great Business Frontier."[75]

During this period, Hong Kong gained increasing importance as the door to the huge China market. Coupled with the ongoing trade war with Japan, US capital further shifted towards and China and the rest of Asia. Li Lanqing, when meeting the US-China trade cooperation committee delegation visiting China, stressed the importance of maintaining Hong Kong's position as the leading international mercantile and shipping center.[76] *The New York Times* reported that key far-sighted US corporations were already moving their Asian headquarters from Tokyo to Hong Kong. They saw Hong Kong as a "jump-board" to the Chinese market. *The Times* also observed that leading Chinese stocks, such as that of the

Shanghai Petrochemical, were already on level terms with those of AT&T and BT.[77] Many more Chinese stocks were to follow as Chinese companies rapidly professionalized, expanded, and even invested abroad during the 1990s.

A striking report appeared in *The People's Daily* in 1992: the Fujian Light Industrial company had bought stock control of the US EMI company, a leading international producer of rectifiers. With this purchase, the Chinese were able to initiate a technology transfer and advance into Japanese and European markets as stockholders of a high-tech corporation.[78] The success of this purchase was widely acclaimed in China, and many others followed. During this time, Chinese delegations started traveling to the US to strike deals or study policy and management. *The People's Daily* reported in 1993 how a delegation from a medium-sized city, Weifang in Shandong province, had traveled to Los Angeles and New York, signing six investment contracts totaling 500 million.[79] Countless delegations from other cities followed in their footsteps to flood the US market. As Chinese companies rapidly professionalized, key executives were also eager to learn trade policy from the US. A delegation led by the Vice Chairman of the CCPIT (China Council for the Promotion of International Trade), Liu Fugui (his name meaning riches and wealth in Chinese), visited the US in September 1993 for a duration of two weeks. The delegation also had members from organizations such as the Chinese Academy of Social Sciences and the Bank of China. They met key officials and intellectuals to study trade policy with arrangements made by the NCUSCR.[80] They, in turn, would return to China and pass on their knowledge to company executives and government officials. The US side also sent sizable delegations to China. In summary, these visits “allowed business leaders (to) gain greater information about the sizable Chinese trading market, with its need for greater industrialization, and they increasingly see areas where their firms might be of service—and turn a profit.”[81] Of the hundreds of groups that traversed the Pacific, a trend of change started with the formation of groups. In an interview with Gillian Leavitt of the National Council for US-China Trade, she described how China had more “‘general’ industrial groups in China, such as an overall industry committee or board, rather than just from a specific plant or factory. Meanwhile, the US delegations were comprised of “representatives of entire states, community development boards, and overall political-economic groups, as opposed to officials from specific plants or firms.”[82] Aside from trade delegations, trade shows were also popular. According to a report by the *Christian Science Monitor*, as early as 1980, there was a great abundance of trade shows for both sides as a result of the Sino-US Trade Exhibitions Agreement. The Chinese shows in the US featured arts and Chinese cuisine in addition to examples of industry. Due to the difference of the two countries' production levels and consumer needs, the US showed that China was “almost entirely industrial, with emphasis on farm, transportation, petroleum, textile, and power generation equipment.”[83] Companies including Boeing, Lockheed, International Harvester, General Motors, and John Deere were all represented. These shows not only helped catalyze trade deals for both sides, but they also allowed the citizens to learn more about each other and correct common misleading stereotypes as the shows opened to the general public, paving the way for further understanding and cultural exchange.

The trade had reached a level where brokers were needed and profitable. Advertisements for "Full corporate and financial consultative services provided to overseas companies interested in investing in China"[84] started appearing in *The Economist* and other US media.

The US, in turn, felt the urgency to develop better marketing strategies to cope with increasing competition. The Information Center for U.S. Business held a two-day meeting in New York to discuss Chinese marketing strategies. A merchant had said during the meeting that "100 years ago, the British had dreamed that if every person in China bought a pair of stockings their companies would have to work non-stop. That dream didn't come true for them, but it is the reality now. With Chinese average income projected to reach 1000 dollars, their combined consumption capacity will surpass that of the US market. How can we overlook such a promising future?"[85] Spurred by competition, they made long-term plans to sell and produce in China. They also worried like so many of their predecessors that US government policy and trade barriers might inhibit their ability to compete in the market.

In 2000, again came the issue of MFN status and, even more importantly, China's negotiations to enter the WTO. US merchants again moved to persuade the US government to support Chinese trade, voicing that helping China join the WTO would be a mutually beneficial decision. Leaders of the group included executives from IBM, Ford, and Motorola. *The People's Daily* also duly noted that huge merchant groups would go to Washington, D.C. to lobby for China's MFN status every time the issue was debated.[86]

As we now know, despite considerable resistance on the US part, China successfully entered the WTO in 2000. Finally, after 20 years of reforms and opening up, China had become a key competitor in the international market, one not inferior to any developed nation in standards, capital, or professionalization. To end the two decades of being closed to the capitalist market, the Chinese government introduced bankruptcy laws[87] and reformed bank-enterprise relations.[88] It also supported more technological development of the national industry, moving onto computer chips and internet technology instead of the former simple raw product industry. China ceased to be a cheap labor market as Vietnam, India, and other Southeast Asian countries took its place. The internet revolution was being nurtured in which the US and China would go head-to-head. The honeymoon of US Chinese trade was over—a new age of competition and even trade war was ushered in with the new century.

This gradually dawned on US entrepreneurs. *The New York Times* noticed that the Chinese market was slowing down, and consumption of US consumer products was gradually decreasing compared to the 1990s. They observed that "China is also not a primitive giant, producing labor-intensive goods that US should no longer even want to make."[89] Statistics showed that "high-tech products as a share of China's exports to the United States more than tripled, to 14.5 percent; they rose more than 32 percent just last year."[90] They believed that if Congress were to approve normal trade with China, international markets would be flooded with Chinese high-tech products. The profit was rapidly decreasing as 40 percent of US exports to China were being sold back to the States. When interviewed by *The Economist*, Chinese professor Wu Xiao Qiu stated, "For two decades, China has been undergoing "active" reforms, in which the government has set the pace; now China is entering the stage of "passive" reform."[91] This meant fewer opportunities were granted to foreign companies, who had become competition to local companies. A trade deficit had been ongoing and enlarging for nearly twenty years with "a rapid rise in U.S. imports from China, coupled with slow growth in U.S. exports to China."[92] China surpassed Japan to become the US's greatest trade deficit.

The Chinese "gold rush" was indeed gradually winding down. However, the period was still an economic miracle worth studying and serves as a basis for Sino-US relations today. In an increasingly multipolar world where developing countries such as the BRICS take on a bigger lead and responsibility, the transforming relationship between the biggest developed country and biggest developing country also informs international economic relations to a great extent.

A case study: Dr. David Hartman, economist and consultant of US-China Trade

Former studies have focused on the holistic and macro view of the trade, emphasizing the roles of leading diplomats and politicians. Yet the viewpoint of the "foot soldier" of the reform and opening up period of the Chinese market and the development of the US-China trade is equally informative. That foot soldier can offer unique views on the obstructions and challenges faced, the reforms enacted, and, of course, give a face to the whole trade. The people and entrepreneurs engaging in the trade on the ground level influenced arguably as much or even more than the executive decision-makers.

It is with this belief that this study interviewed David Hartman, who is well suited to offer this perspective with a piece of oral history. Hartman graduated with a Ph.D. degree in economics from Harvard in 1976. He then spent eight years on the economics faculty at Harvard, where he taught econometrics and international economics and published extensively in the top economics journals, particularly in fields of government policy. He then became Executive Director of the National Bureau of Economic Research, the research institution that developed the system of national accounts and officially designates the US business cycle. After that, he worked for DRI/McGraw Hill for ten years as executive director, and ICF Kaiser as Executive Vice President after that. It was during that time that he first came into contact with the Chinese market. He was instantly interested. In his words: "As an economist, this is the story of my lifetime. What happened in China never happened before and will never happen again. It was the most important story of my lifetime in economics. So why should I want to be anywhere else? And I think, for businesspeople, it was the opportunity of their lifetime, it was a chance to be there at the beginning of something that historians will be writing about for two hundred years."[93]

He first went to China in 1989 and has worked there ever since. He has served as exclusive advisor to the Tianjin Economic Development Area and the Beijing Wangjing Economic Development Area. He worked as official advisor to the mayor of Tianjin. He has also served as Executive Director of several Chinese consulting companies, President of

China Development Group, and Executive Director of US-China Capital Cities Friendship Council.

He has unmatched experience with the private and public sectors of both states as well as the professional knowledge of a Harvard economics professor. His story illustrates the canvas of US China trade like no other.

"China didn't have many relationships with the rest of the world, so it was up to CITIC to really start that and to create, really to define China's role in the world."[94] China International Trust and Investment Corporation, or CITC, was China's window to the world as China started moving towards a market economy according to Dr Hartman. The government needed to know how to control this new form of economy and CITIC was the solution. It was indeed frightening to even the most hardened reformers within the Chinese government to transition to a market economy. They needed answers to questions like: "Can we still have control over the economy? How do we know? How to prevent a serious recession that the rest of the world has? How do we keep the economy from booming too fast? How do we manage those things, and how do we get warnings if the economy is starting to perform badly, at some point?"[95] CITIC nurtured a brand-new generation of young pioneers, fluent in English and internationally educated, who helped the government understand the market economy. At the core of that was learning from America, it was with that mission that the group of researchers came to Dr. Hartman's company.

Dr Hartman was running a forecasting and economics analysis group in 1989 when CITIC sent a delegation of researchers to observe and learn from his group. They stayed there for months, establishing closeknit ties with Dr. Hartman's group. "(They) came to work and watched what people were doing and talked to all the people that worked for me and learned those lessons about how we did our job, and they asked many questions." They learned how to build economic models and conduct data collection. Eventually, they invited Dr. Hartman to come to China and observe his study subject firsthand. He naturally accepted and paid CITIC a "social visit" in 1989. "China was mysterious to us, just like the market economy was mysterious to China," Dr. Hartman said when remembering his first visit. He recalled an anecdote in which CITIC employees, even those with whom he was working, only got baskets of eggs as bonuses and sometimes even salary. CITIC, even as the most international company in China at that time, still needed to own a farm and form "vertical integration". However, as Dr. Hartman recalled, only several years the same employees who received baskets of eggs would be driving in privately owned vehicles on the streets of Beijing and flying around the world. The growth was unbelievable. "I came for probably a week, and after that, I just got very excited about what was happening in China. Because as an economist I thought I would never have a chance to see a big economy change like China was changing. And it turned out to be true, and it turned out that China changed and grew much faster than we could have predicted."[96] His eyes still shined as he reimagined the boom of the Chinese economy. "China was just so successful that every year was another surprise. Higher growth than we expected. More opening up. Every announcement of information was a positive surprise for many years. It was just so exciting that I just kept coming back."[97] After that, he regularly came to China, eventually reaching several times a month in 1992 and 1993.

Hartman used one of his first projects in China to illustrate how this partnership worked. The project he mentioned was the Daxie Island Port on the coast of Ningbo. CITIC wanted to build one of the biggest ports in the world on the then deserted and isolated island. Dr. Hartman mobilized his team of maritime forecasting division to help accomplish this project. The Chinese followed the forecasting team's instructions to the letter. The port was eventually successfully built and Dr. Hartman made sure that "we cooperated with the people from CITIC so that they would see how to do it the next time."[98]

As for the factors behind the mass entrance of US capital into the Chinese market, and how their incentives changed, Dr. Hartman also offered an interesting answer: "In the beginning, companies came to China very reluctantly. They came to China with a lot of thought and a lot of planning, but they were kind of gambling that they could make it work. Most of the time when companies came in the beginning, they were coming to China for low-cost production, not for the market."[99] Few companies were capable of seeing the potential of the Chinese market; the ones that did come to China only saw cheap labor, and most US companies saw nothing in the previously communist planned economy. They had a very narrow focus. It was only in the 1990s did the mass of US companies started seeing the market potential of China as it grew faster than anyone expected. "They shifted from thinking totally of China as a supply on the supply side. Where the questions are all, can we keep our costs down? Can we get a license? Can we open a factory? To the demand side, where are the questions? How can we reach the market? What do customers want? Can we compete with a Chinese company doing the same thing we do?"[100]

While the companies were driven there by the nearly negligible labor costs, consultants and economists like the doctor himself were attracted for other reasons. They were the people who saw China's potential through detailed analysis. They engaged in convincing big companies of China's consumer market potential. But most of them moved slowly and chose to wait. As Dr. Hartman illustrates, "If I had said to somebody twenty years ago China will be the largest auto market in the world, they would have laughed. It didn't take very long after that for China to be the largest auto market in the world, because it just grew so fast. Everything changed and grew so much faster than anyone expected."[101]

Whilst the companies realized the market potential of China, the Chinese market itself had grown to take advantage of its own production costs and outproduced and outcompeted their US counterparts. Dr. Hartman demonstrates this with the case of IBM. IBM took advantage of the low-cost manufacturing in China and made huge profits selling laptops; it was a success. But the real success, as Dr. Hartman believes, was that Lenovo eventually bought IBM: "China grew to the point where they wanted to own that company and not just be a manufacturing location, but a Chinese company."[102] This happened again and again in the 1990s and 2000s; the Chinese had taken back their own market and started expanding outwards to America and Europe, setting the backdrop for current US-China trade relations.

Dr. Hartman had personally experienced many challenges faced by the companies that entered China just as the market sprouted its first leaves. He focused on three major ones: “The hardest thing, I think, for foreign companies was just understanding the Chinese mindset more than specific rules and regulations.”[103] Furthermore, “The second challenge is an interesting thing too. It says something about economies that are in transition. There really weren't any supply chains in China.”[104] Thirdly, “(US companies) didn't stop to listen to the customers.”[105]

Dr. Hartman added specifics on each one. The mindset challenge is mentioned by nearly everyone engaged in the trade, and Dr. Hartman unpacked it as a difference between the two societies. He believed America was a rule-based society, bonded by law and contracts. While China was a relationship-based society in which trust was foremost. To the Chinese, when conducting business with everyone, including the US, “it didn't matter too much what the contract said. It mattered whether you trusted the person you were contracting with.” He emphasized how getting on good terms with the local officials was much more crucial to success then drawing up a flawless contract. He remembered how the Vice Mayor called him in the middle of the night to tell him that the head of the factory of a company that Dr. Hartman was consulting was corrupt, and that the city felt obliged to tell the company this because of their long-term partnership and mutual trust. Dr. Hartman, astounded, asked the mayor why he did not tell the company’s board about it at the board meeting, and even more to the doctor’s amazement, the mayor said it was because the company’s executives never stayed for dinner. The Chinese believed it was inappropriate to talk about this embarrassing issue at the meeting with so many people; it was the Chinese business culture to talk to each other as friends about important things at the dinner table over wine and delicacies. They felt that having dinner together would establish a closer bond than simple business relations. However, the executives, in a hurry to get back to the US, never accepted the invitation to the dinner. Dr. Hartman still laughed at this anecdote when he told it.

In another case, he recalled how a US company wrote down all the different contingencies in a contract with a Chinese factory—basically what would happen if bad things happened—but the Chinese asked the US whether they were expecting bad things to happen, and if so, should they cancel the projects, and if not, why write them down? This was the difference between the mindsets. As the doctor elaborates, "The U.S. mindset is you think about everything bad that can happen and write down in a contract what do you do. The Chinese mindset is let's focus on making things work, and if there's a problem, we'll work it out, but we don't have to write down every step that we have to do."[106] This challenge would eventually dissolve as the two sides learned about each other and the younger generation became more accustomed to each other's cultures.

The second challenge was that of supply chains. It was a very technical issue. As mentioned before in the case of CITIC, all Chinese companies practiced vertical integration due to the lack of supply chains. However, US companies, especially auto manufacturers, were dependent on a supply chain that was connected around the world. This thus dictated that the US companies also had to nurture Chinese suppliers. This challenge, though troublesome for the US, proved extremely beneficial for the Chinese; the suppliers quickly grew and, like the Lenovo example, would eventually take over the market and advance to modernity and independence.

The third challenge was that of the difference between market needs and US companies' expectations. This came after the US realization of the Chinese consumer market. As the US flooded China, they discovered that the marketing strategies that were well-tested and successful were not applicable to the Chinese consumers: "They were very successful in China because there wasn't a lot of competition in the beginning. China was eager to buy products like that, and there weren't any very good alternatives, so they were really successful. But they didn't stop to listen to the customers."[107] As more competitors entered the market, this became a challenge to US companies. As a consultant, Dr. Hartman helped these companies listen to the market and devise better marketing strategies. A vivid example he gives is that of an elevator company that entered the Chinese market after already achieving great success in the US. They advertised their elevators as ones that could be used for a hundred years and never need repairing. But in China, the customers "laughed" at the advertising. They said that when they wanted an elevator for a building, they would not even be sure that the building would still be there in twenty years since everything was changing so fast—so they had no need for an elevator that could last a hundred years. When Dr. Hartman relayed this response to the company, they could not believe it. The two cultures and markets were so divergent that it was hard to imagine. So, the company changed their advertising focus to less repair needs and better quality. But the Chinese again showed lack of enthusiasm. This time it was because that the Chinese actually wanted elevators that needed to be repaired because they kept a repair person constantly in the building. Like mentioned before, labor costs were extremely low in China, so a repair person did not cost much, and seeing that person regularly assured the customers that the elevator company cared about its customers. As Dr. Hartman says, “So there were other elevator companies that really just had a person assigned to be in the building all the time. And the customers valued that very highly. Whereas my client spent all their time trying to figure out how they would never have to send a repair person to the building.”[108]

Many of these issues and challenges were effectively solved by development zones. Dr. Hartman especially applauded the Teda development area in Tianjin. “The biggest thing that worried US companies in the beginning was how do I actually do everything that's required without missing some license that I need. You know or forgetting to pay some tax that I didn't know about. And Teda just made this very simple.” As shown in the first part of the paper, many US companies complained about the complex bureaucracy issues and huge amounts of paperwork and licenses. A company would have built a factory and hired workers and transported over all the necessary equipment just to discover that they could not get the license to use electricity. The Chinese solution to this problem was development zones all along the coast and gradually sprouting inland along main water routes. The zones simplified the bureaucratic process greatly and helped the companies deal with all the paperwork and applications. They also hired advisors well versed with both countries like Dr. Hartman. “They made it very easy to follow the rules. Nobody was trying to avoid the rules, but they just didn't know enough to follow them. In some places there are twenty or thirty different bureaus in charge of different things. Making that easy and simple just changed the game. And Teda really changed the game." The companies did not need to "lay awake at night" worrying about breaking some regulation that they did not know about.

As shown above, US companies took a great effort to understand and adapt to the Chinese business culture and market and had their own business practices shaped along the process. US companies also influenced the Chinese market and economy and even government policies to a great extent.

When US companies entered the market with their respect for regulations and contracts as well as professionalism in marketing strategies and satisfying customers, they not only helped their Chinese counterparts—who were only used to taking orders and not innovate or developing under a command economy—quickly learn and progress up to international standards. They also helped the Chinese government understand how to regulate the market and strike a balance between free trade and government control. Doctor Hartman believed that the transition would have been painful for China without the influence of the US; it would have been much like Russia's shock therapy: "Oligarchs got fabulously rich, because they were well connected, and they took over an industry that already existed. It wasn't that they were smarter businesspeople or that they understood how a market economy works, it's because they were in a position where they could take control."[109] The Chinese government was courageous enough to yield power over to the private sector and leave things to the “invisible hand”. But even a free market needed to be regulated. The Chinese had no idea how to draw up regulations that maintained order while still promoting free trade at the same time. This was where the US came in. As Doctor Hartman explains, “Foreign companies, interestingly enough, tried to promote regulation. Because they were going to follow the rules anyway, the global standard. And so those companies would cooperate with the Chinese government to write the rules. Because they wanted everybody to follow global standards, they didn't want to be the only ones that follow global standards and be outcompeted.”[110]

US companies played a great role in China’s transition to market economy, and the interaction has also changed and enlightened The U.S. It was very much a bilateral relationship incentivized from the bottom up.

Conclusion

Dr Hartman’s case is very representative of the experiences of American investors and consultants who took a great part in the development of US China economic relations during the latter half of the 20th century. His perspective as a foot soldier of the trade is unique and essential to the whole story. He and his fellow entrepreneurs incentivized the trade through their own efforts and struggles. Their perspective is that of ordinary Americans seeing an opportunity in trade and decided to go for it. This perspective offers a true, unbiased, and unpainted version of the problems and benefits of the trade, how it actually worked in specific deals. The perspective offers a peak into the actions and developments behind the fiscal numbers and their growth or decline. In fact, it takes us deeper than macro policy and economic statistics. They are at the bottom of the chain, down to the ground. In another sense, they identify and specify and the problems that the policymakers strive to solve with policy. In their stories we see the improvisation and cultivation of cultural understanding that gave life to the trade. The executive names etched in previous historical works drew up the plans for the trade, the entrepreneurship of “Dr Hartmans” on both sides of the trade built it brick by brick. The picture of the biggest trading relationship in the world as of now would be very much flawed if the perspectives of the very ones that built it were left out.

Dr Hartman’s narrative concerning the challenges faced by the American companies, the problems they themselves had, and the problems of the brand-new Chinese market are placed within the larger context of US China interaction and exchange that defined their relationship to this day. His case as well as previous parts of this paper all come together to showcase that the development and incentivization of the trade didn’t solely happen because Nixon and Mao shook hands, or Deng implemented effective reforms, or executives on both sides compromised and negotiated to secure trade friendly policies. In contrast to the most works in the academic field concerning this trade relationship, this paper illustrates how trade grows from the bottom up. It is people trading with each other, not economic models of states. People crossed the pacific to meet with other people from an entirely different culture, speaking a different language, practicing a different economical system, and believing in clashing ideologies. Yet, they somehow managed to strike deal after deal. It should never be neglected that the improvisation and cultural understanding practiced "foot soldiers" made the trade possible. The incentivization of the trade is not a story of successful reforms and negotiations, it is a story of people striving to understand each other and cooperate.

The author hopes that future studies on the subject or on similar subjects should adopt a "foot soldier" perspective. An individual's narrative may seem insignificant, but it can often reflect upon the whole picture more in-depth than traditional historical sources. Especially in economic history and military history. There are stories behind the cold numbers of fiscal shifts or casualty counts that shed light on issues and points that are hard to reveal simply by consulting traditional historical documents. Their story deserves to be told not only to fulfill a historian's mission to showcase humanity and reveal the previously unknown, but it also paints a full picture of a study subject from the bottom up. A historic study should be like the elevator of a skyscraper, taking the reader from the ground level, where he sees the inhabitants of the building, to the top, where he can overlook the whole view of the city.

Recently, Trump was reelected to office. In his first term, his secretary of state Mike Pompeo made a speech in front of The Richard Nixon Presidential library on July 27th 2020. In front of the institution memorizing the man who started the trade, Pompeo proclaimed that the 50 years of US-China relations started had gotten the US nowhere, and that the gullible US had been exploited and betrayed by China. The US-China trade is spiraling dangerously into a state of confrontation. Some are ready to proclaim a new cold war. There is a real danger that the trade that grew from one cold war may end in a new one. At this point it is worth looking back on the way that the trade came and see that confrontation is not the only outcome. This paper undoubtedly shows how cooperation and understanding is hard, and relationships can be turbulent and fragile. But it also shows how much potential and benefit collaboration can bring to both sides. This is the eventual message this paper hopes to convey in today's political climate. In Dr Hartman's words:

"Never could anybody say to me; the Chinese are all bad. You know, they're out to get us. Because I would say to them, some of my closest friends and my oldest friends are Chinese, and it's not like that. People are people. Once you get to know each other then you are friends, and you want to cooperate. People just naturally want to do that. They don't want to fight; they want to cooperate; they want to succeed. When you have people working together. That understanding develops and then it builds. It builds more and more, and they start to want to help each other, and they start to understand what the other side wants."[111]

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