

The Politics of China's Accession to the World Trade Organization

The dragon goes global

Hui Feng



Routledge Contemporary China Series

The Politics of China's Accession to the World Trade Organization

China's accession to the World Trade Organization marked a major milestone in the country's return to the international economic regime. However, although much research has been carried out into the economic impact of China's WTO membership, Chinese policy-making processes have in the main been ignored. *The Politics of China's Accession to the World Trade Organization* tackles this omission by providing an 'inside' look at Chinese WTO accession negotiations and establishing a systematic political economy model in analysing Beijing's decision-making mechanisms.

Grounded on a series of interviews with Chinese government officials directly involved in the policy-making process, the book argues that China's WTO policy making is a state-led, leadership driven, top-down process. Feng explores how China's determined political elite partly bypassed and partly restructured a largely reluctant and resistant bureaucracy, under constant pressure from an increasingly globalized international system. In addition, local governments and societal actors other than the large state enterprises were for the most part excluded from the policy arena. The Chinese political leadership was, therefore, the initiator and driver of China's WTO quest, steering the accession to the end.

Addressing China's accession to the WTO from a political analysis perspective, the book provides a theoretically informed and intriguing examination of China's foreign economic policy-making regime. *The Politics of China's Accession to the World Trade Organization* sheds light on the contemporary debates relating to state and institutionalist theory and provides new and useful insight into a significant development of this century.

Hui Feng is a Research Fellow in the School of Political Science and International Studies at the University of Queensland, Australia.

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In memory of Shouci Tao

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Abbreviations

APEC	Asia-Pacific Economic Cooperation
CCP	Chinese Communist Party
DRC	Development Research Centre
DSB	Dispute Settlement Body
EADS	East Asian developmental state
EEC	European Economic Community
EU	European Union
FDI	foreign direct investment
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
IAT	Import Adjustment Tax
IMF	International Monetary Fund
IPE	international political economy
IPR	intellectual property right
ITA	Information Technology Agreement
ITO	International Trade Organization
KMT	Kuomintang (the Nationalist Party)
LSG	leading small group
MFA	Multi Fibre Agreement
MFN	most favoured nation
MII	Ministry of Information Industry
MNCs	multinational corporations
MOA	Ministry of Agriculture
MOF	Ministry of Finance
MOFTEC	Ministry of Foreign Trade and Economic Cooperation
NATO	North Atlantic Treaty Organization
NIC	newly industrialized country
NPC	National People's Congress
NSB	National Statistical Bureau (of China)
NTBs	non-tariff barriers
OIEMEP	Office of Import and Export of Mechanical and Electronic Products
PLA	People's Liberation Army

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PNTR	Permanent Normal Trade Relations
PPP	purchasing power parity
PRC	People's Republic of China
ROC	Republic of China
SAFE	State Administration of Foreign Exchange
SCCICGATT	State Council Committee on Interministerial Coordination on GATT
SCICGGATTN	State Council Interministerial Coordination Group on GATT Negotiations
SCWTOWLG	State Council WTO Work Leading Group
SDPC	State Development Planning Commission
SEC	State Economic Commission
SETC	State Economic and Trade Commission
SEZs	Special Economic Zones
SME	small and medium enterprise
SOEs	state owned enterprises
SPC	State Planning Commission
TRIMs	Trade-Related Investment Measures
TRIPs	Trade-Related Aspects of Intellectual Property Rights
TVEs	Township and Village Enterprises
UN	United Nations
USTR	United States Trade Representative
WTO	World Trade Organization

Introduction

The achievement of the Chinese economy in the last two decades has been nothing short of stunning in terms of a double-digit growth rate and a steady rise in the living standard of the populace, thanks to the domestic reforms and the opening up policy launched by the leadership of the Chinese Communist Party (CCP) in 1978. By 2001, China was the sixth largest economic entity in the world by GDP (second largest next to the US if measured by purchasing power parity) (World Bank 2002). The policy of opening up to the outside world, featuring an export-oriented trade strategy, has propelled a wave of internationalization¹ and largely contributed to Chinese economic gains. In fact, few nations have enjoyed benefits from engagement in international exchange as much as China has, or in such a brief period of time. From 1978 to 2000, China's foreign trade leapfrogged from about US\$20 billion to US\$474 billion, an astonishing 24-fold increase. In the 1990s, China's trade growth was three times faster than global trade. In 2000, the combined volume of China's imports and exports had already constituted 44 per cent of China's total GDP, a lion's share of the national wealth (calculated from Asian Development Bank 2001; WTO 2001). By 2003, China was the third largest merchandise importer and the fourth largest exporter in the world (WTO 2004).

Given the country's history, size and the resulting global and geopolitical influence, the study of China has long been an important body of international academic literature. The remarkable economic take-off since 1978 has invited much attention to China's reform and its profound implications, presenting a variety of perspectives. However, research thus far on China's domestic policy making, including foreign economic policy making, has been less than adequate. This is mostly due to the fact that the totalitarian/authoritarian regime offered very limited access to outside observers to its decision-making mechanisms, compounded by its long-term isolation from the international community. Despite a number of works that are devoted to the study of Chinese policy making,² its current pattern is still 'frustratingly opaque' (White 1993: 13), with the notion of 'iron bloc' forming a widely held general picture of the party-state (Reardon 2002). Meanwhile, China's surge in world economic growth and

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global trade means it has become a significant actor to be reckoned with by the international community. Therefore, it is essential to better understand who sits at the table when policies are drafted in China and, more generally, the evolution of the structure and processes of the policy-making regime in the light of China's marketization and internationalization.

WTO: a gamble with high stakes

The historical event of China's accession to the World Trade Organization (WTO) presents a major case in the understanding of Chinese foreign economic policy process in the reform era, i.e., the period from 1978 to the present that has seen China's economic governance transferred from central planning to market orientation. From 1986 when Beijing filed its application to resume the contracting party status of the General Agreement on Trade and Tariffs (GATT, the predecessor of the WTO), to 2001 when China gained WTO membership, the 15-year-long accession process paralleled and intertwined with the gradual relaxation of the domestic economic and trade regime. If the adoption of the outward-looking development strategy in 1979 can be dubbed as 'shallow integration'³ to pursue foreign investment, technology and managerial skills for China's modernization programmes, its WTO accession can be seen as 'deep integration',⁴ a great leap forward of China's participation in the international economic regime. Being a member of the multilateral institution governing global exchanges of goods and services, China is obliged to conduct its foreign trade on internationally accepted principles, to significantly lower its trade and non-trade barriers, and to open and widen foreign access to the domestic market, many of which were formerly sensitive to the Chinese authority, such as agriculture, telecommunications, banking, insurance, etc. Given the huge stakes in hand, it is no doubt that the accession has profound implications on China's economic, political and legal systems.

From the outset, China's quest for WTO membership appears to be a taken-for-granted step towards returning to the international community after three decades of self-imposed seclusion since 1949, and a 'natural' step towards advancing the apparent success of the shallow integration in the last 20 years. However, trade liberalization and associated domestic economic restructuring is a great gamble for the nation and its leadership, especially if China's specific context is taken into account. Implementing WTO commitments could generate tremendous adjustment costs for China's economic transition and could exacerbate the already worsening social problems such as income disparity and unemployment due to the restructuring of the state-owned enterprises (SOEs) in the late 1990s. Therefore, China could opt to stay out of the WTO regime while opening up its market following its own speed of economic reform, saving it from external pressures. This might have put the leadership in a better position

to maintain the economic and social stability that otherwise could be devastated by radical liberalizations on the WTO schedule. Moreover, the accession was bound to spur opposition from the bureaucracy vying to keep its administrative privileges and the large yet internationally uncompetitive SOEs demanding trade protection. Alternatively, China could simply refuse further internationalization, especially in the face of the disastrous Asian financial crisis in 1997–98. Given this juxtaposition of problems and the corresponding policy options, why did China go ahead and join the WTO?

This is a gamble not only for China, but also for the global trade regime and the international community. On what terms did the WTO and its member states accept a transitional economy of China's size? What demands did China place on the bargaining table, and how and why was China allowed to join the WTO?

The state under a microscope

There have been dispersed attempts to explain China's WTO politics. However, they are invariably inadequate in terms of a systematic framework, each focusing on part of the potential variables, such as political elites (Fewsmith 1999, 2000b), the bureaucracy (Wang, Y. 1999, 2001), with limited accounts of the international sources of domestic policy making (Pearson 2001). However, given the comprehensive and strategic nature of Beijing's WTO decision making, a convincing answer to the above questions lies in the establishment of a systematic analytical model to address the dynamics and inner mechanisms of China's policy-making institutions and practices in the reform era. This book endeavours to unpack the 'black box' of the Chinese monolithic state and explore the arena of China's WTO policy in a broader context of economic liberalization and internationalization that has unfolded in the last two decades. It seeks to explain the opportunities, determinants and constraints of the policy process, to examine the roles various actors played and the evolution of and the interaction among actors' ideas, preferences, institutional structures and power configurations in the policy process. It also seeks to assess its implications on the state-society relationship, the economic transition and associated political transformation.

As will be further discussed in Chapter 1, there have been three basic approaches to explaining the determinants of foreign economic policy making in the field of international political economy (Ikenberry *et al.* 1988). The system-centred approach asserts that one nation-state's foreign policy is primarily shaped by its response to the nature of the international system and by its relative position within the system. This approach has its strength in providing a wider context and a range of external variables to comparative study, but tends to ignore domestic institutions and structures, and cannot address the empirical contradiction that different states

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have different responses facing similar signals of the international system. Instead of looking for the external determinants, both society and state-centred approaches focus on the domestic dimension of foreign policy making. Pluralist and Marxist accounts fall into this society-centred category, seeing policy formulation as the result of competing societal forces. Pluralists argue that the policy process mostly features power plays among interest groups, while Marxists assert that public policies are largely reflections of capitalist interests. Both schools of thought tend to deny the independent role of the state, which is emphasized by the state-centred approach. For their part, statist argue that the state *per se* has a degree of autonomy over the society and that state leaders and government officials have their own distinctive interests vis-à-vis various societal interests. Therefore, state elites, government officials and the institutional structure through which they act, play, at the very least, an important if not vital role in policy making. Later statist accounts recognize the state apparatus cannot be detached from the wider society in which it is embedded, and therefore offer a more convincing explanation of policy process (Bell 1994).

Statist accounts have a degree of relevance in relation to institutionalist theory. The state can be seen as an entity composed of an array of institutions. Institutions are either formal organizations or ‘established law, custom or practice’ (Bell 2002a: 363). Institutions matter in political life as well as in political analysis, since they wield power and resources that can shape and constrain actors’ political behaviour and even their preferences. In terms of policy making, institutional settings create rules for decision making, help to frame agendas, channel information to policy makers, and distribute advantages and disadvantages among social groups. Moreover, institutions are historically evolving and constructed. The ‘stickiness’ or what Ikenberry (1988c) calls the ‘shadow of the past’ tends to create tensions in the policy process when old institutions shape and influence the approach to new problems. This is the scenario for this case where a bureaucratic system that was created to manage the planned economy and industrial protection was in charge of the process of trade liberalization and deep integration into the world market. Given the importance of institutions *per se* and China’s specific context, institutional factors should be an independent variable in China’s policy-making analysis.

It is self-evident that, given the dominance of the Chinese party-state over the society, a general statist framework is more convincing in this case. Compared with the above theoretical orientations originally designed to explain political dynamics in Western democracies, the literature of the East Asian developmental state (EADS), inspired by the economic success of East Asian countries such as Japan, South Korea and Taiwan, is more relevant. The EADS literature asserts that states in this region have played a central role in guiding and managing economic development and that state-led industrialization is made possible by a

strong and impartial bureaucracy capable of directing and promoting economic catch-up (Wade 1990; Polidano 2001). The state can *create* its comparative advantage rather than simply *react* to the international market envisioned by the liberals. Although the focus of much debate, the developmental statist literature sees some way in capturing the general institutional feature of the states in this region, especially the considerable autonomy these states enjoy in policy formulation, but its explanatory power is more or less weakened by its reductionist abstraction of the homogenous state. According to the EADS accounts, the ‘state’ and the ‘bureaucracy’ is largely a unitary and coherent bandwagon whose constituents have similar rational perceptions of the national interest and similar policy solutions, operating in a power vacuum. However, as mentioned above, the state is a set of institutions with various and often contending interests, perceptions, policy options, and in constant exchange within and between its bureaucracy and political elites. For China, the marketization reform further sped up the differentiation of interests and therefore intensified internal conflict. Moreover, the EADS’ proposition of the ‘benevolent’ bureaucracy cannot be easily defended against the neo-classical assertion of bureaucratic rent-seeking, especially in the Chinese scenario where rapacious corruption in government institutions has been rampant. At the same time, the ministries’ direct management of large SOEs provided a ‘back door’ that invited certain industrial interests into economic policy making. At the same time, the international system and foreign actors also gained considerable opportunities to pressure domestic decision makers as China expanded its global links. Given these internal cleavages and external constraints, the analysis of China’s policy making, at least on foreign economic issues, has to put the Chinese state under a microscope in order to examine its internal texture that shapes policy choices.

Another theoretical input to this study is the constructivist perspective. Both statism and pluralism take actor’s preferences as given (mostly materially-driven power or economic interests), while constructivists recognize the important role of socially, historically and culturally constructed ideas and identities in shaping actors’ preferences, and ultimately, the policy-making process.

Thus, the theoretical framework adopted in this research is based on a general statist framework while incorporating the institutional, international and constructivist approaches to examine the institutional, structural and ideational factors that were significant in shaping the dynamics of the policy process. Under this framework, an analytical model is established that sees policy making as a process with four consecutive stages, including the initial context of policy issues, policy debate, policy formulation and policy implementation, which will be discussed in the next chapter. Structurally, the policy process is viewed as a two-level game between domestic and international actors. Three variables are identified

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as acting throughout the stages of policy process: elite politics, bureaucratic politics and international/transnational politics. Each variable is determined by a set of sub-variables, namely ideas, preferences and institutional structures.

The principal findings

I argue in this study that China's accession to the WTO is a state-led, leadership-driven, top-down political process in which a determined political leadership partly bypassed and partly restructured a largely reluctant and resistant bureaucracy, under constant pressure from an increasingly globalized international system.

The Chinese political leadership was the initiator and driver of the WTO accession. Reform-minded elites had been pushing for deep integration into the world market, believing that this would stimulate China's exports, attract more foreign investment to sustain economic growth, propel and deepen the politically sensitive SOE reforms, curb already rampant government corruption, and potentially facilitate the reunification agenda with Taiwan. The marginalization of the conservatives at the top enabled the reformers' pro-WTO rationale to be enshrined in the official line of the Party. It shows that the party elites played a critical role in the accession process by making the political decision to enter the global trade regime, by generating and keeping up the momentum of the accession, by weathering domestic debate in favour of membership, by controlling the information flow to the public and to some extent the bureaucracy, and, at crucial stages, by directly entering the bilateral negotiations to break the bureaucratic impasse and strike a conclusive deal.

The domestic bureaucracy formed the major backlash to China's membership bid. Chinese bureaucracy is functionally divided among units with similar rankings, which requires consensus building when more than one ministry is involved on an issue. In the light of WTO accession, government institutions that would stand to lose from further internationalization exploited the fragmented institutional structure and the lack of a powerful coordinating body to hamper the formation of the consensus needed for external bargaining. The internal back-and-forth bargaining dragged the policy process into a muddle. However, the 1998 government reform that dramatically helped centralize the decision-making regime, and the personal involvement of the party elites in 1999 put the membership bid back on track. On the central-local dimension, although provincial and local governments have become an important bargaining force with the Centre on economic policy making in the decentralization process of the reform era, most evidence suggests that the WTO policy arena was largely confined within the central government. Despite the existence of certain informal and uninstitutionalized mechanisms for locals to express their concern, their influence on WTO policy making was limited and marginal.

Apart from the industrial interests of the large SOEs, societal interests were mostly excluded from the policy arena. On certain occasions, public opinion could influence the general political environment and limit policy leaders' room to manoeuvre, such as the surge of the nationalist sentiment against the United States after NATO's bombing of the Chinese embassy in Belgrade in May 1999. But it had limited impact for the actual policy making of the central government.

With China's increased involvement in the international system and global economy, international and transnational factors played an active role in shaping Beijing's policy choices. The norms and rules of the international economic regime have been gradually 'internalized' by government agencies most exposed to the global exchanges. Foreign governments, especially Western developed countries led by the United States, effectively pushed Beijing's bottom line in bilateral and multilateral negotiations, sometimes by manipulating sensitive issues such as Taiwan's accession. Foreign businesses, notably multinational corporations, also pushed their own capitals in exerting pressure on China's market access.

Contributions and limitations

This book makes a contribution to the understanding of the driving forces of China's deep integration into the global economy embodied in WTO membership to the extent that the modified theoretical framework and the identification of a set of variables and sub-variables establish a consistent, coherent and systematic analytical model, drawing a comprehensive yet detailed picture of the policy process.

The modified theoretical framework in this case serves as a critique of the traditional statist and the EADS assumption of a unitary state. It suggests that the key political dynamics cannot be detached from the state's internal institutional settings and its relation with the society and international forces. In explaining China's foreign economic policy behaviour, both the institutional and international approaches have to be incorporated to address the rigidity of the conventional statist accounts.

This book also seeks to enrich current understanding of general institutionalist theory, particularly the interaction between institutions and political actors, and processes of institutional change in the context of an authoritarian state. There was great tension between the bureaucratic system inherited from the old command economy that was resistant to trade liberalization and a political leadership that preferred further opening and deeper integration in the international economy. However, political elites, with their power derived from a steeply hierarchical system, prevailed over the bureaucratic gridlock by institutional restructuring in favour of their policy preferences. This says much about how powerful elites may overcome the kind of inertia and stickiness of institutions much emphasized by historical and sociological institutionalism.

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Instead, it resonates with the assumption of the rational choice approach, another strand of the new institutionalism, that institutions are established by rational actors and, over time, individual agents are able to change and shape institutional settings to suit their goals (Bell 2002a, 2002b).

The analysis of China's entry into the global trade regime provides an ideal case for testing contemporary perspectives on, and theories of, the relationship between international political economy and domestic politics. What are the domestic determinants of internationalization? What does greater involvement in the global economy mean for China's foreign and domestic behaviour? What are the consequences of economic liberalization and internationalization for China's state capacity? This book attempts to shed light on these important questions.

However, it has to be noted that the model applied in this study is less than a general model for analysing China's economic (including trade) policy making. While for routine and non-crisis economic policy making, the government bureaucracy is expected to play a central role (Lieberthal and Oksenberg 1988; Lampton and Lieberthal 1992), the specific nature of China's WTO policy is that it is not a routine economic policy or ordinary trade policy. Rather, it is a strategic and national foreign economic policy with considerable economic, political, ideological and social significance. Thus the strategic importance and comprehensive implications inherent from the accession invite attention to the political elite as a critical variable in this case.

Another limitation of this model is that the Chinese military is not included in the analysis because of limited access to relevant documents and military officials. The military has representation both in the Party and in the government. Before 1998 it had been running a wide range of businesses on which the WTO accession could have impacted (Cheung 1993; Bickford 1994; Welker 1997).⁵ The military's role in WTO policy making is left for future research.

The chapter structure

The overall structure of the book echoes the sequential stages of policy process depicted by the analytical model elaborated in Chapter 1.

Chapter 1 establishes a tailored theoretical framework and model for the issue at hand. It first presents a critical review of the existing literature on relevant theoretical orientations and their relevance in this issue area. I argue that a 'relational statism' with institutional and international constraints, complemented by a constructivist emphasis on the role of ideas, provides a convincing theoretical framework. This is followed by a more detailed review of the comparative studies on the Chinese political regime and various dimensions of economic policy making before an explanatory model is developed.

Chapter 2 outlines the ideational context for WTO policy making and

the contending perceptions of the Chinese polity towards WTO accession. It explains the evolution of political elites' ideas, the reformist-conservative cleavage within the top leadership and their corresponding policy preferences towards the accession. This is followed by a detailed account of the various counter-arguments to the official acceptance of accession. It concludes with an assessment of the domestic debate and the role of public opinion in the policy-making process.

In Chapter 3, the policy context of WTO accession is examined from a wider historical perspective, covering a review of China's foreign trade regime from ancient times to the contemporary era. It argues that the transition from a command economy to a market economy in general and the transition of trade strategy from import substitution to export orientation in particular formed the systemic context for China's further involvement in the world market. The chapter also documents an empirical record of China's 15-year-long accession process.

Chapters 4, 5 and 6 deal with the three variables: elite, bureaucratic and international/transnational politics respectively, reporting the central empirical findings and analysis of the study. Chapter 4 examines in detail the political leadership's role in WTO policy making. Inter-elite struggle in the reform era was largely shaped by their cleavage on policy orientations. The chapter elaborates on the distribution of power within the party leadership that favoured the reformers. Facing mounting resistance from the bureaucracy demanding trade protection, the political elites employed various mechanisms to exert their critical influence and in the end prevailed over the reluctant bureaucracy in the policy-making process.

Chapter 5 concentrates on the bureaucratic politics involved in China's WTO policy making. The chapter examines various types of interests the bureaucracy championed, their policy inclinations, the nature of the institutional structure and how the reluctant and resistant bureaucracy dragged China's accession process into intensive and extensive bargaining. The chapter then reviews the 1998 government reforms and their consequential effect in breaking deadlocks in the policy-making regime. It concludes with a brief assessment of the provincial/local government's role in the policy process.

The international dimension in Beijing's policy considerations is discussed in Chapter 6. It produces evidence for the 'international learning' effect of the Chinese polity from external integration and the multilateral organization during the accession process. It analyses the channels through which foreign governments, particularly the United States, placed pressure on Beijing, and the mechanism through which both countries' domestic politics interacted with each other on the WTO issue. The chapter also looks into the impact of Taiwan's accession on Beijing's WTO agenda.

The interviews

Apart from a critical reading of the relevant literature, a series of interviews was carried out in August to September 2002 in Beijing. Most of the interviewees were middle to high-ranking officials (bureau directors and division chiefs) within the central government who had directly participated in the policy-making process and/or external accession negotiations. They were from important bureaucratic players, including the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) (the internal coordinator and external negotiator), and the regulars in consensus politics, such as the Ministry of Finance (MOF), Ministry of Agriculture (MOA) and Ministry of Information Industry (MII) (one of the most vocal opponents to the accession). Given the lack of transparency of China's central decision-making regime, this direct access to the 'insiders' equips this research with first-hand empirical evidence of what really happened behind closed doors. However, due to the domestic political sensitivity attached to the issue at hand, the identities (both names and institutions) of the interviewees are kept anonymous.

1 The iron bloc inside out

Theory and methodology

Introduction

China's accession to the WTO is a major milestone of its deep integration into the international economy. Given its inherent nature of strategic comprehensiveness and profound political, economic, social and ideological ramifications, it is not an ordinary trade policy, but, to a wider extent, a strategic foreign economic policy.

In the literature of international political economy (IPE), three approaches have been applied by scholars to explain the dynamics of foreign economic policy making. Given the Chinese state's authoritarian nature, the statist accounts provide a serviceable theoretical template. However, to unfold the process of Beijing's decision making on this strategic issue, one has to explore the inner workings of the seemingly iron bloc, those mechanisms operated within and between the Party, government and society at large. Therefore the statist framework that is methodologically rigid needs to be embedded within a rich tapestry of other causal factors; it needs to incorporate an institutional approach to examine the effect of domestic institutional structure on the policy process. It also needs to look into the international dimension to explain the opportunities and constraints provided by the international system. Moreover, the constructivist's socio-cultural perspective also provides this study with valuable insights into the way ideas, identities and norms are shaped, and their role in constituting the policy players' preferences.

The comparative studies on Chinese politics and policy making are fairly comprehensive. It is widely agreed that there has been a paradigm shift in the nature of the Chinese party-state from totalitarianism, the total dominance of the party-state over the society, to authoritarianism, a partial relaxation of the state-society relationship, which is more evident since 1978. Most of the studies on China's economic policy-making process are focused on the top leadership and the bureaucratic institutions with important contributions from scholars who examine this issue from an international perspective. All these works form a solid basis for a synthesis on an overall approach to the political economy of China's WTO policy.

An analytical model is established based on a review of both theoretical and empirical studies. The model is derived from the system theory that views overall policy making as a two-level game with both domestic and international involvement. It also places policy making in a process, including sequential stages such as policy context, policy debate, policy formation and policy implementation. Three variables are identified in this model: elite politics, bureaucratic politics and international politics, with ideas, preferences and institutional structures as sub-variables in explaining actors' policy behaviour.

The chapter begins with a brief account and critique of the available theoretical frameworks, followed by a review of the comparative studies on the Chinese case in policy making and more directly, foreign economic policy and WTO policy making. An analytical model is introduced at the end of this chapter.

The state

There have been three general theoretical frameworks that reign in the studies of foreign economic policy making in the IPE which give their centre of gravity to three variables: the societal forces, the state and the international system. The two major variations of the society-centred approach, pluralism and Marxism, see public policies as the result of competing societal forces, not of state officials and institutional structures. Policy process is either one featuring competitive struggles over a policy among affected groups and coalitions in the issue area (Dahl 1963; Lowi 1969; Lindblom 1977; Gourevitch 1986), or one that is logically reduced to class and class struggles (Bell 1994: 295). Statists, on the other hand, see the state as a unitary actor enjoying a degree of autonomous power from societal forces. In contrast to society and state-centred approaches which confine their analytic boundary within the state, the system-centred approach looks into the international dimension of the state and sees foreign economic policy as a function of the attributes or capabilities of one state relative to other nation-states. In this view, 'government officials are perceived as *responding* to the particular set of opportunities and constraints that [their nation's] position in the international system creates at any moment in time' (Ikenberry *et al.* 1988: 1).

Given the apparent dominance of China's party-state over society, the state-centred approach provides a more applicable orientation than a society-centred one that perceives the state as 'essentially passive' acting as 'a disinterested referee' for competing groups or as 'an agent' for the capitalist class. It also has advantages over a system-centred one that takes limited attention to the specific domestic structures and institutions in their analysis of foreign policies. According to Skocpol (1979: 27), the state is an entity 'with a logic and interests of its own not necessarily equivalent to, or fused with, the interests of the dominant class in society or the full

set of member groups in the polity'. The traditional statist account conceives of the state as an actor, and focuses directly on key state elites and government officials who are seen to have distinctive motives, goals and interests and who respond to internal and external constraints in an effort to manipulate policy outcomes in favour of their own preferences (Krasner 1978; Skocpol 1985: 9).

The East Asian developmental state (EADS) accounts also fall into this orientation and perhaps are more relevant to China's case. Inspired by the economic success achieved by countries in this region, such as Japan, South Korea and Taiwan, the EADS literature emphasizes that the considerable autonomy East Asian states have had enabled them to play a critical and leading role in their economic catch-up (Deyo 1987; Breslin 1996; Polidano 2001). Johnson (1987: 151–2) further argues that one of the key, perhaps defining features of these states is a 'stable rule by a political-bureaucratic elite not acceding to political demands that would undermine economic growth'. According to the EADS arguments, while politicians are assumed to be motivated by seeking popular support in the short term, long-term economic strategies must, as far as possible, be insulated from competing societal demands.

Statist arguments recognize the distinctive interests and power of the state in relation to society, which is a reaction to what statist see as an overestimation of the role of societal or capitalist interests in political processes in society-centred accounts. It also has methodological implications to the extent that the state *per se* becomes a variable whose traditions and structures are subject to comparative studies (Bell 1994: 298–9). It is clear that the Leninist regime of communist China fits well into this line of account. According to Lee,

The most distinctive characteristic of the Leninist state is *autonomy*. Through its control over the economy, political propaganda and personnel management of cadres, the Leninist state has been able to deny much autonomy for civil society while maintaining its ability to respond to its own needs.

(1998: 922, author's emphasis)

However, both the theoretical framework of statism and the nature of Chinese party-state need certain refurbishment.

The internal variables of the state

Apart from viewing the state as an actor, state also can be seen as a multiple array of institutions and organizations. According to institutionalist theory, institutions can be defined as 'anything from formal organizational arrangements to forms of patterned behaviour operating through roles, rules and (partially) scripted behaviour' (Bell 2002a: 364). Institutions

matter in policy formulation to the extent that they have independent effects in political life: they are large entities in modern governing systems with considerable power and resources to shape and constrain political behaviour and decision making (Bell 2002a, 2002b). Over time, strong institutions may even shape actors' power and policy preferences (Hall 1986; Levi 1990; Milner and Keohane 1996; Bell 2002a). Therefore, some revisionist statist conceive the state as an organizational structure, or set of institutional arrangements that, once formed, have direct or indirect impacts on political processes over time (Krasner 1984; March and Olsen 1984). Bailey *et al.* (1997) examine how the institutional changes embodied in the US Trade Act in 1934 influenced the dynamics within the US Congress and between the Congress and the Administration, and ultimately influenced the US trade liberalization agenda. Bell (1992) sees the institutionally embedded 'pressure-pluralist' policy network as an important factor leading to slow policy changes in Australia. Katzenstein (1978; 1986) incorporates the notion of the state as an actor and as an organization into one so-called 'domestic structure' analysis, emphasizing both the degree of autonomy state officials enjoy relative to societal forces and the various and different ways state institutions are organized. According to such an approach, nation-states can be fitted in a 'strong-weak' paradigm, based on the conceptualization of 'state capacity'.¹ In summary, institutional structure should be treated as an independent variable that can have a profound influence in delivering public policy.

According to traditional statist analysis and the EADS literature, the state and the bureaucracy are treated primarily as a rational, unified and non-political entity with a degree of internal homogeneity. Statists often ignore or underestimate the internal conflicts among, and between, policy elites with different ideologies and political concerns, and state agencies that are institutionally divided with different bureaucratic and economic interests. It is these conflicts, however, that largely shape the dynamics of policy making. For the party-state of China, both political leadership and bureaucratic institutions are important variables in the explaining of policy processes. Even though the Party strives to build an image of internal unity of the state apparatus, serious cleavages within the party leadership can still be observed in times of crisis such as the Cultural Revolution and the major crisis during the reform era such as the ousting of the party heads Hu Yaobang and Zhao Ziyang in the 1980s. At the same time, a 'thick' and powerful bureaucratic establishment was set up in the central planning era to govern and regulate the domestic economy as well as foreign economic exchanges. The bureaucracy that was deeply entrenched in the former command economy is likely to clash with economic liberalizations which could deprive their administrative privileges. This, together with inter-elite conflict, largely shaped the dynamics of China's foreign economic policy making.

On the other hand, the strong, coherent and impartial bureaucracy

assumed by the EADS accounts cannot defend the neoclassical assertion of rent seeking, which is evident regarding the rampant corruption of the Chinese bureaucracy and predatory measures of its domestic regulations. On the other hand, however, the assumption of predatory bureaucracy cannot explain the fact of China's gradual unfolding of domestic reforms and economic opening in the last two decades. The key to understand this perhaps lies in the shift of legitimacy of the Communist Party and its political leaders. Of course the ultimate goal of party elite is always to maintain the Party's grip on power, but after years of political mess and economic failure, their legitimacy to rule could not rely on the previous revolutionary success, or the self-declared representation of the populace and orthodox Marxism, but on sustained development of the national economy and the living standards of the people. This forces party leaders to make a long-term commitment to economic growth, which may contradict their short-term considerations of political power and the bureaucratic interests of government institutions.

Moreover, in what can be seen as the statist's exaggeration of state-centred variables, the state is largely detached from the wider societal pressures and the polity in which it is embedded. This one-sided bias has been challenged by a number of empirical studies which suggests that, as Skocpol (1985: 20) admitted, states need to be studied in 'relation' to socioeconomic forces (Bell 1994). In other words, the logical and empirical boundary between state and society is fuzzy, not sharp. Even in the case of Leninist China, as is detailed by relevant accounts later in this chapter, most of the functional ministries of the central bureaucracy directly manage large-sized state enterprises, which form between them a unique 'patron-client' relationship. Thus the industrial concerns can be channelled through this relationship into the state apparatus, and the fragmented structure of the bureaucratic system facilitates bargaining among ministries with often competing industrial interests. Therefore, the Leninist party-state, despite the considerable autonomy it enjoys, cannot totally exclude in the policy process the expression of societal interests represented by bureaucratic authorities. Hence, the party-state's dominant autonomy is partially eroded by wider social institutional settings.

The external variables of the state

On the external dimension, the state is not an isolated entity, but is embedded within the international system, especially in the foreign policy arena. In terms of this, the international approach provides a valuable perspective on the international sources of domestic politics. According to this account, one system cannot be excluded from its external context, and that the internal and external systems are in constant exchange and interaction. In broad terms, Peter Gourevitch (1978) emphasizes that the international political economy has a substantial impact on domestic structures

and the preferences of domestic groups, which implies a variety of effects: specific events, specific decisions, a policy, regime type and coalition pattern.

On the issue of trade policy, Frieden and Rogowski (1996) develop a model to explain the relationship between the international economic system and domestic policy change. They argue that a favourable change of trade conditions in the world market should 'increase the pressure for trade liberalization from individuals, firms, and industries that could compete globally – even in highly insulated developing and Communist countries'. Moreover, 'specific price shocks [in the world market] create pressures from particular potential beneficiaries and losers, even where governments have typically tried to shield the domestic economy from such global price trends'. They insist that their 'expectations hold even, and indeed especially, in *very closed economies*' (Frieden and Rogowski 1996: 34–42, original emphasis).

Robert Putnam (1993) ushers in game theoretic into this line of research and built a two-level games model, which systematically integrates systemic opportunities and constraints, domestic structures, and foreign economic policy. According to Putnam, one country's foreign economic policy is the product of the games among and between internal and external actors. Destler (1995) uses this model in explaining the domestic politics of US trade policy, while Robert Ross (1995; 1998) bases his general account on Sino-American relations on the two-level game between Washington and Beijing.

The major weakness of this approach is that it is too preoccupied with international variables and fails to incorporate or at least play down domestic ones. It cannot address the existence of cross-nation variations in policy responses to similar international opportunities or constraints. Therefore, it is inadequate to explain the foreign economic policy of a specific nation-state without examining its domestic political process. Overall, the international approach helps to look beyond national boundaries and to trace domestic changes to international sources, which offers an essential standard for comparative studies of policy formation. China, as any other nation-state, has never been detached from the international system. Its foreign economic policy has been under constant exogenous pressures, especially amidst its gradual integration into the world market in the last two decades since 1978. The actors and the structure of the international system, and China's relative position in this system have had a profound influence on the preferences of Chinese policy elites and on domestic institutional structures, and, ultimately, on the making of China's trade policy. Thus, the international approach is helpful in explaining China's domestic political process and will be incorporated in this study. Comparative accounts of China using this approach are reviewed in a later section of this chapter.

Constructivism

Both statism and pluralism, and their corresponding orientations in general, realism and liberalism, assume that actors have pre-existing preferences that can be defined in a decidedly economic or materialist perspective (Katzenstein *et al.* 1998: 674–82). Constructivists argue that identity and ideas, or in other words, actor's preferences, are socially, culturally and historically constructed and therefore they are dependent variables, rather than taken for granted by rationalists. The constructivist perspective thus helps to present a wider picture and a deeper understanding of the source, evolution and constitution of ideas and norms, and their importance in shaping the preferences of the actors and therefore policy-making process. For example, Goldstein (1988; 1989) examines the cognitive development of the US trade policy, focusing on the range of ideas available to decision makers during the Depression, how they entered into the political marketplace, and how they brought different outcomes to agricultural and manufacturing policies. She argues that 'policy change depends not only on new political coalitions, but also on the ideas they carry and the institutional structures they meet' (1989: 32). To this extent, the constructivist approach is also incorporated in this study as a complement to the statist framework to explain the formation of actor's ideas in relation to China's social, historical and international context.

All in all, statism provides this study with an applicable theoretical framework and an essential starting point. Yet we have to keep in mind that the authoritarian state of China is also compromised by both domestic institutional settings and the international system. Therefore, rather than taking the party-state as an iron bloc, this study will look inside the entity as well as examine its external exchange. More specifically, this book is to unpack the 'black-box' of the monolithic Chinese state, examine its domestic actors and structures, the way they respond to domestic and international constraints, and assess their roles and influences on the formation of China's foreign economic policies in the case of its accession to the WTO.

The Chinese party-state

Given the adapted theoretical framework, this section will look into the existing accounts on the internal textures of the Chinese party-state, the evolution of the party, the government (bureaucracy) and the society in the domestic policy-making regime, and the way foreign interests are channelled in domestic politics.

From totalitarianism to authoritarianism: a paradigm shift

In terms of the overall relationship between the Chinese party-state and the society, there has been a paradigm shift from the early totalitarianism

accounts to a more relaxed authoritarianism model in recent times. This shift corresponded with the actual political and economic transformation that has taken place in China since 1949 when the People's Republic of China was founded.

Early scholarship on the post-1949 period in China was dominated by totalitarian accounts or mobilization paradigms because of its structural similarity with that of the Soviet Union and East European socialist countries (Falkenheim 1987: 1). The firm control of the Party over government and of the state over the society, the absence of the rule of law, and the prevailing vertical and hierarchical structure of power worked together, forming a typical totalitarian nutshell. Economically, the Chinese state is characterized by its socialist central planning. The state owns and manages all the major means of production, while private property was strictly limited, if not prohibited. Donnithorne (1967) drew a panoramic picture of the bureaucratic structure that controlled the economy. Perkins (1966) analysed state control over the economy, arguing that the resource allocation of production was conducted by a vertical command system rather than by market forces, while the prices of most commodities were bureaucratically administered rather than set impersonally in a market. Finally, the political and economic system, the state and society, was glued together, as Schurmann (1968) argues, by Marxist–Leninist ideology.

According to Lieberthal and Oksenberg (1988), the fierce struggle among the top leaders within the Party and conflict among various social organizations in the lower level of society during the Cultural Revolution shattered the common view of the party leadership as a single and united entity running the country and made it a legitimate question were the party-state in absolute control of society. Instead, a more complex analysis was developed of the interaction between the state and society (Lee 1978; Rosen 1981; Shirk 1982; Zweig 1983).

The economic reform and opening to the outside world launched in 1978 has seen slow yet profound changes in the state–society relationship. This is captured by a burgeoning literature on Chinese political economy under an emerging authoritarian state paradigm (Barnathan 1994). The feature of the regime's evolution, produced by economic liberalization under one-party rule, is highly observable. Limited forms of political campaigns are still employed while more emphasis is placed on economic development (Burns 1999). The party still maintains its monopoly of power but its power is less intrusive and more pervasive in people's lives, with limited forms of terror and coercion rather than unrestricted state terror as under Mao, and with more rational control rather than arbitrary control as before (Hannan 1998). Party control over information and media is still tight while some civil publications are emerging (Guo 1995). State ownership is still dominant while private enterprises and foreign-funded enterprises are playing an increasing role in economic develop-

ment (Howell 1991a; Walder 1995; Hannan 1998). The planning system and central control over the economy are declining while administrative intervention in the economy is still common (Lardy 1992). The legal system is still subjugated to the party while a certain measure of civil law practice is allowed, and ordinary people begin to resort to the legal system to resolve civil disputes (Burns 1999). Political persecutions and arrests of dissidents are severe, although greater individual freedom is evident (Pei 1994). The party still adheres to its ideological doctrine although the influence of the latter is decaying (Friedman 1995). In summary, Harding (1986) sees the current Chinese polity a ‘consultative authoritarianism’, while Barnett (1986) suggests that China’s evolution under Deng has moved ‘from extreme totalitarianism toward liberalized authoritarianism’.

In the policy-making arena, Harding (1987) examines the rationalization and institutionalization of the party and state apparatus in the post-Mao reform. The aim of these institutional changes was ‘to make the Chinese policymaking process more rational, systematic, and pragmatic’ (1987: 202–36). Hamrin and Zhao (1995: XXV), based on the account of the dissidents of former high-ranking Chinese officials, point out that the purposeful delegation of authority, supplemented by foreign resources, helped bring about the ‘unanticipated results’ of ‘the emergence of a hybrid system wherein the Leninist centre maintained its monopoly on policymaking authority but found itself “persuading”, “consulting”, or “bargaining” with a multitude of lower-level actors over the implementation of its policies’. As we will see this has also been a feature of China’s embracing of the WTO.

In summary, over the years the epistemological/empirical relationship between the Chinese state and society has evolved from the rigid totalitarianism of the state’s absolute control of the society to a more relaxed authoritarian paradigm/regime with emerging channels for social expression. However, the degree of autonomy that the lower level government and the society have gained during the reform period thus far cannot deny the continuity of the state’s overall command system in terms of the top-down flow of authority, however negotiable the contents and terms of command may be. In other words, the contemporary party-state is still a highly ‘statist’ state, which is the context that has to be clarified before an analysis of China’s foreign economic policy is conducted.

The domestic politics of China’s foreign economic policy making

Politics, as the standard argument sees, is about who gets what, when and how (Lasswell 1936). Literature on policy making, including those on the Chinese case, explores a set of variables in domestic politics, including the party leadership, bureaucratic institutions and the society. It is essential to review the relevant accounts before an overall model of analysis is constructed.

The political leadership

Political leaders, with their formal position, authority and resources, are often assigned a prominent and independent role in the policy process in statist accounts. This is the case for a democratic polity where societal interests and institutional structure may be run over by, or separated through coalition strategies of active executive leaders to overcome the social constraining effects. For example, Bell (1993) argues that, in the case of Australian industrial policy, determined policy elites forged an alliance with key economic interests in order to set policy agenda regarding tariff reform. Lake (1988) argues that the successful passage of the freer trade legislation in 1913 in the US demonstrated that domestic protectionist pressures could not block President Woodrow Wilson's liberal reform. Similarly, Ikenberry (1988b) reveals how executive officials disassembled the formidable regulatory apparatus in the US energy sector.

It is self-evident on this case that top elites of an authoritarian state like China possess unequivocal and unchallengeable power in the policy arena. Their goals and strategies define the rules, laws or regulations to which local and external actors must respond. According to the state constitution, the National People's Congress (NPC) is the supreme organ of power, yet in reality, above this 'highest' power there is an even higher power – the Politburo of the Central Committee of CCP and, above that, the paramount leader.

Three general approaches have been developed to analyse the Chinese elite politics involved in policy making. The 'rationality model' treats policy outcomes as the result of a conscious evaluation of choices in response to a perceived problem by policy elites, which is one of the most frequently used models for scholars to explore China's policy-making arena (Chao 1970; Lampton 1974; Glassman 1978). Rationalists believe that Chinese policy making is based on reasoned debates over perceived policy problems. Thus they set out to trace the inner logic and coherence of each argument in a particular policy debate. For instance, Barnett (1974; 1981) employs this approach to look into the specific environment within which leaders make rational choices to perceived problems with their specific values, ideologies and their perceived applicable resources. He also emphasizes the importance of parameters within which the leaders perceive in explaining long-term policy trends. In his comprehensive analysis of China's foreign trade system and the systemic reforms since the late 1970s, Lardy (1992) reveals the two alternative rationales lying behind Chinese leadership's choice of a foreign trade regime: import substitution and export promotion. Lardy explains how trade reforms in the 1980s, particularly the systematic devaluation of the domestic currency and the introduction of limited convertibility, have reduced the bias against exports, which had been a general character of the pre-reform trade regime. In a recent contribution, Wang Yong (2000) discusses the three

rounds of domestic debate between economic nationalists and liberals on national economic policy and development, and how these debates, both within and outside the political bureaucracy, affected the leadership's perception, policy agenda and the actual accession pace to the WTO.

However, critics of this model argue that the assumption of being rational is simply idealistic and impossible in reality. Its prerequisites, such as information availability, clear sets of priorities, sufficient time to evaluate among alternative choices, etc., are always questionable in a real world. Rationalists also neglect the existence of power struggles among decision makers and their impact on policy outcomes. Furthermore, organization theories also demonstrate that the institutional structure of the policy process could distort the information flow to the upper leaders and shape leadership alignment, and therefore cannot be excluded from the decision-making process. Despite these criticisms, the rationality model still has certain merits: it propels us to pay attention to the specific context and the objective environment of the issue area; and it emphasizes the importance of values, ideas and preferences shared by the leaders in bringing about policy outcomes. Nevertheless, a powerful explanation of Chinese policy making cannot rest solely on the abstraction of rational leaders and their 'inherently' rational choices.

Politics are the games of power, thus a second approach to Chinese policy analysis is to argue that political power in Beijing is highly personalistic and that policy is the outcome of inter-elite power struggles (Pye 1968; MacFarquhar 1981; Pye 1981; Dittmer 1987; Goldstein 1991). Solutions to certain problems are not decided by coherent leaders seeking to maximize national interests, but by competing leaders who are sensitive to the potential implications of alternative initiatives. Policy differences are evaluated in terms of personal consequences upon individual leaders or factions rather than perceived national interests. Under this model, 'policy is the aggregate response of leaders or factions to problems they perceive and this response reflects the relative power of the participants, their strategies for advancing their beliefs and political interests, and their differentiated understanding of the problem at hand' (Lieberthal and Oksenberg 1988: 15).

Pye (1968) dives into Chinese culture and raises the issue of personal connections (*guanxi*) as an important variable in explaining the power dimension of the informal politics of China. He later develops this idea and argues that *only* the factional approach is adequate for explaining political phenomena in China (1981). Nathan (1973) sees faction as a vertically organized structure composed of face-to-face clientelist ties between leaders and led. A clientelist tie in a faction has at least three dimensions: shared attributes, hierarchy and reciprocity. Shared attributes are the glue, hierarchy the form, reciprocity the goal. Dittmer and Wu (1995: 479–80) argue that factions may have three hierarchical sets of goals, concerning security, material interests and ideological and policy commitment.

In Mao's era, power struggles for security and survival (both political and physical) were vital to the factions. Under Deng's institutional reform to the party, Chinese factions found themselves in a position not so worried about the physical purge but more in competition for political resources and policy alternatives.²

Based on the above suggestion, Dittmer and Wu (1995) further elaborate on a revised factional model for reform politics. In specific terms, the ruling faction tends to strengthen its grasp on power by pointing to the positive results of its economic or political policies, while the factions not in power tend to reveal the defects of those policies. The politico-economic reality, however, strengthens the position of certain factions at the expense of others. If the policy outcome is by and large positive, the ruling faction's position is strengthened. If the outcome is negative, power may well migrate to the opposing faction, which will now take the lead in changing the old policy or initiating new ones. This model does well in explaining the conflict between the pro-reform faction led by Deng Xiaoping and the more conservative, pro-stability faction led by Chen Yun. Their detailed account (1995: 483–93) outlines the underlying correlated relationship among boom–bust business cycles, reform–retrenchment cycles, social tranquillity–instability cycles and faction–power cycles, which formed the unique cyclical dynamics of the Chinese political economy in the 1980s and the early 1990s. Thus they draw the conclusion that 'in general terms, [they] see policy as the result of factional manoeuvre' within the state.

Fewsmith, applying this model, writes extensively on topics such as Jiang Zemin's road to the top of the power ladder before and after Deng's death in 1997 (1998), the domestic debate on economic issues and its relationship with elite conflicts in Beijing (1994), the informal politics and China's political transformation (1996) and the elite politics involved in China's WTO accession (1999, 2000a, 2000b). He argues that the reformist leaders decisively pushed the country into the global trade regime and world market against the opposition led by the more cautious party conservatives. Fewsmith has correctly identified the reformist–conservative cleavage within the party leadership on this issue and its implication for WTO accession. However, his study is primarily concentrated on the elite analysis, with limited attention to the institutional and international dimension of Beijing's WTO policy making, which will be elaborated by this study.

A synthesis of the rationality approach and the power approach suggests a third interpretation, the opinion group model. As Domes (1974: 21–2) put it, 'one cannot separate the issues of policy disputes from the individual persons who hold divergent views, for the rivals engage in conflicts for positions of power which will enable them to enact the policies and strategies they advocate'. Grindle and Thomas (1991: 342) focus on these informal groupings of people who are treated as 'sets of individuals

who share common attitudes but who may or may not purposely be acting in concert. Concerted action is bound to occur, but its character is largely hidden, making it difficult to determine whether we are dealing with an aggregate, a loose coalition of like-minded actors, or the parallel unilateral articulations of virtually atomized individuals'.

The opinion group analysts have highlighted both policy preferences and power struggles among top leaders as essential variables in explaining policy choices. The reformist-conservative alignment in Chinese reform politics is particularly helpful in analysing leadership cleavages and strategic and tactical groupings on policy issues with political and ideological significance, such as the one to be employed in this study. As will be argued in Chapters 4 and 5, there had been enormous resistance both in industries and the bureaucracy to the leadership-led campaign regarding the bid for WTO membership. It is the marginalization of the power of the conservatives within the central decision-making body that enables us to explain why and how the top leadership could maintain the momentum of accession, even in the face of fierce domestic pressure for protection.

The government bureaucracy

As discussed earlier in this chapter, government institutions, given their profound impact on political players' perceptions, policy preferences and power, should be an independent variable in explaining the policy process. In fact, many scholars extended their analysis of China's policy making beyond the top elite and adopted an institutional approach to explore the mechanism of formal bureaucratic settings and informal norms, rules and practices (Bachman 1984; Halpern 1985; Shirk 1985; Lampton 1987; Lieberthal and Oksenberg 1988; Lampton and Lieberthal 1992).

According to Lieberthal and Oksenberg (1988: 22), the structure of authority at the centre consists of four tiers: top leaders are responsible for national policy making; leaders' personal staff, leading small groups, research centres and institutes which link the elite with the bureaucracy; supra-ministerial committees or commissions within the State Council that coordinate activities of line ministries and provinces; and line ministries which implement policy. At the bureaucracy level, Lieberthal (1992: 2-3) further sorts the Chinese bureaucratic institutions into six clusters: economic bureaucracies, propaganda and education bureaucracies, organization and personnel bureaucracies, civilian bureaucracies, military system and Communist Party territorial committees.

Chinese economic bureaucracies were established in the socialist central-planning era. Administration of all aspects of the economy was divided into different vertical functional agencies (*xitong*).³ Structurally, China's bureaucratic ranking system, combined with the functional division of authority among various bureaucracies, has produced a scenario in which it is often necessary for a body to seek consensus with other

concerned bodies before a certain policy is made or implemented. This means it has to achieve agreement among an array of bodies, where no single body has authority over the others (Lampton 1987; Lieberthal and Oksenberg 1988; Lampton and Lieberthal 1992). Naughton (1987) suggests that bargaining activity has been the enduring feature of the Chinese polity under communism, together with what he calls 'implementation bias', a situation in which every top initiative will be distorted in favour of the organization or locality responsible for implementation. In the context of the reform, Naughton (1992) notes the irony that Chinese leaders intended to *reduce* the amount of bargaining in government's economic management but it turned out that the reforms only *increased* the role of bargaining in this sector.

Lieberthal and Oksenberg (1988) coined the term 'fragmented authoritarianism' to label the bargaining feature of Chinese bureaucracy through their study of China's energy policy. They argue that neither the leaders at the top have the time, interest nor knowledge to manage all the activities in the energy policy sector, nor can the energy specialists handle the sheer size of the energy industries. Much of the critical activity in shaping and implementing policy takes place within the bureaucracies with a 'fragmented', 'segmented' and 'stratified' structure promoting a system of negotiation, bargaining and the seeking of consensus among affected institutions. Therefore, the policy process in this sphere is disjointed, protracted and incremental.

Lampton and Lieberthal (1992: 34) further clarifies the conceptualization of 'bargaining' in this 'fragmented authoritarian' model as a situation where the bargaining occurs among proximate leaders, persons of equal rank or immediate superiors and subordinates. 'Bargaining is most in evidence when one is dealing with two or more bureaucracies of approximately equal resources, none of which can carry out an undertaking without the cooperation of the other(s), but which cannot compel the cooperation of the other(s) and cannot persuade a senior authoritative leader or institution to compel the other(s) to cooperate'. As far as economic policy is concerned, the policy-making process became much more pluralistic in the reform era than it had been in Mao's era, thanks to the decentralization of authority (Falkenheim 1987; Lampton and Lieberthal 1992: 35–6; Zhao 1995: 240). Lampton and Lieberthal (1992: 37) agrees with Naughton in seeing an increase in the use of bargaining in Chinese policy making because the agenda are dominated by complex economic and technical issues with multiple trade-offs in the context of a collective leadership and a bureaucracy of a growing size and technical complexity.

This scattered structure of authority has certain operational consequences. First, because no single ministry or province can launch or sustain a cross-sector policy within a sector-oriented economic bureaucracy, issues tend to rise to higher levels where appropriate coordinating bodies possess leverage over the bureaucratic sectors and hierarchies.

Second, the fragmentation of authority demands that elaborate efforts be made at each stage of the decision-making process to create and maintain a basic consensus to move forward. Third, the fragmentation of authority requires enthusiastic support from the top leaders for the initiation of a major policy in order to overcome any bureaucratic impasse at lower levels (Lieberthal and Oksenberg 1988: 22–3).

Bargaining not only occurs among leaders and bureaucratic institutions. It also takes place between the two: the elite always want strong support of their policy initiatives from the lower levels and smooth implementation by the agencies once a decision is made. For their part, the bureaucratic organizations want favourable resource allocation and other organizational interests articulated at a higher level. Under Deng's reform, routine and regular administrative decisions have been made more and more within the bureaucratic apparatus, with less intervention of the party veterans or other leaders. Only if there are disagreements among the lower level bureaucracies will upper level leaders give a final touch, which Susan Shirk calls 'management by exception' (1992: 76).

Another important institutional setting of the Chinese bureaucratic system is the direct, patron–client relationship between economic agencies and state industries. Under the planning system, the economic ministries directly appoint executives and manage operations of the large state owned enterprises (SOEs). This arrangement makes the functional ministries natural representatives of industrial interests and strong advocates for trade protection. By interviewing Chinese economic officials, Wang Yong (1999) pioneers the study of the bureaucratic politics that has surrounded the WTO negotiation process. In this sense, Pearson (2001) and Liang (2002) also treat bureaucratic politics as an important variable in explaining Beijing's process of entering into the WTO.

Territorial administration is another important part of China's bureaucracy. Provinces (*kuai*) have the same ranking with the ministries (*tiao*) in Chinese system. Even before the launch of the reform, Chinese bureaucracy was much more decentralized than the Soviet Union (Schurmann 1968). Since 1957 when the Centre allowed the provinces to share authority in approving projects, despite periodic attempts at re-centralization, the general trend has been progressive decentralization to the provincial level (Wong 1985; Naughton 1987). This delegation of authority to the provincial level helped to make provincial officials the critical supporters of Deng's reform initiatives at the beginning of the transition (Shirk 1992: 83).

The administrative, fiscal and planning decentralization policies carried out in the reform era, such as the tax reform in the early 1990s, has shifted a certain amount of authority for economic administration from central agencies to local governments (Jia and Lin 1994). Shirk (1992: 85) argues that, although decentralization is the leadership's appeal to provincial interests, the formal authority of the Centre over the provinces

fundamentally constrains the bargaining between the provincial and central officials. The relationship between the Centre and the provinces is still one that is of a 'principal-agent' type. Shirk's conclusion about the provinces' dependence on the Centre is to some extent opposite to that of Lieberthal and Oksenberg (1988), who describe the central-provincial relationship as an *interdependent* one with the balance only generally in favour of the Centre.

Both of these works, however, confine their analysis either within the functional hierarchy (Shirk) or within the centre-local dimension (Lieberthal and Oksenberg). They fail to examine the central-provincial relationship in a system that integrates the functional and territorial administration together. The functional ministries have their vertical branches down through the provincial, municipal and township levels, which makes the territorial interests and functional interests intertwined. The provincial governors lobby for favourable policies from the Centre for their provinces, and the functional agencies can express local interests through the functional hierarchy. Wang and Fewsmith's (1995) study of the State Planning Commission (SPC) reveals the active role of localities in the National Planning Conference where annual economic plans are pinned down and how they successfully wrest concessions from the Centre. Sheng (2002: 270–82), in his research on the political economy of China's trade policy, presents a detailed account of the central-local dynamics in China's trade policy making. This study on China's WTO decision-making partly serves as a test bed of local governments' power in national policy making.

In addition to this kind of institutional analysis, another line of research has focused on the role of bureaucrats in policy formulation and implementation (Barnett 1967; Lee 1991). Lee (1991, 1992) highlights the transformation of party-state bureaucrats under the reforms, arguing that the professionalization of the Chinese cadre team during the reform era transformed it from revolutionary cadres recruited on the basis of political activism to a body of educated bureaucratic technocrats. These changes extend to both the Party and state apparatus. A majority of mayors, governors and party secretaries now have academic training in technical fields or a specialization in economics. The bureaucratic technocrats, as a sociological type, are more pragmatic, better qualified to manage an industrial society, and more supportive of reforms. At some point their policy preferences are likely to influence the policy process.

Most agree that different policy issues involve different actors and authorities in Chinese politics. As study on Chinese politics advances, the institutional approaches, featuring the fragmented structure of the Chinese bureaucratic system and the resulting inter-bureaucracy bargaining, has been widely accepted as one of the essential perspectives to explain policy formulation and implementation, particularly in relation to economic policies. As Chapter 5 elaborates, the bureaucratic variable

greatly influenced Beijing's policy process and accession pace. However, it has to be kept in mind that the pluralistic bargaining approach, as Zhao (1995: 238–9) notes, is more applicable on routine economic policy making in recent years. Issues with political significance and ideological sensitivity such as China's WTO policy are determined more by the top leaders in the Chinese polity.

The society

The role of societal forces is emphasized by the pluralist approach which assumes that public policy is the result of competition of societal interests. In terms of trade policy, Frieden-Rogowski's model suggests that the change of opportunity costs in the world market invariably leads to a restructuring and regrouping of domestic interests and therefore a rethinking of a country's trade policy. Evangelista (1996) challenged this view via a case study of the Soviet Union, arguing that the 'thick' institutions of the communist party-state prevent information about the international economy from reaching domestic actors. Shirk's (1996) study of Chinese economic policies during 1949–78 supports this argument, suggesting that, although the trend in the international economy had over time raised the cost of autarky to the Leninist state, the formidable communist institutions managed to block the external message of opportunity to domestic groups who would benefit most. 'As a result of this self-isolation, the coalition groups that gain most from protection against international competition, that is, capital intensive heavy industries, inland provinces, and Communist Party and military control organizations, are able to maintain themselves in power' (Shirk 1996: 186). Therefore, China's story before 1978 was one that domestic political institutions prevailed over international economic forces. But Shirk agrees that once the wall dividing China from the world economy came down, the Frieden-Rogowski model describes well what happened.

Nevertheless, the domestic actors' cognition of their increasing opportunity cost from autarky is one thing; their ability to influence policy making is another. One of the features of the communist regime is the dominance of state over society. The Communist Party sets up extensive control of the society through state-led mass organizations and denies the grass roots' interests with a ban on the formation of interest groups (Shirk 1996: 188; White *et al.* 1996; Pei 1998; Saich 2000). Nevertheless, Zhao (1995) reveals a growing pluralism in the Chinese political transition,⁴ although he declared that the emerging pluralism in China differs substantively from pluralism in Western terms. Classical pluralism allows citizens to form pressure groups and advance their political interests. In China, 'the leading participants in the policy process are still always the individual leaders and top bureaucrats' (1995: 241).

This argument fits well with the burgeoning private sector in China.

According to Dorothy Solinger (1992), the spectacular explosion of private business throughout China in the reform era has neither led to a civil society nor has it institutionalized the power of urban entrepreneurs. The partial decay of the hegemonic party-state allowed the emergence of new career patterns outside the formal state sector, but state domination remains. Urban economic reforms created a new category of business entrepreneurs who depend on bureaucrats for protection and support. Thus there formed a multifaceted, symbiotic relationship between the private merchants and bureaucrats that maintains and encourages preservation of the state domination: the state needs merchant capital and entrepreneurial skills to sustain and develop the economy, provide employment and generate revenues; individual bureaucrats need the private business sector to compete for the authority they possess and benefit from this rent-seeking mechanism; while the private entrepreneurs are aware of the possibility of failure without the political and financial assistance from the officeholders. At local levels, this kind of relationship helped bring about support of reforms from local officials which Duckett (1998) calls an 'entrepreneurial state'. However, at the national level, the lack of organization of private interests and the top leadership's political sensitivity towards any largely organized interest, even at this stage of the reform, excludes the private sector from making its voice heard in the policy process.

One exception, however, is the sector of state industry. As mentioned earlier in this chapter, the patron-client relationship between those large state enterprises and economic ministries enables the industrial interests to be expressed in the policy process at the Centre. For example, Shirk (1985) reveals that at the beginning of the post-Mao reform, the political officials representing the interests of heavy industry objected to the decentralization measures perceived by the industry to weaken their power in the economy system. The so-called 'petroleum faction' advocated a continuation of centralization and the extensive growth strategy with heavy industry maintaining its prominence. As Solinger (1982) has shown, the delegates from provinces in which heavy industry was concentrated were the most vocal critics of reform at the Fifth National People's Congress, particularly of the shift of investment priority from heavy industry to light industry and agriculture.

Another factor worthy of note is public opinion. Several scholars have stressed the role of public opinion in contemporary China in shaping the political context in which the state leaders and bureaucrats act (Fewsmith 2000a; Rosen and Fewsmith 2001). However, this factor is probably exaggerated. As will be further discussed in Chapter 3, in an authoritarian state like China, public opinion has seldom been an important factor in the central policy-making process. This is largely due to the fact that mass media, the major and most effective body to influence public opinion, has been under tight control of the Party, which enables the leadership to

manipulate public opinion in favour of its policy preferences. Under certain circumstances, such as the surge of nationalist sentiment in the face of a diplomatic crisis, such as NATO's bombing of the Chinese embassy in 1999, with the help of the Internet, an increasingly popular means of communication, public pressure may limit the leadership's room to manoeuvre. Nevertheless, at least at this stage, the general public is far from an independent variable in Beijing's strategic policy making.

The international dimension of foreign economic policy making

The system-centred approach discussed earlier in this chapter suggests that the opportunities and constraints presented by the international system have profound implications on domestic politics and decision making. Communist China's trade policy has never been insulated from external pressures. The Western embargo erected after the communist revolution largely determined Beijing's self-reliance strategy that lasted for nearly three decades since 1949 (Hsiao 1977). The Soviet Union, leader of the communist camp in the Cold War, had been the major external player in China's foreign trade policy making during the 1950s and early 1960s (Mah 1971; Hsiao 1977). Since the strategic engagement of the Nixon Administration with China and the gradual relaxation of the export control regime under the US-led Coordinating Committee on Multilateral Export Controls (Yuan 1995), China's exports to Western countries have been on a steady increase. Correspondingly Western countries, especially the United States, gained their weight in Beijing's consideration of its trade agenda.

The open-door policy, accompanied with the domestic reform in 1979, saw China gradually return to the international community. Points of access for foreign influences multiplied. Jacobson and Oksenberg (1990) comprehensively examined China's initial encounter with the international economic regime by its participation in the International Monetary Fund, the World Bank and GATT. Their findings suggest that the international regime and multilateral organizations have had far reaching influences in shaping China's international behaviour. Economy (2001: 231) elaborates the ways in which international regimes may influence the evolution of Beijing's foreign policy process, namely, 'the establishment of new institutions, the emergence of new foreign policy actors (or the enhancement of others), and the development of new ideas, values, or orientations among Chinese decision-makers'. Among these mechanisms, the ideational influence is more fundamental and it fits well in the constructivist literature on 'international learning'. This asserts that international norms and rules, through certain mechanisms, can be incorporated into domestic players and structures and thus ultimately influence domestic policy making (Breslauer and Tetlock 1991; Levy 1994). Kim (1994: 432) sees this learning

process as 'an ongoing cognitive and experiential re-evaluative process in which both domestic and external variables interact and mediate between actors' perceptions of national needs, interests and beliefs'. In a more recent attempt, Economy (2001) suggests that there are several mechanisms through which such norms and rules can transform the perceptions of political elites and bureaucratic decision makers, and when effective, will lead to policy changes in a direction consistent with the new ideas.

Apart from the newly emergent factor of the rule-based international regime, foreign governments are more or less the traditional actors in affecting Beijing's mindset. There are several ways in which foreign governments are taken into account in Beijing's policy formation. First, as Lampton (2001: 33) puts it, 'how the Chinese leaders are perceived to be handling foreign affairs affects their standing in the domestic political struggle, and external perceptions of their domestic standing affect their potency with foreign interlocutors'. This gives foreign governments, particularly global powers such as the United States, an important leverage in supporting or discrediting the political elites in Beijing. Foreign pressure works even better for the party leaders after Deng Xiaoping, who lack the legitimacy of revolutionary experience enjoyed by the elder generations such as Mao and Deng. Therefore the handling of foreign affairs provides an important source in the creation of their charisma. Swaine (2001) explains how Jiang Zemin had carefully designed his Taiwan policy in order to gain a better position in the political struggle after Deng's death. At the same time, Moore and Yang (2001) suggest that Beijing exploited its gesture of not giving in to domestic pressure to depreciate renminbi, the Chinese currency, during the Asian financial crisis to gain credit abroad, while they used the resulting international prestige to enhance their domestic positions. In both events, feedback from foreign capitals was vital. Second, in a case like China's accession to the WTO that requires bilateral and multilateral negotiations, foreign governments and bilateral relations have a direct impact on China's WTO policy. Lieberthal (1997) looks into the bilateral relationship between China and the United States and explains how this relationship, with various political, economic and strategic issues, has retarded or stimulated the process of China's WTO negotiation.

Under Keohane and Nye's (1977) 'complex interdependence' paradigm, non-governmental and transnational actors, such as multinational corporations, are becoming active forces in international political economy. Goldstein, Anderson and Waterman (2002) present an account of the foreign efforts to address local Chinese officials' lack of WTO-related knowledge, funded by foreign non-government organizations as well as foreign governments. However, there is little analysis so far incorporating the role of non-governmental and transnational actors in shaping China's foreign economic policy.

Towards a synthesis

There have been several seminal efforts in building an inclusive model on China's trade policy making and particularly WTO policy making to explain the policy process.

Sheng (2002) established a general model to explain the decision making of China's trade policy. It consists of both an internal and external dimension (a version of the two-level game) of the process and a loose description and analysis of the actors and structures and their corresponding role in Beijing's policy making. Sheng's work is more focused on economics despite his deliberate intention to incorporate theories of political science. As will be discussed in the following section, China's WTO policy is not just a trade policy, but a national strategic policy that has tremendous implications on Chinese polity. Therefore the general model based on a two-level game and policy process has to be adapted to incorporate more variables in this study. The later part of this chapter will elaborate on this model, with some necessary renovations to tailor it to this issue area.

Pearson (2001) attempts to make a comprehensive study on China's WTO policy making by identifying four variables, i.e., elite preference, the pluralization of domestic actors, external influences and public opinion. While Pearson's work marked a great step in synthesizing existing literature into an overall explanatory framework, some problems remain. First, it gives similar weight to the role of the paramount leaders and the pluralization of domestic actors, which underestimates the former's commanding capability in running over the latter by altering the bureaucratic structure and severing the link between industrial and bureaucratic interests. For instance, as we will see in Chapter 5, this is what happened during the 1998 institutional reform. Second, the top political leadership is depicted as homogenous, without analysis of its internal ideological cleavages and power struggles, which is an important part of the dynamics of Beijing's policy making, which will be detailed in Chapter 4. Third, as discussed earlier, public opinion can have a certain impact on the entire political atmosphere, and, at time of crisis, can squeeze the leadership's room to manoeuvre, therefore worthy to be included in a comprehensive explanation. However, it is an overestimation of its role if it is juxtaposed with important variables such as political leadership and bureaucratic ministries. As Chapter 3 shows, even in contemporary China where there has been some openness in the polity, public opinion can be easily manipulated by the party-state. It is more a dependent rather than an independent variable. Also, the role of public opinion in central decision making is indirect and minimal.

Liang (2001) conducted a case study of China-US accession negotiations (1986-99) to compare how the differences in each political system affected the real negotiation strategies, processes and outcomes. In doing so, Liang designed a four-level game model, including 'society' (congress,

interest group lobbying and public media), ‘central government’ (grand strategy, leadership legitimacy, and domestic economic situation), ‘ministries’ and ‘negotiators’ (constrained by their central government and ministries). It is the interaction among the players on these four levels that concurrently shaped the two countries’ policy outcome. In Liang’s subsequent work (2002), the four-level model is reduced to the correlation and interaction between three variables: ‘international factors’, ‘bureaucratic politics’, and ‘societal factors’. While this model may be applicable to explain the domestic politics of the US, it is less adequate and less convincing in explaining the decision-making process in China. It fails to identify elite politics and its vital role in shaping the initial decision to join the WTO and in delivering the conclusion of the US–China agreement.

Game and process: the analytical model

Trade policy, foreign economic policy and WTO policy

‘Policy determines politics’ (Ikenberry 1988a: 236). It is essential to clarify the nature of the policy before an appropriate analytical framework is built, because differences in the properties of policy itself have much say about the differences in the structure of politics, and, in the role and influence of actors within the institutional hierarchy. The importance of issue-area characteristics in Chinese policy making can be observed in the cleavage between ideological and economic issues.

Ideological issues, including education and media, as well as issues with national salience such as national security policy and military affairs, are considered central political issues. Therefore, the authority of decision making remains concentrated more within the top elite. In the Chinese context, ideological issues are conducted more often than not in the ‘high politics’ arena, in which these issues are commonly considered to have direct implications for the status and power of the top leaders or their factions. Even in the trend of administrative decentralization of the reform era, the policy-making authority for ideological and political issues has been mostly confined to central political leaders, rather than to be delegated to the lower level bureaucratic institutions.

Therefore, it is understandable that the major works on the Chinese economic policy making have adopted an institutional/bureaucratic approach. They suggest that, economic policies, including trade policy, are traditionally considered as ‘low politics’. In the communist state, decision-making authority on economic issues is delegated from the Party to the bureaucratic apparatus, especially economic administration institutions. During the last two decades of market reform, economic issues have involved more specialized knowledge and information, and have required increasingly sophisticated technical criteria, which make it more difficult for political leaders to intervene in regular policy events. However, this is

not to say that political elites are excluded from the economic policy arena. Elite politics are always involved in economic issues that have political and ideological significance. According to Zhao (1995: 239), '[the leadership] get involved personally in economic policy debates only if the policy becomes ideologically sensitive'.

From the outset, China's decision to get institutionally integrated with the global market by entering the WTO was simply a trade policy. However, given the nature of WTO and the country's unique context, the significance of its accession to the global trade regime has far exceeded that of an ordinary trade policy.

First, WTO accession is an important component of domestic reform whose success has increasingly been tied to the legitimacy of the rule of the Communist Party. The central and basic requirement of WTO membership, a market economy, conforms to the goal of domestic economic reform. As a country in transition from central planning, China has to adjust comprehensively its various economic and legal sectors to meet the rules of the global free trade club. To China, WTO accession is not just about liberal trade reform, but about a set of reforms that aims to normalize the basic relationships between supply and demand, government administration and market mechanism, including fiscal reform, foreign exchange reform, industrial policy reform, legal reform, etc. These will bring about comprehensive and profound changes to the country. Clinching WTO membership is also seen by the reformist leaders as useful in sustaining the momentum of corresponding reforms that cannot otherwise be pushed forward in times of strong domestic opposition. This gives WTO issues a higher priority in the political agenda.

Second, as Chapter 5 shows, WTO accession is an arduous process of consensus building among various economic sectors and regions, due to the fragmented structure of and intensive bargaining within the Chinese bureaucratic system. There are always conflicting interests towards trade liberalization. In China, these conflicts take place in industries using different production factors, as well as in bureaucracies representing different industries and their own organizational interests. In terms of welfare distribution, economic openness always generates winners and losers. These potential winners and losers, anticipating their status after massive opening up of the trade border, try to influence the policy process and anchor favourable deals with the top and the Centre. This involves more industrial and sectoral actors than regular trade policies. Yet, under the Chinese system of 'management by exception', the intensive bargaining in turn needs much more active involvement of coordination of supra-ministerial institutions and arbitration of the central leadership.

Third, WTO accession also has ideological implications that normal trade policies do not entail. China's entry into the multilateral trade regime will not only enhance the economic exchanges with other countries, but also result in a much greater flood of foreign (mainly Western)

cultural products that are sensitive under the Party's current ideological control system. Moreover, nationalists and various opponents of China's bid for the membership find it easy to legitimize their points by relating the bid to the bitter history of China's defeat by the West that forced the country to open up to foreign businesses since the early 1840s. Accession agreements are considered as 'new unequal treaties' and negotiators are called 'traitors' (Wang 1999). Under such strong ideological salience, it is impossible for the bureaucracy to handle the issue without political decisions and directions from the top party leadership.

Hence, as part of domestic economic policies, the more routine decision making of China's trade policy is conducted within the bureaucratic apparatus. But in terms of the comprehensiveness, ideological salience and sensitivity, and economic and political risks that are inherent in the WTO accession, China's WTO policy is not a mere trade policy, but a strategic foreign economic policy that falls somewhere between the 'high politics' and 'low politics' in Beijing's policy-making hierarchy. This critical significance of the WTO policy has direct implications for the building of an analytical model to explain the dynamics of the policy process.

The model

As we saw earlier in this chapter, of the limited attempts to explain the policy process of China's WTO policy making, most are unsatisfactory in that policy making is viewed not as a *process* that constitutes a series of steps with their specific context, but are mostly confined to the actual policy making itself. By doing so, the relevant analysis is easily detached from the larger policy environment and therefore they are methodologically weak in identifying convincing variables of a general explanatory framework.

Taking into account the nature of the WTO policy itself and an assessment of China's political system and policy-making regime that have been reviewed earlier, an analytical framework is adapted and developed from Sheng's (2002) general model of policy process (Figure 1.1). Locating policy making in a game-theoretic and as a *process*, this model is derived from system theory, the game theory and structural-functional theory. Although it is widely applicable to the policy process of other countries, most of the constituent mechanisms need certain adaptations to the Chinese context, and more specifically, to the case of China's WTO policy making. Overall, this model features a two-level game between domestic and international actors and structures, while the two dimensions interact on logical and empirical stages of the policy process. What follows is an explanation of each component of the analytical model and the way it fits into the WTO case and the structure of this book.

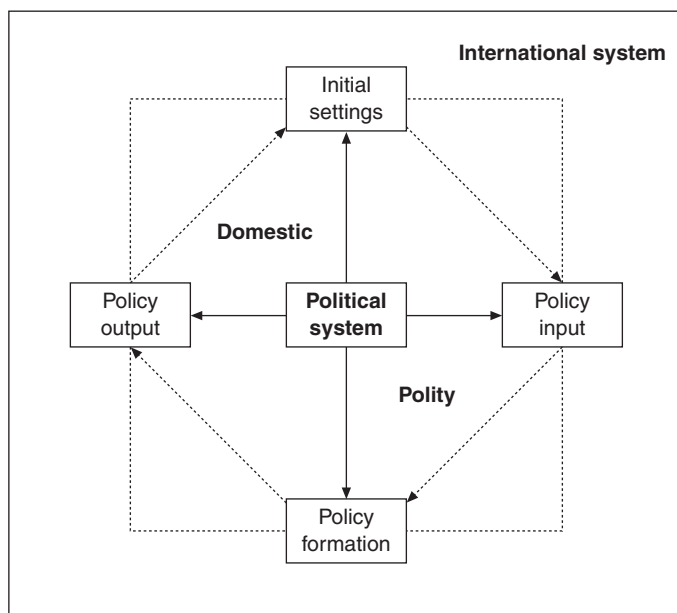


Figure 1.1 Policy-making process: an analytical framework (source: adapted from Sheng (2002: 99)).

Political system

In the domestic dimension, ‘political system’ stands at the centre of the diagram, exerting influences on the dynamics of each and every stage of a policy process. It determines the overall institutional structure of a country’s policy making in terms of the nature of the state-society relationship. Different configurations of the relationship, such as state-dominant authoritarianism or society-centred liberal democracy, have direct implications for the policy-making system. In China’s case, there have been plenty of accounts, reviewed in this chapter, which suggest the general trend of the transition of the party-state from the early totalitarianism to the more recent authoritarianism. During the course of internal economic reform and external internationalization, there has been a certain relaxation of the state’s total control of the society, and the central authority of economic policy making is being gradually delegated to lower-level governments. But the central state apparatus, including the political leaders and central bureaucracy, is still dominant in the political system, with limited channels for the expression of societal interests. The authoritarian nature of the Chinese state determines, as this study endeavours to show, that China’s accession to the WTO is a state-led, top-down process in which the state apparatus has played the dominant role in the policy-making process.

Initial settings

The starting point of a dynamic policy process is its initial political, economic and social settings, both endogenous and exogenous. They are either the outcome of the previous policies or the specific context that generates new policy and strategy innovation. Exogenous factors, usually external shocks, including global or regional political turmoil, economic crisis or recession, price fluctuations in the international market, often trigger a round of policy response. The endogenous conditions refer to the comprehensive institutional structure that is a legacy of the preceding practice. In short, the initial setting of policy process is the context that policy makers have to face and the problem they have to respond to with a new policy. Over time, the process is also dynamic. The initial conditions may change, and the policy continues to respond to developments and new situations. Chapter 2 looks into the internal and external factors that contributed to the economic opening in the late 1970s that paved the way for China's 15-year-long march to the global trade regime. It argues that it is the combined domestic-international pretext that serves the initial context for the WTO policy making and largely influenced leadership's perceptions and policy options as well as policy-making institutions.

Policy input

The next stage of the policy process, 'policy input', refers to the procurement and analysis of available information from the policy environment and its incorporation into policy debate. The key issue at this stage is the source and quality of the input information and the way information is channelled, filtered and analysed, which has a profound influence on the formation of policy makers' political and economic philosophy, specific ideas and policy preferences. Policy debates also set parameters for the availability of policy options to decision makers and the context for public sentiment on the policy issue. Chapter 3 deals with this dimension of policy process. It presents contending views on China's accession to the international trade regime, the way domestic debate influences policy elites' perception of the issue area, the way central leaders shaped the debate in line with their preferences, and the role of public opinion in the overall political atmosphere that limits leadership's alternative options.

Policy formation

As soon as the strategic motive for a policy change is substantiated into specific policy options, the policy process gets into a key stage, policy formation. Yet this is also a stage whose mechanisms are difficult to observe, the so-called 'black box'. Two elements needed to be addressed at this stage: institutional structure and institutional norms. Here, the insti-

tutional structure constitutes both organizational structure and power structure. It is the answer to the questions of who participates in the policy process, what political and economic status they have, what is the relationship among them, and what are their policy preferences and their desired policy outcomes. The institutional norms refer to formal and informal institutions. They are the channels and mechanisms through which actors can express and pursue their interest in a given institutional structure, and as we have seen in this chapter, institutional structure is important in shaping the behaviours of actors.

The major aim of this book is to unpack this 'black box' of the Chinese party-state and examine the transformation, if any, of the policy-making regime in the context of economic liberalization and internationalization. Therefore, Chapters 4, 5 and 6 are dedicated respectively to the three variables identified by this model: elite politics, bureaucratic politics and international politics. Generally, each chapter analyses the sub-variables such as corresponding actors' ideas, preferences, constraints of the institutional structure and power configuration that they act in, and their interaction with other domestic and international actors from a game perspective. Specifically, for elite politics, Chapter 3 examines the leadership's political and economic philosophy, ideas and policy preferences, and the way they were historically and socially constructed. Chapter 4 looks into the different orientations of the policy preferences as well as power alignments within the top leadership, and the mechanisms for the top elites to shape policy content by interacting with other leaders, bureaucracy, the public and foreign actors. In terms of the bureaucratic politics, Chapter 5 explains the orientations and interests of the central bureaucrats, the fragmented bureaucratic structure and the bureaucratic-industrial setting, the power balance with the political leadership and their institutional and personal involvement in the international system. For the international dimension, both multilateral and bilateral factors are taken into account, including foreign governments, foreign businesses and the ideas and norms of the international regime such as the WTO.

Policy output

The stage of policy output is both the end of a specific policy process and the beginning of policy implementation. Compared with the 'black box' of policy formation, policy implementation is observable and measurable. Nevertheless, formulated policy may be distorted in its execution by the lower-level agencies or perhaps by its ineffectiveness and therefore necessary adaptation in the real world. Bureaucratic distortion is evident in the Chinese context. In fact, it is such common practice that, as Lieberthal (1992: 11) notes, there is a well-known assertion by local officials in China that 'they [the Centre] have their policies, and we have our countermeasures'. Possible bureaucratic distortion in policy implementation often has

certain effects on the preceding policy making. Decision makers may expect the distortion factor of the later stage and take this into account. This 'expectation effect' is noted in the explanation of policy making in the relevant chapters on actors' behaviour. For example, as Chapter 3 and Chapter 6 show, both domestic central government and international governments and business groups launched education campaigns during China's accession process targeting regional government officials who are largely excluded from WTO policy making and who may tend to go their own way in implementing Beijing's WTO commitments. The empirical implications of the nature of China's WTO policy making is also examined in the Conclusion section of this book.

In summary, the model, featuring a two-level game and a staged process, makes possible a comprehensive and coherent study of a strategic issue in China's political economy. It takes into account essential steps and elements of the historical and contemporary context, and places policy context, debate, formation and implementation into an explanatory framework. It identifies elite politics, bureaucratic politics and international/transnational politics as key variables in explaining the policy-making process, and ideas, preferences and institutional structure as sub-variables in analysing actors' policy behaviour. It has to be noted, however, that the model of policy process is logical for the convenience of explanation. In the real world such as the actual process of WTO policy making, the boundaries between each stage are blurred and often entangled. For example, policy debate can be always on-going from the initial stage to policy implementation. In the case of WTO accession, the policy formation (decision of accession and the making of negotiation strategy and tactics) is always intertwined with policy implementation (actual negotiation). Nonetheless, the policy process model provides a logical abstraction from the empirical complexity, which is necessary for a neat explanation and clear analysis of an actual process in the real world.

Conclusion

The existing literature, both on theoretical orientations and on comparative studies of Chinese policy making, provides a firm ground to which this study owes much. The apparent dominance of the party-state over the Chinese society suggests that a general statist framework is applicable to this case. However, the explanatory power of a rigid statism is weakened by its theoretical abstraction of a unitary state. This is particularly important in China's case. The Chinese party-state consists of an array of political and bureaucratic actors. The political elite at the top of the hierarchy has contentious policy orientations and perceptions of economic development, and are often informally grouped on policy cleavages and in a constant struggle for political power. Compared with democratic institutions, the Chinese bureaucracy, inherited from the old command economy with

often competing bureaucratic, economic and industrial interests, has much more power in economic regulation and policy making. At the same time, the economic internationalization in the last two decades has also seen an increase of foreign influence on China's domestic decision making. Therefore, this study adopts a general statist framework while incorporating the institutional approach to examine the role of bureaucratic institutions and the institutional structure of the policy process, the two-level-game approach to explain the interaction between domestic and foreign actors, and the constructivist approach to analyse the ideational and perceptual factors in the policy context.

Given the theoretical framework constructed, an analytical model is established to explain China's WTO policy making. According to this model, domestic and foreign actors are in a game situation with mutual expectation and constant interactions. Beijing's policy making is seen as a policy *process* with sequential stages. Changes of the policy environment sparks a need for policy change; analysed information and established policy options are presented for debate before the policy is formulated by decision makers; and finally, the assessment and feedback from policy implementation may trigger a new round of policy making. The next chapter will look into the initial context of China's WTO accession, which is deeply embedded in its ancient and modern history.

2 The road to the WTO

Introduction

According to the model of policy process established in the preceding chapter, a new policy is often triggered by either endogenous or exogenous changes of the policy environment. Therefore, it is essential for a study of the policy choices to locate the issue in its specific context and examine the nature of the changing conditions that pose opportunities and constraints to policy makers' ideas, perceptions, as well as the institutional structure through which decisions are made.

This chapter, therefore, focuses on the initial conditions of Beijing's decision to join the world trade regime, as well as on the empirical process of negotiation and accession. It argues that, in terms of economic opening and closure, the WTO accession cannot be established as a trajectory of the country's historical path. Rather, it is deeply embedded in the evolution of China's trade regimes from the ancient tribute system, to the treaty system after 1840, to the import-substitution strategy after 1949, and to the transition of an export-oriented regime after 1978. The recent strategic shift from import-substitution to export-orientation formed a particularly important context for China's WTO membership application. The policy redirection is a result of both endogenous and exogenous changes: Beijing's relaxed relationship with the West throughout the 1970s paved the way for its return to the international economic and political system; a devastated domestic economy after the Cultural Revolution engendered new thinking on economic management among top leaders and exports were promoted to finance the ambitious reconstruction plan. The formal adoption of the open-door policy was not possible until the reformers prevailed in the power struggle against Maoist leftists in the late 1970s. China's later bid for the WTO membership was largely a natural extension or a result of this strategic shift of trade policy reorientation, and similar mechanisms also affected the accession process.

The chapter begins with a brief review of the evolution of China's trade regimes from ancient times to the contemporary system, followed by a detailed discussion of the recent shift of trade strategy in terms of the

internal and external environment, followed by an empirical review of the 15-year-long negotiation process of WTO accession.

China's foreign trade before 1949

China's traditional foreign trade was rooted in the tribute system. Different from the Western international regime, the tribute system was the patriarchal-styled diplomatic institution in which the Chinese Empire, with its cultural superiority and material wealth, stood at the centre. The bordering states kept formal relations as subordinates to the Middle Kingdom by paying tribute in exchange for the Chinese suzerain's recognition, the legitimacy of their rule. The tribute system was the only legal means of access to the Chinese market and all major trade transactions were conducted at designated localities and ports in China (Hsiao 1977). Despite some minor alternation, the system survived for hundreds of years till the two Opium Wars with Great Britain and France in 1840–42 and 1856–60 respectively. As a result of defeat, China was forced to accept a humiliating 'treaty system' built on more than 300 principal treaties and supplemental agreements stretching over a period of almost 60 years from 1842 to 1901. Under the treaty system, the foreign powers could exercise extraterritorial and consular jurisdictions, establish foreign courts and station foreign police and troops in certain localities, navigate inland waterways, control Chinese tariffs, conduct coastal trade, and appoint foreign personnel to key Chinese customs (Fairbank 1969; Hsiao 1977). This erosion and deprivation of Chinese sovereignty were deemed by Chinese as unequal and unacceptable, and the Nationalist Government (1911–49) tried to overhaul the treaty system. Consequently China gained control of the administration of tariffs and customs from most countries in 1928 and from Japan in 1930 (Liu and Yeh 1965), and the foreign powers agreed to abrogate their extraterritorial right in 1943 because of China's role as an allied power in World War II.

Import-substitution: China's foreign trade between 1949–79

The success of the communist revolution in 1949 turned a new page in Chinese history. Mindful of China's recent past, the communist government abolished all unequal treaties and declared that China was willing to trade with all the other states on the basis of equality and reciprocity (Mao 1945). As part of the domestic economic strategy, communist China's trade policy must be explored within the context of wider politico-economic objectives: internally, to help promote the development of the national economy and hence preserve and strengthen the communist regime; internationally, to safeguard China's sovereignty and independence.

The strategy of self-reliance (*zili gengsheng*) was the guiding principle of communist China's economic development. 'It means that a country

should manufacture by itself all the products it needs whenever and wherever possible . . . it also means that a country should carry on its general economic construction on the basis of its own human, material, and financial resources'.¹ To the revolutionary leaders, the key to economic self-reliance was industrialization. '[W]ithout industry, there can be no solid national defence, no people's welfare, and no national prosperity and power'.² The Soviet Union's experience of rapid industrialization in the 1930s set an undisputed example for its Chinese followers.

China's trade policy was thus made to meet the self-reliance strategy and the Soviet-style industrial programme. Lardy (1992) argues that China's pre-reform trade regime was an extreme example of import substitution. The phrase 'import substitution' was defined as 'a strategy designed to develop the indigenous capacity to produce domestically the manufactured goods initially acquired through imports' (1992: 5). This type of trade regime, with a high degree of protectionism and an overvalued exchange rate, led to the institutional arrangement which favoured production for the domestic market and against production for export. The purpose of imports was primarily to overcome bottlenecks because of limited domestic production capability, while exports were perceived mainly as a means of financing imports. Ye Jizhuang, then Minister of Foreign Trade put it this way: 'export is for import and import is for the country's socialist industrialization'.³ Besides the factor of Soviet-style industrialization, the adoption of an import-substitution strategy partly stemmed from consideration of the economic sanctions by Western countries and the extreme lack of foreign currency. In these terms, China shared a similar background with a number of Asian and Latin American countries that adopted the inward-looking trade strategy in the 1950s (Sheng 2002: 172).

One of the features of China's foreign trade before trade liberalization after 1979 was state monopoly. In 1950, the state share of foreign trade was 61.6 per cent (Mah 1971: 4). After 1956, all private firms were converted into state or joint public-private enterprises. Following this, international trade became a complete monopoly of the central government. The Ministry of Foreign Trade was set up to manage China's foreign trade and economic relations as well as technical cooperation with other countries. In practice, a number of specialized state corporations were established to conduct foreign trade in various commodity fields.⁴ Consistent with the central planning regime, foreign trade was also subject to the national economic plan which aimed to keep a sophisticated material balance between production and consumption. The structure of the foreign trade corporations paralleled China's industrial production ministries to form a more coordinated integrity to fulfil the plan. Under the pre-reform trade regime, the role of foreign trade has been to acquire raw materials, machinery and equipment and modern technology not available or insufficient in China, as well as to compensate for serious shortfalls in

domestic production. This supplemental role of foreign trade in national economic development meant that it could not play a major part in economic development. According to official reports, one of the basic principles of China's foreign trade planning was that the total annual exports accounted for a mere 4 per cent of gross agricultural and industrial production value (Wen 1959: 13).⁵

The other main goal of foreign trade policy was to support the new Republic's sovereignty and independence (*duli zizhu*). International trade was not conducted in a political vacuum and has long been used as a tool by nations to advance their interests. To the communist leaders, trade and diplomacy were two complementary means to meet national ends. Foreign relations can be improved through the expansion of trade, while foreign trade in turn can be promoted through the expansion of diplomacy. The record of China's foreign relations and trade patterns before the 1979 reform clearly reveals the interaction between the two elements. The emergence of the Cold War, the Western embargo, and Communist ideology drove China towards the socialist bloc led by the Soviet Union. China's foreign trade reflected this change of foreign relations. The Soviet Union replaced the United States and the United Kingdom as China's top trading partner before the deterioration of its bilateral relations with China in 1959. As Table 2.1 shows, China's trade volume with the communist countries slumped after reaching its peak at that year at US\$2,980 million dollars. The rupture of the Sino-Soviet relationship since the late 1950s saw a complete reorientation of trade away from Soviet economic influence. In 1965, for the first time in 15 years, Japan replaced the Soviet Union as China's principal trading partner, while trade with communist countries continued to decline. President Nixon's dramatic trip to Beijing in 1972 greatly expanded China's foreign relations, including its foreign trade.⁶ As a result, China's foreign trade with non-communist countries nearly doubled the following year. The subsequent years before 1979 maintained the trend of shifting away from the socialist world (Figure 2.1).

China's trade liberalization after 1979

China's inward-looking trade strategy was fundamentally challenged by the adoption of the reformist policies at the landmark Third Plenum of the CCP's Eleventh Central Committee held in December 1978. Generally speaking, there are two components of the domestic reform. One is the economic reforms aiming to invite the market mechanism into the economy in order to more efficiently allocate resources for production and distribution. The other is the policy of opening up to the outside world (especially the Western world) to obtain foreign investment, management know-how and advanced technology for domestic development, known as the open-door policy. Under this change, China's trade strategy evolved from import-substitution to export-orientation.

Table 2.1 China's balance of trade, 1950-78 US\$ million

Year	Total trade				Communist countries				non-Communist countries			
	Total	Exports	Imports	Balance	Total	Exports	Imports	Balance	Total	Exports	Imports	Balance
	1950	1,210	620	590	30	350	210	140	70	860	410	450
1951	1,900	780	1,120	-340	980	465	515	-50	920	315	605	-290
1952	1,890	875	1,015	-140	1,315	605	710	-105	575	270	305	-35
1953	2,295	1,040	1,255	-215	1,555	670	885	-215	740	370	370	0
1954	2,350	1,060	1,290	-230	1,735	765	970	-205	615	295	320	-25
1955	3,035	1,375	1,660	-285	2,250	950	1,300	-350	785	425	360	65
1956	3,120	1,635	1,485	150	2,055	1,045	1,010	35	1,065	590	475	115
1957	3,055	1,615	1,440	175	1,965	1,085	880	205	1,090	530	560	-30
1958	3,765	1,940	1,825	115	2,380	1,280	1,100	180	1,385	660	725	-65
1959	4,290	2,230	2,060	170	2,980	1,615	1,365	250	1,310	615	695	-80
1960	3,990	1,960	2,030	-70	2,620	1,335	1,285	50	1,370	625	745	-120
1961	3,015	1,525	1,490	35	1,680	965	715	250	1,335	560	775	-215
1962	2,670	1,520	1,150	370	1,405	915	490	425	1,265	605	660	-55
1963	2,775	1,575	1,200	375	1,250	820	430	390	1,525	755	770	-15
1964	3,220	1,750	1,470	280	1,100	710	390	320	2,120	1,040	1,080	-40
1965	3,880	2,035	1,845	190	1,165	650	515	135	2,715	1,385	1,330	55
1966	4,245	2,210	2,035	175	1,090	585	505	80	3,155	1,625	1,530	95
1967	3,895	1,945	1,950	-5	830	485	345	140	3,065	1,460	1,605	-145
1968	3,765	1,945	1,820	125	840	500	340	160	2,925	1,445	1,480	-35
1969	3,860	2,030	1,830	200	785	490	295	195	3,075	1,540	1,535	5
1970	4,290	2,050	2,240	-190	860	480	380	100	3,430	1,570	1,860	-290
1971	4,720	2,415	2,305	110	1,085	585	500	85	3,635	1,830	1,805	25
1972	5,920	3,085	2,835	250	1,275	740	535	205	4,645	2,345	2,300	45
1973	10,090	4,960	5,130	-170	1,710	1,000	710	290	8,380	3,960	4,420	-460
1974	14,005	6,515	7,490	-975	2,300	1,345	955	390	11,705	5,170	6,535	-1,365
1975	14,750	7,260	7,490	-230	1,977	958	1,019	-60	12,773	6,302	6,471	-170
1976	13,440	6,860	6,580	280	1,950	871	1,079	-208	11,490	5,989	5,501	488
1977	14,880	7,590	7,210	380	2,072	1,055	1,017	38	12,728	6,535	6,193	342
1978	20,640	9,750	10,890	-1,140	2,710	1,414	1,296	118	17,930	8,336	9,594	-1,258

Sources: Data before 1975 is adapted from the US Government (1975) *People's Republic of China - International Trade Handbook*, reprinted in Hsiao (1977: 12); data from 1975-78 is adapted from Bucknall (1989: 63-5).

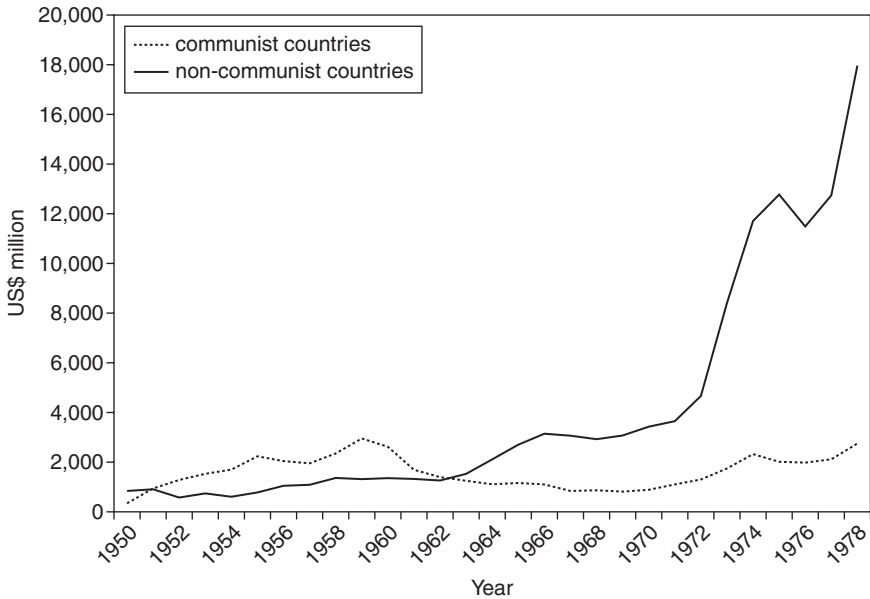


Figure 2.1 China's foreign trade with communist and non-communist countries, 1950–78 (source: data adapted from Table 2.1).

The shift of trade strategy in the late 1970s

The policy redirection has been the result of international relations, the domestic economic situation and the political struggle of the top party leadership. Facing mounting pressure from the Soviet Union throughout the 1960s, Beijing sought to renovate its relationship with the US which had been trapped in the Vietnam War and was looking for Beijing's assistance in ending the war with political dignity. With the mutual need to forge an alliance against the Soviet Union, the then US President Nixon paid a historic visit to China in 1972 that ended the bilateral stand-off that had persisted for more than two decades. Subsequently, Beijing normalized its relations with Japan and other Western countries.⁷ Moreover, China regained its membership of the United Nations (UN) in 1971. The thawing of the relationship with the West and China's return to the UN helped overcome its international political isolation and paved the way for the economic opening at the end of the 1970s.

Economic rationales also preoccupied Beijing's agenda. Years of rigid central planning, poor macroeconomic management and severe political and social turmoil during the Cultural Revolution had rendered the national economy a disaster. All the major economic indicators hit all time lows, generating a public sentiment of 'a lost decade'. Capital was wasted

or badly allocated. Under the distribution system characterized by absolute egalitarianism, the labour force had been demoralized and alienated, so that peasants and workers did not work hard, and the misallocation of trained labour was common. The economy also suffered from outdated technology. There were demands for new technology and faster economic growth to improve the standard of living and overcome the losses and disruptions of the Cultural Revolution, yet these demands for revitalising the economy could not be met domestically. Therefore, the need for more imports, particularly machinery, equipment, technology and foreign investment, was the direct and the most important factor in the leadership's push for the open-door policy. Another dimension was employment concerns. The relatively fast growth of the population over the previous two decades led to considerable pressures on employment by the end of the 1970s,⁸ which pushed the investment policy of the Chinese leadership towards one of expanding labour-intensive activities, whose products could be absorbed by the international market due to China's comparative advantage in low labour costs.

Meanwhile, it was the success of Deng Xiaoping's power struggle over Mao's chosen successor, Hua Guofeng, that cleared the political obstacles for economic opening. In the period after the death of Mao, there was much debate about the most appropriate policies for China. To the new leaders, the Maoist political dictatorship and ultra-left economic policies were unacceptable. Hua stood for a less extreme and more balanced approach in guiding Chinese economy. However, keeping his legitimacy as Mao's successor, Hua and his wing laid emphasis on their continuity from Mao to the extent that they believed that central planning was still the most appropriate way to develop the Chinese economy under the circumstances. Under the premiership of Hua, an ambitious ten-year economic plan was rapidly put together and formally approved in March 1978 by the Fifth National People's Congress (Reardon 2002). But the moderates failed to perceive the scope and depth of the problems facing the Chinese economy. The plan with its grandiose targets was rapidly abandoned in the face of devastating economic reality at the Third Plenum of the Eleventh Central Committee in December 1978 and its abrupt jettisoning demonstrated Hua's weakening power that led to his ultimate political demise.

Meanwhile, Deng rallied his forces, and with the support of the military, gained the momentum to fight back. The pragmatic reformers led by Deng wished to abandon the status quo and wanted a faster pace of change. They advocated that a stronger economy could only be achieved by the use of market forces and by opening up to the outside world. The reformers were aware of the domestic debate about the market mechanism in the 1950s and early 1960s, and the experience of East European countries seeking alternative development patterns. They were also impressed by the economic take-off of China's newly industrialized neigh-

bours such as South Korea, Taiwan, Hong Kong and Singapore, by adopting an export-orientation strategy. To the reformers, the economic success of these countries provided a ready remedy to China's problems and helped build up their confidence about China's economic opening. The reformist group waited until December 1978 when it had the numbers to get its preferred policies adopted by the Party (Shirk 1996).

However, like other reform initiatives, there seemed to be no conscious design of an export-orientation strategy at the time when the open-door policy was adopted. Rather, the original motivation was the need to import technology and equipment not available in China for Beijing's ambitious reconstruction plan. To pay for these imports, China needed large amounts of foreign exchange, which could only be obtained by promoting its exports. The slump of petroleum prices at the end of the 1970s, a traditionally large part of Chinese export income, also stimulated the government to diversify its export composition and promote products in which China had a comparative advantage. The initial success of export promotion generated political support for a more relaxed foreign trade regime. Within this process, the new outward-looking trade strategy was further institutionalized by the establishment of the Special Economic Zones (SEZs) and the incremental opening of the coastal cities.

At the same time, the decentralization of economic authorities from central to local governments also prompted the shift to export-orientation. Under the planning system, those large, capital-intensive heavy industries were controlled by central ministries, while those medium and small, labour-intensive enterprises were managed by provincial and local governments. Once the wall between the international and domestic market began to be torn down, the external price signals conveyed the message to domestic producers that Chinese products were most competitive in labour-intensive industries. Since local governments could retain a certain proportion of fiscal collections from the centre, thanks to administrative decentralization, the promotion of local production and the attraction of foreign direct investment (FDI) that conformed to this comparative advantage became the top priority in the local officials' agenda. As a result, the once unconscious initiation of trade promotion by the Centre evolved into conscious practice of export-orientation at the local level.

Export-orientation and trade liberalization

In contrast to the import-substitution strategy that sets out to build an all-encompassing, self-reliant domestic economy, the export-orientation regime seeks to integrate domestic economy into the world market in order to boost industrialization. This shift from the minor and supplemental role under the import-substitution regime saw exports as an important, if not vital, means for a nation to participate in the international market and in the international division of labour, based on

perceived comparative advantages. Countries pursuing outward-looking strategies normally provide substantially lower protection of their domestic industries and impose few controls on trade and foreign exchange (Lardy 1992).

There have been a number of accounts explaining the causal link between export orientation and economic growth. Nurkse's (1961) classic statement of the role of trade in driving economic growth – export-led growth – was in essence simply restating Ricardo's analysis of comparative advantage. After Heckscher and Ohlin's formalization effort, the positive role of trade to economic growth has been an integral part of neoclassical economic analysis. More recently, neoclassical economists have increasingly emphasized the dynamic advantages that stem from trade (Krueger 1985). Free trade is seen as a means of promoting competition and hence it is a determinant of productivity growth. China serves as a good case to testify to the above theory. Since 1978, China's foreign trade has been actively promoted as a catalyst of economic growth under the open door policy, emulating other East Asian economies featuring fast growth rates by successfully employing an outwardly-oriented strategy. Figure 2.2 clearly demonstrates that the share of Chinese exports in its GDP had been on a steady increase throughout the reform period.

Export-oriented trade reforms have been part of broader market-oriented economic reforms and this has been so throughout the reform period. To the reformist leaders, the economic transition was largely to

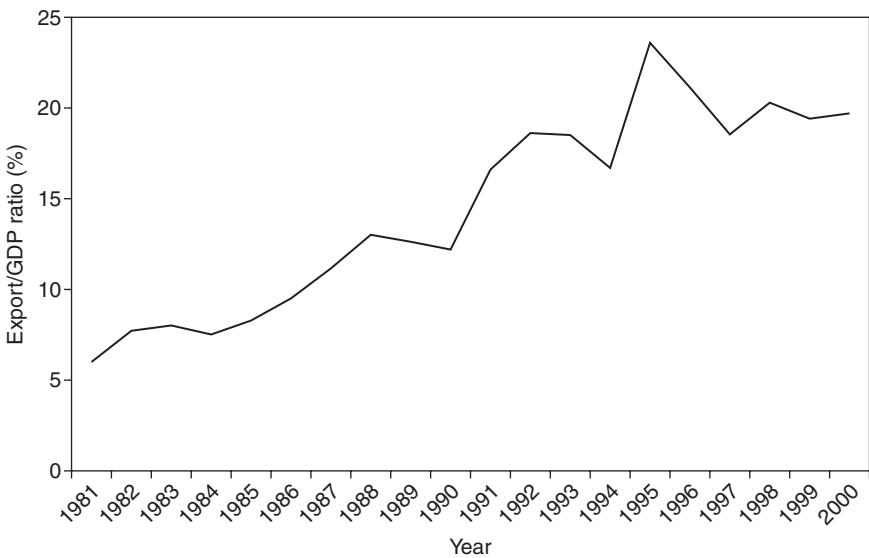


Figure 2.2 China's export/GDP ratio (percentage), 1981–2000 (source: data adapted from Strange (1998); National Bureau of Statistics of China, various years).

forge political coalitions as wide as possible in order to run over vested interests of the old planning system, which is 'the political logic of economic reform' (Shirk 1993). To prevent strong opposition to reform, the party leadership adopted what Shirk (1992) calls a doctrine of 'balancism': central leaders chose policy options that ensured no unit or actor lost too much, rather than those that were best for the country as a whole. This ideology created the tendency to make small incremental changes that are easier to get past obstructions within the polity. The trade reforms during the last two decades also demonstrated this incrementalism and gradualism. To rally enough political support from both the bureaucracy and domestic industries, non-competitive heavy industries were protected by high import tariffs at the beginning of the reform period, while internationally-competitive productions were subsidized to promote their export. As a result, instead of jumping instantly from import-substitution to total trade liberalization, the actual policies witnessed a process incorporating a stage of a mixed trade regime accommodating both import protection and export promotion. Drawing on variables such as tariffs, non-tariff barriers, import subsidies, export promotion, export restriction, and foreign exchange rates, Sheng (2002) sets the evolution of China's trade reform into four stages, namely import substitution and marginal export orientation (1980–83), offsetting import substitution by export promotion (1984–90), export promotion and marginal trade liberalization (1991–93) and trade liberalization (after 1994).

Generally speaking, there are four dimensions of the trade reforms: the decentralization of the trade regime by extending trading rights from giant state corporations to ordinary enterprises, the relaxation of import and export licensing, foreign exchange reform and FDI reform (Lardy 1992). In addition, China also adopted several other export promotion measures, including enhanced export credits, preferential interest rates on domestic loans to export-production firms, subsidized domestic transport, storage and insurance of export goods (Li 1989; Howell 1991b), and the development of manufacturing facilities exclusively for export production. Under the combined effects of the open-door policy and domestic liberal reforms, China's foreign trade has experienced an unprecedented surge during the reform period (see Table 2.2). With foreign trade (both imports and exports) expanding, joining the institutional arrangement of the world trade regime was increasingly placed on the agenda of China's trade policy. Since domestic trade reforms were inter-related with and therefore an inseparable part of China's GATT/WTO accession, discussions of the trade reforms are incorporated in the later section of this chapter examining China's accession process.

Table 2.2 China's foreign trade, 1980–2000

<i>Year</i>	<i>Exports</i>			<i>Imports</i>	
	<i>Value US\$m</i>	<i>Growth rate (%)</i>	<i>As % of world exports</i>	<i>Value US\$m</i>	<i>Growth rate (%)</i>
1980	18,119	–	0.9	20,017	–
1981	22,007	21.5	1.1	22,015	9.9
1982	22,321	1.4	1.2	19,285	–12.4
1983	22,226	–0.4	1.2	21,390	10.9
1984	16,139	17.6	1.4	27,410	28.1
1985	27,350	4.6	1.4	42,252	54.2
1986	30,942	13.1	1.5	42,904	1.5
1987	39,437	27.5	1.6	43,216	0.7
1988	47,516	20.5	1.7	55,275	27.9
1989	52,538	10.6	1.7	59,140	7.0
1990	62,091	18.2	1.8	53,345	–9.8
1991	71,910	15.7	2.0	63,791	19.6
1992	84,940	18.2	2.3	80,585	26.3
1993	91,744	8.0	2.5	103,959	28.9
1994	121,006	31.9	2.9	115,615	11.3
1995	148,780	22.9	3.0	132,084	14.2
1996	151,066	1.5	2.9	138,838	5.1
1997	182,877	21.1	3.3	142,189	2.4
1998	183,589	0.3	3.3	140,305	–1.3
1999	195,150	6.3	3.4	165,788	18.2
2000	249,297	27.7	3.9	225,097	35.8

Sources: data before 1996 is retrieved from Strange (1998: 13). Data after 1996 is calculated from WTO (2001), accessed at www.wto.org/english/res_e/statis_e/its2001_e/its01_toc_e.htm. Chinese GDP after 1997 is based on Asian Development Bank (2002).

The WTO

The WTO is the immediate successor of the General Agreement on Tariffs and Trade (GATT). The original intention of the signing countries was to create a third institution handling international economic cooperation in the framework of the old 'Bretton Woods' institution, the World Bank and the International Monetary Fund (IMF). The original plan, as envisaged by over 50 countries, was to create an International Trade Organization (ITO) as a specialized agency of the United Nations. The original draft ITO Charter was ambitious extending beyond world trade disciplines to include rules on employment, commodity agreements, restrictive business practices, international investment and services. However, ratification of the Charter in some national legislatures, especially that of the United States, turned out to be impossible, which shattered the post-war blueprint. Nevertheless, even before the Charter was approved, 23 of the 50 participants decided in 1946 to negotiate to reduce and bind customs tariffs. The combined package of trade rules and tariff

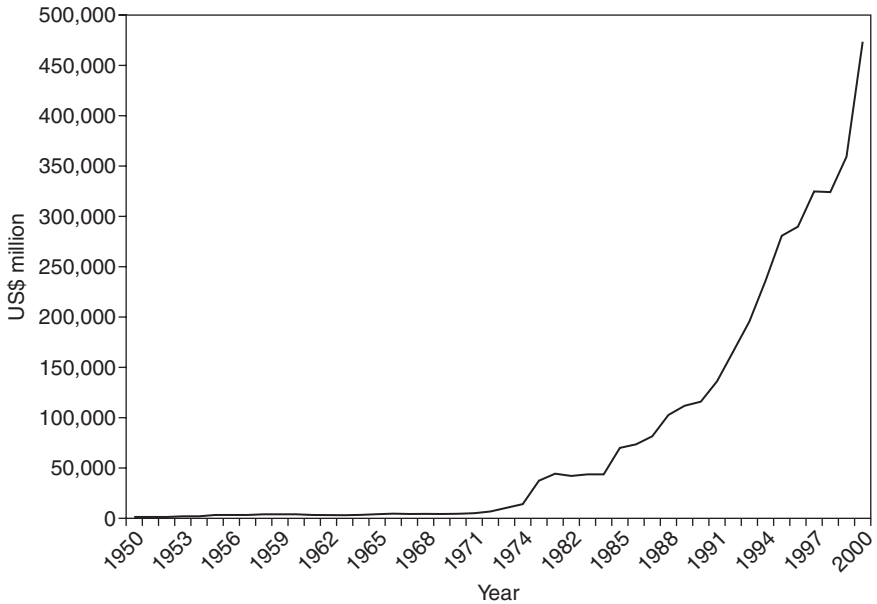


Figure 2.3 China's foreign trade, 1950–2000 (source: data adapted from Tables 2.1 and 2.2).

Note

'Foreign trade' here refers to both imports and exports.

concessions gained from the negotiations became known as the General Agreement on Tariffs and Trade. It entered into force in January 1948 with the 23 becoming the founding members.

Although GATT was only a provisional arrangement throughout its history, it remained the only multilateral institution governing international trade from 1948 until the establishment of the WTO in 1995. For almost half a century, GATT's basic legal text remained much as it was in 1948 and efforts to reduce tariffs further continued. Much of this was achieved through a series of lengthy multilateral negotiations known as 'trade rounds', through which the big leaps in international trade liberalization have come. In the early years, the GATT trade rounds concentrated on tariff reduction. Then the Kennedy Round in the mid-1960s brought about a GATT Anti-Dumping Agreement. The Tokyo Round during the 1970s was the first major attempt to tackle non-tariff barriers in international trade. The eighth, the Uruguay Round (1986–94), was the latest and most extensive of all. It strengthened the rules and disciplines governing multilateral trade in goods and brought trade in services (General Agreement on Trade in Services (GATS)) and trade-related aspects of intellectual property rights (TRIPs) into a single organization,

a single system for resolving disputes – the World Trade Organization, which came into being on 1 January 1995.

The creation of the WTO is arguably the biggest reform of international trade after World War II. It also revived the failed attempt in 1948 to create an ITO. It is a rule-based multilateral trade regime aiming at promoting and enhancing international free trade. Despite WTO's voluminous and complex book of rules, its principles are simple.

The principle of the most-favoured-nation treatment (MFN) means a member country granting a special favour to another has to do the same to all the other WTO members. The principle of 'national treatment' means giving others the same treatment as one's own nationals. Under this principle, imported and locally produced goods and services should be treated equally – at least after the foreign goods have entered the domestic market. The two principles are so important that they cover all three main areas of WTO agreements: GATT, GATS and TRIPs, although in each agreement they are handled slightly differently.

Transparency, or full access to information on the laws and regulations with which a host government requires compliance, is another principle taken into account in many WTO agreements. By making trade rules as clear and public as possible, the system tries to improve the predicability and stability of international trade. Ways to implement this principle include discouraging the use of quotas and other measures used to set limits on quantities of imports and the regular surveillance of national trade policies through the Trade Policy Review Mechanism.

Another WTO core value is the preferential treatment of developing countries. The WTO inherited the earlier provisions of GATT that allow for special assistance and trade concessions for developing countries. WTO has defined categories, based on levels of economic development, to allow members some flexibility in phasing in certain obligations. At the moment, over three-quarters of WTO members are developing countries and countries in transition to market economies. However, the terms of developed, developing and least-developed are not defined in a clear-cut way.

Accession process⁹

Accession to the WTO is essentially a process of negotiation 'on terms to be agreed' between the acceding government and all the existing members of the WTO. According to Article XII of the WTO Agreement, 'any state or customs territory having full autonomy in the conduct of its trade policies is eligible to accede to the WTO . . .'.¹⁰

The accession process commences with the submission of a formal written request for accession by the applicant government. This is considered by the General Council which establishes a Working Party to examine it and later submit its findings to the General Council for approval. The applicant government then has to present a memorandum

covering all aspects of its trade and legal regime to the Working Party, which forms the basis for the latter's detailed fact finding. Subsequent Working Party meetings will see the examination of questions posed by WTO members based on the information provided in the memorandum and the replies provided by the applicant. After the memorandum is thoroughly examined, the Working Party goes into the substantive part of the multilateral negotiations involved in accession, which determines the terms and conditions of entry for the applicant government. Terms and conditions include commitments to observe WTO rules and disciplines upon accession and transitional periods required to make any legislative or structural changes, where necessary, to implement these commitments.

At the same time, the applicant government engages in bilateral negotiations with interested Working Party members on concessions and commitments on market access for goods and services. The results of these bilateral negotiations are consolidated into a document which is part of the final 'accession package'. Once the Working Party's Draft Report, Protocol of Accession and the market access commitments in goods and services are completed to the satisfaction of Working Party members, the 'accession package' is adopted at a final formal meeting. The documents are then presented to the General Council or the Ministerial Conference for approval. Once approved, the applicant is then free to sign the Protocol of Accession which is subject to ratification in its national parliament. Thirty days after the applicant government notifies the WTO Secretariat that it has completed its ratification procedures, the applicant government becomes a full member of the WTO.

The road to the WTO

China's road to the WTO can be traced back to the very beginning of the global trade institution. On 24 March 1948, the Nationalist Government of China signed the Final Act of the United Nations Conference on Trade and Employment held in Havana, Cuba. Later, it signed the Protocol of Provisional Application of GATT in April and became one of the 23 contracting parties with effect from 21 May 1948. However, after defeat by the communists in the civil war and its departure to Taiwan, the Nationalist Government withdrew from GATT in 6 March 1950 (Perkins 1997: 165). At the same time, the Communist Party, governing mainland China, also pulled out of GATT.

Meanwhile, there was still a chance for China to join GATT in the 1970s. When the observing representative of Taiwan was expelled from GATT after a UN resolution, the then Secretary-General of GATT made an invitation to China. Not surprisingly, at the peak of the political extremism of the Cultural Revolution, GATT was believed by the radical Maoists to be a Western capitalist club made up of hostile developed countries. Consequently China refused the easy entry ticket.

However, once China began slowly to integrate with the world market and intended to join the global trade regime, it found the accession road much tougher than before. Internally, the negotiation and implementation of accession commitments were not confined within the sphere of trade reforms, but will trigger profound changes to the country's economic, political, legal and social system, as well as the re-orientation of the government's function in a new market economy. Externally, the sheer size of China's economy and its transitional status raised the accommodating cost of the international system. Moreover, political issues and considerations were also taken into the bilateral negotiations. Therefore, China's accession process was enmeshed in domestic reforms, politics and international relations. Generally speaking, the drawn out process can be divided into four periods.

1979–86: wandering outside the door

As noted above, the open-door policy triggered China's trade liberalization after decades of state monopoly and central control. Trade reforms began in 1979 with the introduction of a foreign exchange retention system, which permitted export enterprises to use a proportion of their export earnings to purchase imports. Foreign exchange swap markets developed, enabling exporters to trade unwanted retained foreign exchange for domestic currency at more favourable rates than the heavily overvalued official rate. This resulted in effective partial devaluation of the yuan, the Chinese currency. Equally important, from 1984 to 1986, some local authorities and enterprises were permitted to undertake foreign trade through their own foreign trade corporations, breaking the monopoly of those that belong to the central government (Yao 1997). Another important dimension of opening up is FDI reform. A 1979 law on Sino-foreign joint ventures gave FDI the green light for the first time in three decades after 1949. To attract foreign investment, in 1980, four Special Economic Zones (SEZs) – Shenzhen, Xiamen, Shantou and Zhuhai – were established in Guangdong and Fujian provinces. In 1984, the concept of SEZs was extended to another 14 coastal cities, Hainan Island and three so-called 'golden triangles' – the Yangzi River Delta, the Pearl River Delta and the southern Minnan Triangle (Forestier 1988). Other reform policies were also ushered in to promote FDI during this period, including reducing labour charges and land use fees for foreigners, granting joint ventures' access to foreign exchange swap markets, extending the maximum duration of joint venture agreements to over 50 years, permitting wholly foreign-owned enterprises to be established, and introducing legislation protecting foreign firms from nationalization.

As far as tariffs were concerned, the nominal tariff rates had been high in the pre-reform years thanks to the protective inward-looking strategy. Since 1980, when the State Customs Administration was restored as a

national administrative body, China unilaterally reduced its import tariffs. In 1985, the new customs regulation was passed in the National People's Congress (NPC) and the Import and Export Tariff Schedule was thoroughly amended. In the new schedule, nominal tariff rates were slashed in many categories, reflecting the policy shift towards a more open economy (Zhang *et al.* 1995: 3.1).

The opening of China's trade border was essentially accompanied by its participation in the international economic institutions. China regained its membership of the World Bank and the IMF in 1980, which demonstrated its commitment to an open-door policy with the rest of the world, and laid a firm ground for the later application to resume contracting party status of GATT in 1986. Consequently, attempts were taken by China to familiarize itself with the operational mechanisms of GATT. Chinese officials attended the thirty-sixth Contracting Parties Assembly of GATT in November 1982 as non-voting delegates. In November 1984, China sent its first delegation to the Council Meetings of GATT with an observer status (Sheng 2001). On 10 July 1986, the then Chinese Ambassador to Geneva, Mr Qian Jiadong, lodged the formal application to GATT to resume China's contracting party status, which marked the beginning of China's WTO quest that lasted for a record 15 years.

One thing worthy of note is that China applied for the *resumption* of its GATT membership, not *accession* as a new member. The reason is that, under Article XXXV, there could be separate and discriminatory treatments of new members, which could restrict China's rights under GATT. However, this would not be applicable in the case of resumption. Beijing regards itself as the only legitimate government of China after 1949, therefore Taipei's subsequent withdrawal from GATT was invalid. Hence, Beijing insisted a flexible approach to its GATT application. Legally, China should apply to resume its contracting party status. Technically, as many reciprocal concessions had been made among members of GATT since 1950, China was willing to negotiate the conditions of its membership in GATT and sign a protocol of accession (Jacobson and Oksenberg 1990: 89, 95).

1986–91: knocking on the door

The Chinese economy fluctuated during this period. Then Chinese Premier Zhao Ziyang implemented more radical reforms including price reform, which ended in soaring inflation in 1987–88 and partly contributed to the public grievance that flamed the political demonstration in Tiananmen Square in 1989. After this, the pace of liberalization slowed markedly following the purge of Zhao and the resurgence of a more leftist wing within the CCP.

However, there were some achievements at the front of economic opening. In April 1988, 288 counties and county-equivalents were granted

SEZ status.¹¹ In 1991, three areas, two in Shenzhen and one in Shanghai, were exempted from customs duties. Furthermore, the growth of the Pudong Development Zone in Shanghai continued to gather momentum in 1990 and 1991, partly driven by growing FDI. During the period from 1986 to 1991, Chinese tariffs were cut in 83 categories in the schedule (Zhang *et al.* 1995: 3.1).

In September 1986, GATT's Council Meeting at Uruguay declared the start of a new round of global trade negotiations, known as the Uruguay Round. China sent its delegation to the meeting, and subsequently participated extensively in the negotiations.

The initial resumption negotiations went smoothly during this period, partly due to the structure of the international system in those years. The West and the East were still engaged in the Cold War. The Soviet Union showed no sign of disintegrating, and there were few reforms to its economic system. As for China, it had undergone a long process of reconciliation with the West, beginning with President Nixon's visit to Beijing in 1972. At the same time, substantial reforms, as we have seen, had been conducted to overhaul the socialist central planning system with the growing involvement of market mechanisms to allocate resources. China's economic reform and opening to the outside world was widely applauded by Western interests. Even though there was still a long way to go for China to fully conform to GATT requirements, China's application for membership resumption was welcomed by the major players in the regime. As an important step for accession, China submitted the Memorandum on China's Foreign Trade to the contracting parties on 13 February 1987, followed by the establishment of GATT's Working Party on China in March. On 22 October 1987, the first meeting of the Working Party was held in Geneva. In the following seven years before the founding of the WTO, 19 Working Party meetings were held.

The Working Party began to examine China's foreign trade regime after China submitted the Memorandum. Despite the friendly atmosphere, misinterpretation and misunderstanding existed after decades of suspicion. Chinese delegates found it difficult to find a common language other than the CCP's political terminology to explain China's domestic policy and foreign trade system. They even sent domestic experts and scholars to Geneva to explain these issues albeit in vein. Part of the problem was that the Chinese economy was still dominated by central planning at that stage, while GATT is an international trade regime whose member economies are market-oriented. Most of the 1,000 plus questions put forward by the Working Party countries were focused on the planning mechanism, policy transparency, domestic product pricing and tariff and non-tariff measures. At that time, the official Chinese term for its economy was 'a commodity economy based on the combination of plan and market', which did not convince the member countries. Meanwhile, measures were taken to show China's accession sincerity. In response to later questioning, the Ministry

of Foreign Trade and Economic Cooperation (MOFTEC) made public 31 former internal administrative documents and published new policies on foreign trade in Chinese newspapers (Zhang and Li 1995: 7.11), all of which were meant to display Beijing's commitment and readiness to conform to the spirit of GATT.

China's efforts were rewarded by a warm response from the major players. The negotiations between the first Chinese chief negotiator Mr Shen Jueren and the American delegation was a 'relaxed' process. From November 1986 to May 1989, a series of understandings and agreements was reached between the two parties after five rounds of talks. At the same time, the negotiation with the European Union (EU) was also smoothly handled (*Zhengquan shibao* 10 November 2001). It became a routine to open champagne and declare 'pleasant cooperation' to the media after each round of negotiations. There seemed to be no doubt that China would conclude all the negotiations before the end of 1989, or at least before 1992 (Ye 1999). Domestically, a 'GATT fever' also swept the Chinese public via a round of education campaigns to equip officials and ordinary citizens with GATT knowledge and rules for the upcoming accession.

As China almost set one foot in the door of GATT, the events at Tiananmen Square in 1989 shut the window of opportunity. Right after the political turmoil, Western countries joined the American-led economic and political sanctions against China, effectively smashing Beijing's hopes to join the global trade body. The event reinvented pervasive distrust in the West of China's political commitment to market reform. This perception was reinforced by Beijing's subsequent unravelling of some reform policies in order to tackle a very high inflation rate and serious budgetary problems (known as *zhili zhengdun*). When the eighth meeting of the Working Party was held in December 1989, China saw the examination of its foreign trade regime set back almost to its starting point. After that, Western developed countries broke off negotiations with Beijing, only to resume them in late 1991.

1991–95: mission impossible

Beijing, however, was determined to break the impasse. The then Chinese Premier Li Peng wrote to the executives of GATT member countries in October 1991, declaring China's basic principles regarding GATT membership, and that China would stick to its commitment of economic reform and opening up to the outside world. Also, in the light of external political considerations to lock China into its own self-declared reform agenda, Western countries changed their rigid attitude, which brought about the resumption of negotiations later that year.

Yet once talks resumed in 1991, the second Chinese chief negotiator, Mr Tong Zhiguang, sitting across the table from his Western counterparts,

saw doubtful faces. To make things worse, on 21 August 1991, the United States announced a record-breaking trade retaliation list against China, including many major Chinese products exported to America worth US\$3.9 billion. China immediately issued a revenge list sanctioning American exports to China worth US\$4 billion (*Zhengquan shibao* 10 November 2001). Although this did not trigger a trade war, the Sino-US relationship became very chilly.

Meanwhile, Deng's southern tour in 1992 and the following Fourteenth Party Congress officially declared that the goal of domestic reform was to establish a market economy, which clarified the confusion and suspicion of the foreign negotiators. As a result, China and the US ended their stand-off by signing two Memoranda of Understanding, one on market access and the other on the protection of intellectual property rights. The six-year-long examination of China's foreign trade regime also came to an end. The accession process turned into the next substantive stage, the bilateral negotiations with member countries on market access.

In light of the domestic ideological emancipation, China's trade and other economic policies during this period were considerably more aligned with GATT principles than when it first applied for membership in the mid-1980s. The mandatory export plan was abolished in 1991, and was gradually dismantled from 1994 (Perkins 1997: 22). On tariffs, in January 1992 when China converted its old customs classification of commodities into the new Harmonized System, the tariff rates for 225 items in the new schedule were reduced. In December 1992, import taxes for another 3,371 import categories were reduced, which covered 53.6 per cent of total tariff schedule. One year later, tariffs were reduced for 1,898 commodities. In January 1994 import duties were further slashed on another 243 items. These tariff reductions brought down the trade weighted average of nominal tariff protection by 7.3 per cent, the largest single tariff reduction undertaken by the government since 1949 (Yang, S. 1995: 1.3; Zhang *et al.* 1995: 3.2). On foreign exchange reform, the official rate of the renminbi was aligned with the market price on 1 January 1994. Meanwhile, foreign trade enterprises could not retain their foreign exchange any more. Instead, a unified settlement and trading mechanism was introduced and a national inter-bank foreign exchange market was set up so that the exchange rate of renminbi is now based primarily on market demand and supply (Wu 1995; Li 1997). This enabled foreign trade enterprises to sell and purchase foreign exchange earnings to and from the specially designated banks.

The most profound trade reform initiative during this period was the enactment of the Foreign Trade Law in May 1994. The law was designed to unify national foreign trade practice and regulations by putting an end to the then prevailing mess of the mutually inconsistent foreign trade policies made by multiple government departments and regional governments. It laid the appropriate ground for ensuring the necessary

transparency and uniformity in trade policy and a degree of retreat from administrative control in favour of market measures in the management of trade. According to the Law, the service sector (including banking and transportation) remained sheltered, but trade in commodities and technology was thrown open to market principles (Drysdale and Song 1995). The 1994 Trade Law marked a milestone in China's efforts to bring its foreign trade regulations in line with GATT/WTO standards.

Meanwhile, there had also been achievements on China's external multilateral trade talks. On 15 April 1994, after eight years of arduous negotiations, China, together with other participants, signed the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations in Marrakesh, Morocco, and the Agreement on the WTO, which were the two essential documents for China to become a founding member of the coming WTO.

Progress at home and abroad generated new hopes that China could resume its GATT membership at the end of 1994 and hence become a founding member of the WTO in 1995 when GATT was taken over by the WTO. Nevertheless, the latter half of 1994 witnessed a complication in China's entry due to both internal and external issues. The internal reason was domestic frustration. According to Mr Long Yongtu, the fourth Chinese chief negotiator, malfunctioning of the 'internal coordination and administrative system' was to blame for the failed attempt of GATT resumption (Hu and Hu 2001). This is the typical official language for CCP cadres to describe the internal disputes. As will be discussed in detail in Chapters 4 and 5, the domestic protectionist sentiment and the harsh requirement of the US in bilateral talks encountered industrial and bureaucratic resistance in China under the support of left/conservative party officials. While the power structure of Chinese bureaucracy requires consensus on issues that involve more than one ministry, the lack of consensus on certain terms and conditions of WTO entry made Chinese negotiators lose significant ground at home in the first half of 1994 and effectively delayed the bid to enter the WTO.

Externally, the end of the Cold War and the dismantling of the USSR left the United States the only super power in the world. In contrast to the Cold War international system, China lost a degree of political significance to the US, while the ideological difference between the two countries rose. In addition, the US had long been annoyed by the large trade deficits with China and the accession negotiation was viewed as a golden opportunity to address this issue in a long-term, institutionalized arrangement and multilateral context. The US found itself not alone. Concern over China's impressive economic growth and export performance had taken on doomsday proportions for many industrialized countries which saw their own markets threatened by massive inflows of cheap Chinese products.¹² Therefore, the policy stance of the US was to admit China on a strictly 'commercially viable' basis in consideration of China's size and export

performance (Inside US Trade 1995). One that fell within these considerations and also a sticky point of the accession talks during the 1990s was the country status for which China was applicable. As discussed earlier in this chapter, countries with developing status enjoy some preferential treatment by developed countries under GATT rules, including exemption from some of the trade disciplines and more relaxed requirement on domestic agricultural support and policy reform. It is not surprising that China insisted on resuming its GATT membership with a developing country status, based on its current income level and its institutional framework, while the Americans expected a developed country status for China in terms of the gross weight and influence of the Chinese economy in the world market.

In late August 1994, China announced a revised concession list on agricultural and non-agricultural products and service trade, hoping this would speed up the accession negotiations. On 28 November, China issued an ultimatum to GATT and member countries of the Working Party stating that, if the resumption talks were not wrapped up before 31 December, China would suspend further negotiation and no further concessions would be offered. In the month before the deadline, the Chinese delegation went to Geneva more than 40 times to get a deal done (*Shiji Zhongguo* 2001). However, the US ignored China's further concessions and commitments. To make it worse, the US formally raised the issue of developed country status, insisted on stricter conditions towards China's resumption. The US also refused to commit to grant China most favoured nation (MFN) treatment once it resumed its GATT membership with the excuse of conflict with US domestic legislation.¹³ Due to the lack of political will of major powers, especially the US, the mission of concluding the talks before 1995 was impossible. There were no agreements reached at the 19th Working Party Meeting which concluded on 19 December. China's last hope to resume its GATT membership and accede into the WTO as an original member evaporated. China declared that it would no longer initiate trade talks under the current framework.

1995–98: gathering momentum

On 1 January 1995, the WTO formally replaced GATT as the global trade governing body. The Chinese side was furious about the failed dash to the new international trade organization and Western countries were blamed as 'having ulterior motives' in an editorial of the *People's Daily*, the official newspaper of the CCP. However, Western countries did not want to see China away from the table. It was merely half a month after the Chinese delegation returned to China in late 1994 when the Japanese Financial Minister conveyed a message from the US that Western countries hoped to see China resume the talks as soon as possible. In March 1995, US President Clinton sent his Trade Representative Mickey Kantor

to China and later an EU delegation visited China to express its hopes for a jump-start of accession talks (*Zhengquan shibao* 10 November 2001).

On 9 May 1995, the Chinese delegation reappeared at the tables at Geneva to resume informal negotiations with nearly 20 Working Party countries, which began a new march to the WTO accession. On 11 July China was granted observer status at the WTO. Four months later, the Working Party on China's Status as a Contracting Party of GATT was renamed the Working Party on China's Accession to the WTO, which meant China's GATT resumption talks were formally converted into its WTO accession talks. According to WTO rules, within two years of the WTO agreement coming into force, it was still possible for China to fall under the previous (GATT) system but stalled negotiations prevented such an outcome. Once the GATT window of opportunity was shut, China found itself facing tougher demands for market access and other concessions from the member countries of the new multilateral trade regime.

The initial WTO talks stumbled for several reasons. After the late 1994 dash, the Chinese side had no new politically-acceptable concessions to offer, and the international environment exerted negative effects on the negotiations, especially the instability of the Sino-US relations. President Clinton's approval of Taiwan President Lee Teng-hui's visit to Cornell University and China's subsequent military exercises against Taiwan in 1995 and early 1996 drove the bilateral relations to a post-1979 low. The disputes over intellectual property rights and textile exports between the two countries further delayed any considerations of China's WTO accession. The thawing of the bilateral relations began with the exchange of summits between the two Presidents during 1995–96. As a result, then American Deputy Trade Representative Barshefsky paid a visit to Beijing and issued to the Chinese side an informal document on China's WTO accession, the so-called 'road map', unprecedentedly stating that some of China's commitments could be addressed by transitional arrangements and implemented by stages. The US side was willing to see China's developing country status settled 'practically'. The Chinese side also announced a big cut in tariff rates in April 1996 and October 1997 (Yu 2001).

One of the most notable developments of multilateral talks since the second Working Party meeting of 1 November 1996 was the progress that China made in providing a satisfactory description of the measures in place and the products still subject to restrictions. At that meeting, China also made the commitment to the principle of standstill, that is, to refrain from introducing policies and laws that would be inconsistent with WTO rules.¹⁴ At the Working Party's third meeting in March 1997, China argued that it required a certain amount of time to become thoroughly acquainted not only with the GATT and the complexities of market economy, but also with the WTO Agreements. The outcome of the fourth meeting in May that year was the agreement of the two main clauses in China's future Protocol of Accession: the non-discrimination principle and judicial

examination (Sheng 2001). During the following meeting in August, China reached the first bilateral agreement with New Zealand and concluded talks with Japan on commodity trade (Yu 2001). Despite the progress made, important areas were yet to be touched, including trade in agriculture and services.

During the Asian financial crisis in 1997, China joined the IMF's rescue programme by providing US\$4 billion to the programme of relief funds, and resolutely kept the renminbi from devaluing, which would have had repercussions on other countries in the region. Beijing's sensible handling of the crisis demonstrated that China was committed to reform and opening up, and willing to take international responsibilities. Meanwhile, there was no breakthrough in President Jiang's formal visit to the US in October 1997, but both sides agreed to speed up bilateral talks on tariff, non-tariff, service, industrial standard, agricultural products and implementation of the WTO commitment for China to accede to the WTO on a 'commercially viable' basis. China also declared its intention to participate in the optional Information Technology Agreement (ITA) designed to cut the tariff of IT-related products to zero by 2005.

Hopes rose again for President Clinton's visit to China in June 1998. At that time, the reform-minded Zhu Rongji replaced the conservative Li Peng as Premier. As Chapter 4 shows, Zhu's initial policy agenda was the reform of the SOEs. Therefore Chinese negotiators failed to produce what the Americans considered a viable offer prior to the visit. President Clinton's later trip to China turned out to be more symbolic in terms of progress on the accession process, but it finally ended the tensions of 1995–96, with both sides agreeing to build a 'strategic cooperative partnership'. The revitalization of Sino-US relations made serious talks possible at Geneva.

Meanwhile, China's domestic economy grew stronger during this period. As market forces expanded and the economy matured, some 40 per cent of China's economy became linked to the international market. More and more industries developed an interest in trade liberalization. China was also facing mounting pressure to join the WTO. The Asian financial crisis slowed the rapid growth rate of China. New ways had to be found to stimulate exports and attract foreign investment. The coming Seattle round of the WTO conference would take up a number of issues of interest to China. It would be better to get involved in the formulation of the trade rules rather than to sit and watch as the price for admission went up. The possibility that Taiwan would join the WTO ahead of China also added a degree of urgency to Beijing's bid, which claimed sovereignty over Taiwan. China's accession to the WTO was quietly gaining momentum for the final dash.

1999–2001: the dramatic dash

By January 1999, the Chinese position on the WTO had changed sufficiently for Premier Zhu to express publicly that China was prepared to offer substantial concessions (Liang, W. 2002). Despite the apparent domestic consensus in light of President Jiang's support to produce the offer, differences among bureaucracies and leaders still existed. It did not take long for the opponents to air their grievances. Tensions inflated by NATO's military intervention in Yugoslavia triggered a new wave of anti-America campaigns by the nationalists and conservatives who asked Zhu not to pay the scheduled visit to the US as a protest.

As will be elaborated in Chapter 4, Zhu made the visit in April 1999 under mounting pressure albeit with Jiang's support. Yet President Clinton walked away from the WTO deal due to the concern of his cabinet that the deal could not be passed by Congress. However, the details of China's concessions were published on the website of the United States Trade Representative (USTR) Office in order to keep China from backtracking on its offer. Another huge blow to Chinese leaders was NATO's bombing of the Chinese embassy in Belgrade the following month. Meanwhile, President Clinton soon regretted his decision to turn down the April offer and set out to restore severely damaged relations with China after the embassy bombing. At the same time, Chinese leaders did not want to give up their efforts for a WTO deal. By the end of the summer, both sides sent messages demonstrating a willingness to resume negotiations. On 11 September, Presidents Clinton and Jiang met on the sidelines of the APEC meeting in New Zealand, and agreed to resume WTO talks. Later, President Clinton talked with Jiang twice by phone before sending USTR Barshevsky and National Economic Council Chief Sperling to Beijing on 8 November. After a week of gruelling bargaining, the bilateral agreement on China's WTO accession was reached on 15 November. Consequently, in May and September 2000, the US Congress and Senate passed the proposal to grant China Permanent Normal Trade Relations (PNTR), which marked a watershed in Sino-US relations and paved the way for China's accession.

After the US–China accord was reached, the EU, which wanted to play an independent role from the US, declared that 80 per cent of its negotiation goals conformed to those of the US, but the rest should be addressed in its talks with China. The Sino-EU talks did not start until late January 2000. The differences between the two sides were focused on insurance, telecommunications and the retail sectors. The negotiations finally concluded on 19 May 2000. After Mexico agreed on China's entry terms on 13 September, China had concluded the required bilateral talks with all of the 37 WTO members who wanted to negotiate with China on entry conditions. At the eighteenth Working Party meeting on 17 September, the 1,500 page multilateral agreement weighing 13 kilograms was passed.

Finally, at the Fourth WTO Ministerial Conference held in Doha, Qatar on 11 November 2001, China signed the membership agreement and became the one hundred and forty-third member of the WTO.

Conclusion

China's WTO accession marked a new era in the history of China's foreign trade. One and a half centuries ago, China was forced to open its trade border to Western powers. This time the country offered the opening to the world market under internationally recognized rules. More specifically, Beijing's decision to further integrate with the world market by joining the WTO is deeply rooted in the context of the initiation of domestic reform and economic opening of the late 1970s. The rigid command economy and the import-substitution trade practice created a high degree of state monopoly and protectionism. This led to the effective blockage of price signals in the international market to domestic producers, and an institutional arrangement in which foreign trade was biased in favour of production of the domestic market and against production for export. Discussion in this chapter suggests that this economic system and trade policy could not result in efficient and sustainable economic development, which was evident in China's case immediately after the Cultural Revolution. Meanwhile, the policy redirection to economic liberalization and internationalization could not be achieved without other internal and external conditions, namely the renovation of bilateral relations with Western countries and a prevailing reform faction within the Party's top leadership.

The political strategy of economic reform adopted by reform-minded leaders largely shaped the dynamics of domestic trade liberalization, while the strategic shift from the command economy to a market economy and from economic closure to economic opening set the general context of China's WTO membership bid. We see from the empirical evidence of the negotiation processes unfolded in this chapter that the mechanisms that once propelled the policy shift in the late 1970s have also been largely, though not exclusively, effective in the WTO accession process in the following two decades: namely the changing ideas and perceptions of decision makers, the power struggle among political elites, and their interaction with foreign governments.

The empirical coherence between the adoption of the economic opening and the WTO accession is to be logically examined in the following chapters, which will elaborate on the underlying mechanisms that were in action during the accession process. These include policy players' ideas, perceptions and preferences; the institutional settings through which policy was formulated; as well as external opportunities and constraints offered by the international system.

3 Contending views on the WTO

Introduction

As discussed in Chapter 1, to understand the policy formation process, an analyst must take into account the preferences and belief system of policy elites. This chapter examines the ideas, perceptions and policy preferences of the Chinese leadership towards China's WTO accession and various counter arguments regarding the accession, and assesses their influence on the policy process.

In China, different perceptions of the WTO and economic internationalization correspond to the ideological alignments towards the reform and opening up strategy. This chapter argues that the common Western notions of 'left' and 'right' are largely distorted in the Chinese context. Instead, a 'reformist/conservative' dimension is used in this book to describe the policy orientations on the economic reforms in general and on WTO entry in particular. The dominance of the 'reformists' within the top leadership after 1979 enabled the support of economic opening and WTO accession to be the mainstream party line. Meanwhile, the reformers' pro-WTO rationale was based not on their belief in a global liberal regime, but on careful calculations of domestic gains and losses from membership. On the one hand, WTO accession would make China's opening up policy and export-orientation strategy more irreversible, and, in the long run, it is expected that China will have macro and micro economic gains including increased GDP, expansion of foreign trade and a greater influx of FDI. Also, WTO membership can be used as a compelling card by the reformists to overcome domestic obstacles of SOE reform and battle rampant corruption. Meanwhile, with China's deepening involvement in the world economy, especially after the Asian financial crisis, the reformists have distanced themselves from the original enthusiasm at the beginning of the accession. They came to acknowledge that WTO and economic opening is a 'double-edged sword' which may have certain negative impacts on Chinese society. Nonetheless, they insisted that gains from accession outweigh the losses and that China has to face and will succeed the challenges only by furthering the reform process.

The ultraleft (Old Left), New Left and nationalism provided the main ideational agenda to opponents of WTO accession and further participation in 'globalization'. The left camp sees the reform and opening up process as 'capitalization' which will destroy socialist economic regime, values and culture, while the nationalists see it as 'Westernization' and 'Americanization' in which China will lose its national sovereignty and be ruled by a US-dominated international system. At the same time, they stress the negative effects of WTO entry to China and point to the socio-economic challenges looming large on the horizon, such as potential massive unemployment, a widening income gap and the dominance of foreign investment in Chinese markets. They argue that China should slow down or even suspend economic opening up and revert to the principle of self-reliance.

Although there have been various schools of thought regarding internationalization and globalization, there was hardly an open and public policy debate on China's WTO accession. The prevalence of the reformers at the top of the party managed to marginalize the articulation of these opposing views in the mass media that is under their control and instead steered it in favour of accession. However, the limited debate that was exposed mostly in academic and professional spheres increased leadership and bureaucracy's awareness of potential negative effects WTO accession may entail. Moreover, the nationalist sentiment spread through the Internet during political crisis, such as the embassy bombing in 1999, periodically shaped the political climate and to some extent delayed the actual negotiation process.

The chapter begins with a mapping of the 'reformist/conservative' alignments towards domestic reform and economic opening within the party leadership. It then examines the reformists' rationale on WTO membership, arguing that considerations such as macroeconomic gains, propelling SOE reform, curtailing government corruption and political prestige dominated their preference for accession. The chapter then demonstrates the difficult domestic context that reformers had to face, especially increasing social dislocation. This is followed by an analysis of the contending views of the conservatives on WTO entry and trade liberalization which stemmed from their different perceptions of the issue area. An assessment of the extent to which these contending views shaped the dynamics of the policy-making and negotiation process are provided at the end of the chapter.

Policy orientation cleavages

As discussed in Chapter 1, policy elites enact policies based on some notion of the public good that in the long term ensures their maintenance of power, and align themselves into 'groups' concerning similar issues. The distribution of power among these 'opinion groups' stages policy choices.

Thus the opinion group approach captures the essence of Chinese elite politics, assuming that political leaders are both pursuing the national good they perceive as well as maximizing their political power and regime survival. The grouping of the elites, according to this approach, best reflects the policy struggle among various 'lines' (*luxian*, in the CCP's language), within the party leadership throughout its history. Here, the notion of 'line' does not mean that all policy preferences are clear cut or static. Instead, 'line' defines a policy direction or orientation rather than a set of specific policies (Fewsmith 1994). Even though the notion of 'line' has its specific and changing meanings in Chinese politics, the idea of a political line remains important for an analysis of the alignments among the party elite in contemporary China.

Reformists versus conservatives

The left–right dimension is a common perspective in the analysis of political and ideological alignments, especially in the West. From a political economy perspective, two issues dominate the ideological cleavage: the role of the state and conflicts regarding doctrines of equality (Nathan and Shi 1996). The left generally prefers more government intervention in the economy and a more egalitarian income distribution, while the right favours the relative freedom of the private sector from state intervention and the toleration of higher levels of income inequality.

However, the terms of 'left' and 'right' have their own specific meanings in Chinese politics after the communist revolution in 1949. In Mao's terminology, the 'left' were those standing at the right side of class struggle and therefore representing the progress of the history; the 'ultraleft', however, were those radical leftists whose aim was to establish a classless society with extreme means, and the 'right' were those 'reactionaries' who were representatives of the capital and therefore were obstacles of the socialist/communist revolution. Mao's leftist legacy still haunts current reform era. The official debate over the speed and content of reform continued to orient itself to the presumed direction of historical progress and is still labelled in terms of left and right. While all tend to claim themselves as 'left' for their political correctness, the reformers labelled conservative values 'ultraleft' or 'left' in quotation marks,¹ whereas critics of the reforms labelled reformists 'bourgeois liberals' and therefore located them on the 'right' by its traditional negative sense (Brugger and Kelly 1991; White 1993; Feng 1995; Chen 1999). Thus, the self-defined labels of 'left' and 'right' differ from the accepted meaning in the West and make it confusing for any analysis of political alignments in the Chinese polity after 1979.

After the ousting of Hua Guofeng, Mao's chosen successor, by Deng Xiaoping, the ultraleftists and leftists (on its original, Western meaning, e.g., those who favour more or less absolute egalitarian regime of welfare

distribution as Mao) had less if not little representation in and support from the top. In this sense, leftists have largely been detached from power politics and exert little influence on policy making. The former 'rightist' victims of the Cultural Revolution, headed by Deng, dominated the Party leadership. Drawing from the lessons of the failed Maoist practice of politics-in-command and the semi-autarkic, import substitution development strategy, and the successful export-orientation experience of the East Asian countries, the acknowledgment that China must reform its central-planning economy and reconcile with the West by economic opening has been a common idea both among Party leaders, the intellectual sphere and the Chinese public at large. However, under this consensus, the party elites and intellectuals split into two loose groups according to different, often conflicting, views on speed and content of reform and on economic liberalization and internationalization.²

Generally speaking, the reformist group consists of reform-minded leaders and liberal intellectuals who see their goals as reorienting the domestic economy from a central plan to a market mechanism, downsizing and restructuring the government to make its function more in line with the requirement of the market economy, and opening up to the outside world to seek foreign opportunities. Above all, the reforms should be pushed forward at any affordable cost. On the other hand, conservatives, while not necessarily against the reform in general, are more concerned about the negative effects of reform to the economic, political and social system and therefore favour more cautious steps to handle economic restructuring. Their consistent advocacy of planning as the primary and the market as secondary means to allocate resources represents an alternative to the reformists' belief in the need for ultimate marketization. They support a strong state and a fairer distribution of welfare and reject the widening gap between the rich and the poor. Besides the conservative leaders at the top, this line of thought has also been shared with the 'New Lefts', those Chinese intellectuals who are in doubt about the 'great expectations' of market reform offered by the liberals and who strongly advocate the establishment of social equity and justice by the state. It is not surprising to see that hardline ideologues and nationalists joined the New Lefts in criticism of the market reform and opening up. The ideologues, ultralefts in Western terms, or the 'Old Lefts' in Chinese terms compared with the New Lefts, see the economic reforms and opening up as capitalization, while the nationalists see it as a process of Americanization. They either hold on to the socialist ideology or try to revive values of traditional Chinese culture against the so-called 'Western imperialist predators'.

These conflicting perceptions of the domestic reform and open-door policy are admittedly the natural result and reflection of the economic transition and the external engagement with the international system. China's WTO accession, a decisive step to integrate the Chinese economy into the world market, will no doubt bring further changes to the existing

social system and has profound and far-reaching implications to the Chinese society and economy. With such high stakes at hand, the leadership's policy preferences towards WTO accession was also anchored and reflected in this reformist-conservative dimension of policy orientation and cleavage.

Reformists' support for the WTO membership

The acceptance of the idea about the need for opening up to the outside world by the Chinese polity since the late 1970s enshrines the vital political legitimacy for the reformers' push to join the WTO. The later success of the outward-looking strategy (especially in economic terms) in turn institutionalized and entrenched this idea. As the official *People's Daily* admitted in 1982, 'No country in today's world can develop at a relatively high speed without maintaining contacts with other countries'.³ Under this doctrine, as we have seen, China joined the IMF and World Bank at the beginning of the 1980s. Viewed as one of the integral components of the so-called 'economic UN' by the Chinese, joining the WTO was the next reasonable and 'natural' step in China's agenda of opening up. On the other hand, the reformer's dominance in the power structure within the Party and government since 1979 enabled them to shore up societal support of the accession. However, the reformists' perception of WTO membership also experienced an evolution from early enthusiasm in the 1980s to a more cautious stance in the 1990s, especially after the Asian financial crisis in 1997. Despite this, the reformists are convinced that China must join the global trade body at an affordable cost. In the context of deepening globalization, the Chinese leadership came to realize that globalization, with WTO as one of its symbols, is inevitable and that the global flow of production and capital has presented an opportunity for China to participate in the world economy with its low-cost labour force and relatively liberal FDI regime. Deeper participation in the global production and investment networks resulting from the WTO accession could potentially provide a new and sustainable base for the continued growth and development of the domestic economy, especially given China's burgeoning population growth.

Major economic and political considerations determined the leadership's preferences towards GATT resumption and WTO accession.

Macroeconomic gains from WTO membership

Economic effects are always the major aspect in the leadership's thinking in economic policy making. In fact, the resumption of GATT membership was first driven by practical economic considerations. China actively participated in some international trade negotiations after 1979, mainly on textiles in the early 1980s. At that time, the global textile trade was

governed by the Multi Fibre Agreement (MFA) which allocated quotas to GATT member countries. While textile products formed one third of China's annual exports and therefore an area of key interest in Chinese trade growth, the stakes were so high for China that to sit outside the global textile trade negotiation under the GATT framework was damaging. Hence, China took part in the negotiations and joined the MFA in 1983 (Yang, Y. 1995a, 1995b). The following five years saw China's textile exports almost double. This impressive result undoubtedly confirmed the determination of Chinese leaders to re-join the multilateral trade regime.

Given China's position in the world market, it is undeniable that entry into the global trade regime could potentially bring overall economic benefits to China's economy. Among various researches and models estimating the economic gains from the WTO membership, a research sponsored by the Development Research Centre (DRC) of the State Council best reflects the official view. Table 3.1 illustrates the DRC's estimation of some simulated economic outcomes after China enters the WTO.

Export and import expansion are the most astonishing and apparent results of the above simulation, an increase of 26.9 per cent and 25.7 per cent respectively from 1995 to 2005. It was estimated that China's total foreign trade would increase from US\$320 billion in 1998 to US\$600 billion in 2005 (Cao 2000). To China, WTO membership means the automatic most-favoured nation (MFN) status with its trading partners.⁴ The national treatment principle of the WTO could also protect China from discriminatory measures in foreign markets. Enjoying the gradual global reduction of tariff levels and non-tariff barriers (NTBs), it is safe to

Table 3.1 Projected macroeconomic outcomes in 2005 after China accedes into WTO (base year: 1995) (percentage points)

	<i>Entire schedule for China's WTO accession (a)</i>	<i>Tariff reduction and non-tariff barrier abolition (b)</i>	<i>Agricultural trade liberalization (c)</i>	<i>Abolition of the Multi Fibre Agreement (d)</i>
GDP	1.53	0.15	1.02	0.20
Consumption	0.58	0.05	0.42	0.01
Investment	1.75	0.02	1.60	0.04
Exports	26.93	3.53	5.13	8.74
Imports	25.79	3.14	4.49	8.38
Real exchange rate	1.85	2.39	3.39	-1.10

Source: adapted from Li Shantong *et al.* (2000).

Note

'a' is the simulated economic outcome from 1995 to 2005 if the full schedule of China's WTO accession is implemented; b, c and d are the scenarios in which only the corresponding part of the schedule alone is implemented. Since these components interact with each other, their combined effects are not always equal to that of a full implementation. In this table, therefore, the value of 'a' does not necessarily equal the combined value of b, c and d.

assume that Chinese exports will experience another boom after WTO accession, particularly labour-intensive industries like textiles and clothing where China has comparative advantages, with help of the phase-out of the MFA, thanks to the Uruguay Round negotiations.⁵

Meanwhile, the domestic tariff and NTB reductions also probably lead to the drastic increase of imported goods and services formerly under high protection. China will increase its imports of raw materials and other primary products in order to lower production costs and cover the shortage of raw materials in the domestic market. On the other hand, China will, through the import of advanced foreign technologies and equipment, optimize its production elements to increase its productivity and international competitiveness. Another reason for the potential surge of imports is because more than half of China's foreign trade now is from the export processing industry that has a high percentage of import contents. The increase of exports will in turn generate a growing need for imports.

FDI is expected to benefit from the accession. The elimination of trade related investment measures (TRIMs) and the reduction of NTBs, and the very specific market access benefits in goods and services granted by the WTO accession agreement will enhance the attractiveness of China's market, giving foreign investors greater confidence in the economic reform. China is already the second largest destination of FDI after the United States (Lardy 1999). A new wave of FDI is expected in the domestic capital market. According to the estimation of the DRC, the changes brought about by WTO would lift total investment in 2005 by 1.75 per cent over what it would be that year without WTO membership. Cumulatively, entry into the WTO is expected to attract US\$1 trillion of foreign investment between 2000 and 2005 (Yu and Zheng 2001: 3–4).

WTO's trade dispute settlement mechanism could also boost China's foreign trade after its accession. Under the Dispute Settlement Understanding, it is the Dispute Settlement Body's (DSB) duty to oversee the WTO procedures of trade disputes among member nations. China could use this mechanism to take advantage of anti-subsidy and anti-dumping measures in its fight against unfair treatment by other member nations.⁶ Since China was not a WTO member, these countries used a tougher standard under their laws rather than the WTO regulations. Thus, WTO membership better enables China to protect its rights in international trade and pave the way to increase its export share in the international market. On the other hand, the DSB within the WTO is a multilateral, trade-related regime. One can resolve trade disputes with the related members in the multilateral framework without resorting to bilateral relations. This is particularly important for China that has been accused of penetrating the EU and US markets. Kept outside the WTO, China had to negotiate bilaterally with these countries and these talks often were intertwined with and end up in political brawls. In this sense, the DSB provides China a relatively fair, equal and relatively non-political system to resolve trade

disputes without ushering in negative effects in bilateral relations with its trading partners.

In addition to the boost of foreign trade volume, the WTO membership could also provide China with opportunities to upgrade its foreign trade system to international standards, including readjusting the functions of the government, increasing policy transparency and improving foreign trade management in accordance with international laws and regulations.

Taking these factors into account, accession to the WTO is likely to contribute positively to China's GDP. DRC estimates that by 2005, WTO membership would contribute 1.53 percentages to the growth of China's real GDP (See Table 3.1). Some analysts even forecast that this contribution could be 3 percentages by 2005 (China Business Review 2000).

Propelling the domestic reform

Due to the political and ideological bankruptcy of the communist regime after the Cultural Revolution, the party elites in China increasingly built their political legitimacy on economic development. Given this imperative, the decision to enter the WTO was reinforced by the fact that economic growth in China, though still strong in terms of the standards of the developed countries, has been slowing considerably in the latter half of the 1990s. China's headline figure for GDP growth has declined steadily for six straight years since 1993 (see Table 3.2). One of the major reasons for the economic slowdown was the domestic impasse of the SOE reform, which was further devastated by the Asian financial crisis.

To the Chinese reformist leaders, the core issue the reform has to address is SOEs. The state industries, with their vast fixed assets and the largest share of urban employment, have been a vital part of the national economy. Although during reform years, due to the rise of the non-state sector and the SOEs' own problems, such as muddled ownership and management rights, huge welfare burdens, unclear incentives and so on, the state sector is still the largest component of the national economy, even though SOEs' share in the national output has been declining (see Figure 3.1). Since 1996 when, for the first time, overall losses exceeded profits in SOEs, the government has had to fill the bottomless trap by a 'soft budget' providing hundreds of millions of dollars in subsidies to the loss-making SOEs (see Table 3.3). The state banks are obligated to provide about 70

Table 3.2 Annual growth rate of China's GDP, 1993–1999 (percentage)

<i>Year</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
Growth rate	13.4	11.8	10.2	9.7	8.8	7.8	7.1

Source: adapted from various issues of annual statistical reports by the National Bureau of Statistics of China (1993–2000).

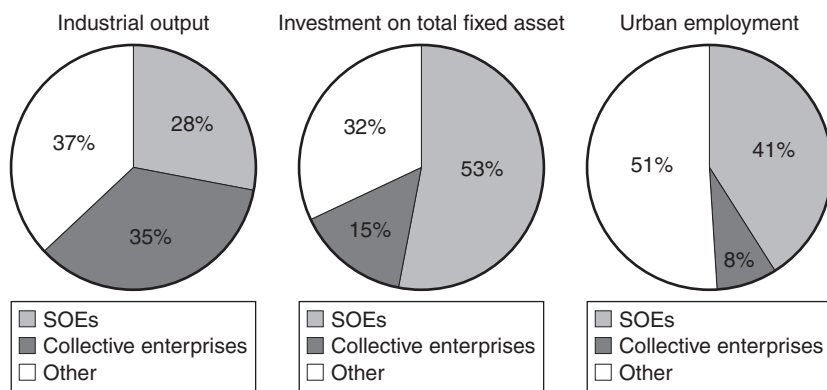


Figure 3.1 SOE's contribution in the domestic economy in 1999 (source: based on annual statistical data compiled by the National Bureau of Statistics of China. Online available at: www.stats.gov.cn/tjsj/ndsi (accessed on 28 February 2005)).

Table 3.3 Subsidies to loss-making SOEs from 1995–99 (100 million yuan)

	Total government revenue	Taxes	Subsidies to loss-making SOEs	% as of the total government revenue
1995	6,242.20	6,038.04	327.77	5.25
1996	7,407.99	6,909.82	337.40	4.55
1997	8,651.14	8,234.04	368.49	4.26
1998	9,875.95	9,262.80	333.49	3.38
1999	11,444.08	10,682.58	290.03	2.53

Source: annual statistical data compiled by the National Bureau of Statistics of China. Online available at: www.stats.gov.cn/tjsj/ndsj (accessed on 28 February 2005).

per cent of their loans to the SOEs with little prospect of loan repayment. Therefore, the banking system, at least under current practice, has an astonishingly high bad debt ratio to annual GDP. It makes little sense to reform the financial system as long as the banks are forced to loan large amounts to essentially bankrupt SOEs. Hence, the health of the banking system also depends on SOE reform. After two decades of gradual economic liberalization, the SOEs have become such a heavy burden on the government and a potentially fatal trauma of China's economic system that the reformist leaders have to face up to this issue. As Premier Zhu Rongji put it, 'China's economy has reached the point where it cannot further develop without [SOEs] being restructured.'⁷

However economically urgent, reform of the state sector seemed

politically risky to the top leadership. The essential reform of the SOEs will produce considerable economic hardships, adversely affecting a wide array of interests, including that of the millions of urban workers and managers and the state bureaucracies such as the State Development Planning Commission,⁸ all of which have been the vital constituents to the Party and therefore the greatest obstacle of the SOE reform. However, the Asian financial crisis served as a wake-up call to the Chinese leadership because many of China's large SOEs and financial institutions exhibit the same symptoms as those of the countries affected by the crisis. The leadership in Beijing came to realize that economic reform and developing a market economy is a do-or-die proposition (Lardy 2001). In this context, WTO membership, which will expose SOEs and domestic banks to direct foreign competition, could be used by the reformers as an additional leverage or 'external' excuse to justifying the reform of the crucial state sector of Chinese economy. As the following chapter shows, when Zhu replaced Li Peng as the Chinese Premier in 1998, his attention was still concentrated on SOE reform and less interested in the WTO. However, facing mounting pressure, especially the eruption of the Asian crisis, he came to see that external forces such as WTO rules and foreign competition would weaken domestic resistance to SOE reform. Once a date was set for WTO accession, government institutions and enterprises would have to carry out the reforms needed to increase their competitiveness, while at the same time Zhu could argue that the WTO rules and upcoming foreign competition, not his own preferences, were driving this process. In other words, only after hitting the wall of SOE reform did the reformist leaders turn to WTO accession. As a result, serious concession packages were made to join the global trading system at the beginning of 1999 that eventually led to the conclusion of the most important Sino-American agreement in November that year.

Battling with corruption

The economic transition *per se* and the gradualistic feature of the Chinese reform developed a two-track system in which a more and more relaxed and market-oriented economy co-exists with a small proportion of sectors under the state plan and a dominant government that still systemically controls the operation of the system. The co-existence of market forces and a weak accountable public authority provided ample space for rent-seeking practices. As a result, corruption has been widespread at all levels of the Party and the government during the reform era. This was so severe that it partly contributed to the eruption of the democratic campaign in 1989. Deng's southern tour in 1992 stimulated a new wave of market reform, and, unfortunately, an unprecedented wave of corruption. Many in the Chinese leadership see this rampant corruption as ultimately a threat to the Party's rule. Although the Party has been fighting against it,

no concrete result has yet been achieved. The leadership believed that WTO membership would help to resolve the problem. For example, tariff cuts required by WTO rules will make smuggling sanctioned by government officials, one type of corruption, unprofitable.⁹ Trade liberalization will also reduce the administrative practice of trade control, such as state monopoly of foreign trade and the issuance of import and export licenses, which are important sources of rent for government officials.

More broadly, in implementing WTO rules, government policies have to be transparent to both domestic and international businesses and investors. To the extent that corruption is assumed to run parallel to the degree of transparency, China is notorious as being one of the most opaque countries in the world.¹⁰ The government relies heavily on hidden internal regulations, unpublicized policy guidelines and memos in implementing trade policies. By enforcing WTO's discipline on policy transparency, the membership is expected to largely eliminate the prevailed 'black box operation' (*anxiang caozuo*) in its trade and administrative conduct. It will force the government to abandon procedures not in accordance with the requirement of a market economy and make commerce more transparent to foreign business.

Political prestige and the Taiwan issue

In Chinese culture, one's prestige or 'face' (*mianzi*) is vital for social life, and this is also pronounced in its political culture. China used to be a super power in ancient times and the Empire stood at the centre of the old political, economic and cultural exchange system with its neighbouring countries. This cultivated the Chinese mentality of self-prestige, which was smashed by the modern defeat at the hands of Western powers since the 1840s. Subsequent Chinese leaders shared a deep bitterness at China's humiliation as well as a determination to restore China to its rightful place, more or less like the traditional Middle Kingdom, a great power in the world. When China made the strategic decision to return to the international system in the late 1970s, it was already one of the five standing members of the UN's Security Council with the veto power on politically-vital issues. Yet its delegates to GATT, as a mere observer, had to speak after all the member nations had made their speeches and had no right to vote on trade-related issues. Not surprisingly, the Chinese leaders deemed this unacceptable for their *mianzi* (*Shiji Zhongguo* 2001). Even more embarrassing was that, Hong Kong, under the control of Britain, had already been a GATT member, while China, claiming sovereignty over the city, was still an observer.

The Taiwan issue is also relevant in this respect. The People's Republic of China (PRC) has long been claiming that Taiwan is a part of China and non-recognition of the Republic of China (ROC, Taiwan's official name) is the basic principle of Chinese diplomacy for countries that intend to

establish diplomatic relations with the PRC. China has been making every effort in vetoing Taiwan from joining international organizations. The possibility that Taiwan would accede to the WTO could be another potential blow to China's international prestige. The Chinese leadership could not afford to stand outside the WTO to see Hong Kong and Taiwan voting on issues that may have a direct impact on China's foreign trade and economic development. On the other hand, if China and Taiwan both entered the WTO, Taiwan would have to abandon its 'three-Nos' policy, a major obstacle of direct trade and communications across the Taiwan Strait, or face a penalty from the WTO.¹¹ Beijing anticipated that direct contact between both sides of the Strait after the accession would strengthen the social and economic ties and therefore increase the costs of Taiwan remaining separate from the mainland. Moreover, if China can meet the challenge of WTO and continue the current strong trend of economic development, that, too, would greatly facilitate the reunification.¹²

At the same time, by entering the world trade regime and implementing its accession obligations, the Chinese leadership wanted to establish and reinforce the image that China is a decent player and a responsible member of the international community who observes the rules of the international regime. This will also help to diffuse the newly popular view of China as a threat, thus creating a favourable environment for China's long-term growth.

Meanwhile, as China increasingly became involved in the world market, the reformists gained more comprehensive knowledge on the nature of the international regime. The sense of uncertainty generated by the Asian financial crisis and the cognisance of possible losses from the accession made the reformist leaders' perception of WTO, and, more broadly, globalization, deviate from the original enthusiasm to a more cautious stance in the process of China's membership bid in the late 1990s. The notion of 'economic security' has been touted by the leadership since mid-1998 that embraces controls on movements of short-term capital and a slow process of financial liberalization. In an address to the meeting of the Asia-Pacific Economic Cooperation (APEC) in Brunei on 16 November 2000, Chinese President Jiang Zemin acknowledged that globalization had negative economic consequences, including a widening economic gap 'between and within nations'. He also indicated that China was worried about the potential negative political and cultural consequences of globalization. Despite this, however, the reformers insist that there are no alternatives other than integration and globalization. Jiang asserted that '[W]e have to gain a complete and correct understanding of the issue of economic "globalization" and properly deal with it. Economic globalization is an objective trend of world economic development, from which none can escape and in which everyone has to participate.'¹³ In general, reform-minded leaders viewed WTO membership and globalization as a 'double-edged sword'¹⁴ with both positive and negative effects. They believe that gains from WTO

membership outweigh losses in the long run and that China can take full advantage of the benefits while taking ameliorate measures to prevent or minimize the potential damage to the Chinese economic, political, and social system. As Premier Zhu put it,

[I]f China wants to join the WTO, wants to be integrated in the international community, then China must play by the rules of the game. China cannot do that without making concessions. Of course, such concessions might bring about a very huge impact on China's national impact on some state-owned enterprises, and also on China's market. But I have every assurance to say here, thanks to the achievements made in our reform and opening up process, we will be able to stand such impact. And the competition arising from such impact will also promote a more rapid and more healthy development of China's national economy.¹⁵

Hence, to the reformers and liberal intellectuals, China's entering into the WTO will not only enhance the benefits it has received from participating in the international economic system, but also reinforce other trends apparent in China's political economy, including restructuring the national economy by forcing through the stumbled SOE reform, curtailing rampant corruption and reforming the state-society relations. However, it should be noted that the mainstream support of joining the liberal regime does not mean that Chinese leaders in favour of WTO membership are themselves liberals.¹⁶ We have to bear in mind that the then incumbent Chinese leaders were educated to run, and whose career paths had been developed within, a system of central planning, a system that proclaimed the doctrines of economic autarky, balance of trade and self-reliance. They also live in a country whose modern history features humiliations of armed occupation and forced opening up by Western powers under the banner of 'open door', therefore public perception of the West and the 'international system' is embedded with deep suspicions. Even though the reformist leaders may tacitly accept the validity of such Western liberal economic concepts such as comparative advantage, international division of labour and the efficiency of market mechanism (Jacobson and Oksenberg 1990), their willingness to lead the country in the international economic system is not based on deeply held beliefs in the liberal regime rooted in a liberal society on the Western model. Rather, they are pragmatic realists and neomercantilists who stress an activist, interventionist state promoting a unified national interest. Their decision to join the global trade regime is based on their belief that China can and should use globalization to its advantage, which will strengthen China's position in the world. However, their decision and the empirical consequences of China's accession will no doubt have influences on the political and economic philosophy of the party leaders for a generation to come.

A difficult policy arena

Despite the perceived long-term gains from WTO accession by the leadership, they have to admit that there is no free lunch. In fact, China has to buy a higher-priced ticket to be a WTO member after it failed to resume its GATT status before 1995. The conclusion of the Uruguay Round of trade negotiations in 1994 transformed global trade arrangement from GATT's border administration to the WTO's intrusion of domestic institutional and legal infrastructure, therefore increased substantially the scope of demands placed upon new entrants into the international trade regime. More specifically, the trade agenda was expanded considerably by covering services, agriculture, intellectual property and certain aspects of FDI. The Agreements now entail liberalization of a much broader range of domestic economic activities, such as information technology, basic telecommunication services and financial services, areas which traditionally have been regarded by most countries as among the most nationally sensitive. And, because of the gigantic volume of its economy and foreign trade, and therefore its extraordinary implications to the established regime, China was required, in a discriminatory manner, to make protocol commitments that substantially exceeded those made by any other member of the WTO, including those that have joined since 1995 when the WTO replaced GATT (Lardy 2001).

Despite the official researches, such as that of the DRC, that predict a degree of immediate as well as long-term economic gains from WTO entry, it is widely estimated by foreign scholars that WTO membership will generate immediate and concentrated pains while promising diffuse benefits in the future (Lardy 1996, 1999; Wang, S. 2000; Fewsmith 2001; Lardy 2001; Pei 2001; Deckers 2004). Instead, the broader and deeper commitments China has to make would likely entail substantial short- to medium-term economic costs such as the pending industrial restructuring due to foreign competition. Given the great uncertainties of uneven distributional consequences due to openness, the deep integration entailed from WTO membership may further exacerbate the current problems such as social polarization and unemployment.

Social polarization

China was one of the most egalitarian countries when the economic reforms started in 1978. According to Wang, S. (2000), the economic reforms have actually gone through two distinct phases in terms of social distribution. The first phase, from 1979 to around 1993, featured a win-win outcome in which all social groups gained, albeit some gained relatively more than others. Starting from 1994, Chinese reform entered the second phase. Despite the fact that some still gained from the latest round of reform, some segments of society, such as farmers and urban workers

whose welfare suffered a real decline, became losers in an absolute sense. To the extent that some gained at the expense of others, the new gain has been changed in part to a zero-sum one.

As a result of both the old developmental pattern of self-reliance under central planning and the emerging and worsening economic inequality, gaps have been widened between coastal and inland provinces, between urban and rural areas, and between rich and poor households in both urban and rural China. In fact, China's income polarization has already exceeded that of most transition economies in Eastern Europe and many high-income countries in Western Europe (see Table 3.4).

Growing inequality has given rise to a pervasive sense of economic insecurity among various social groups. Yet it is estimated that further liberalization of foreign trade triggered by WTO entry will make the losers of the reform even worse off. To be sure, the Chinese public in general may benefit from WTO membership. But in the short to medium term, the gains and costs of the membership are not going to be distributed evenly. Take agriculture. Once China joins the WTO, it will have to cut agricultural tariffs substantially from 22 per cent to 17.5 per cent. From 1993, the prices of China's main agricultural crops (wheat, corn, rice and cotton) have exceeded those in the international market. Not only are the prices of Chinese agricultural products generally higher, their quality is generally inferior. What is more, they are already over-supplied in China (Wen 1999). Without the former protective measures under state sanction, China's small-scale household farmers can never compete with giant producers such as the US who are themselves well established and heavily subsidized. It is estimated that WTO membership would exert downward

Table 3.4 Inequality in comparative perspective (average Gini coefficient)

<i>Region/Country</i>	<i>1980s</i>	<i>1990s</i>
East Europe	0.250	0.289
High-income	0.332	0.338
South Asia	0.350	0.319
East Asia and Pacific	0.387	0.381
Sub-Saharan Africa	0.437	0.470
Latin America/Caribbean	0.498	0.493
China	0.299	0.388
China (Zhao, R. and Li)	0.382 (1988)	0.445 (1995)
China (Qiu Xiaohua)	–	0.450 (1997)
China ^a	–	0.457 (1999)

Source: adapted from Kang, X. (2000) 'Bixu lijì caiqù cuòshì jiéjué shourù fēnpèi búpíngdèng chixu kuòdà de wèntí', [China has to stop the trend of growing inequality], internal manuscript of the Chinese Academy of Science, quoted in Wang (2000).

Note

a 'Woguo jumin shourù chajù buduan kuòdà' [Residents Income gap widening in our country], *Jingji ribao*, 30 August 2001.

pressure to Chinese agricultural production, forcing Chinese farmers to reduce their corn production by 7.7 per cent, wheat by 4.7 per cent, soybean by 4.5 per cent, cotton by 3.8 per cent, oilseed by 3.6 per cent and its sugar crop by 2.5 per cent (Fan 2000: 371–87). The impact on Chinese agriculture will further widen the gap between rural and urban sectors. According to the above research by the DRC, agricultural imports will surge by 220 per cent in 2005 compared with that in 1995. The urban residents' income will rise by 4.6 per cent after accession, while their counterparts in the rural areas will actually decrease by 2.1 per cent (Li *et al.* 2000: 49–50). Premier Zhu admitted that '[After WTO accession] agricultural products from the United States will enter into China's market on a massive scale, and then the price of China's home-grown agricultural produce will decline even further.' But he believed that 'conditions would eventually improve because of measures to reduce farmland, cut oversupply, and cuts to the financial burdens on rural communities ... with all these efforts, the difficulties of Chinese farmers can be eased', although 'this does take some time'.¹⁷

The WTO accession could also have significant impact on the divide between the coastal and inland provinces. With a more diversified agricultural structure, better-educated work force, concentration of labour-intensive light industries, and natural geographical advantage for foreign trade, the coastal provinces will enjoy more opportunities than their inland counterparts that have poorer natural endowment and more limited financial resources.

Massive unemployment

Another well observed concern is the mounting problem of urban and rural unemployment and its potential impact on social stability. Employment is widely viewed as an important, if not vital, variable in political considerations of economic policy making (Breslin 2000). This issue is even more salient in a socialist context. Under Mao's absolute-egalitarian regime, urban workers enjoyed guaranteed social welfare, job placement and entitlement from their working unit (*danwei*) and the government, the so called 'iron rice bowl' (*tie fanwan*). As a result, over time, SOEs have been over-staffed and lack efficiency and incentives for innovation. In a market regime, however, enterprises have to operate on the profit-maximization principle, and SOEs, despite their Maoist legacy, have no choice but to drastically downsize to survive. This process of SOE reform and restructuring of the welfare state was already prompted by external shocks such as the Asian financial crisis. The state, under the bold-minded Premier Zhu, undertook a drastic restructuring plan in order to make large and medium-sized SOEs economically viable by selling off or merging unprofitable SOEs and the 'release' of millions of workers. This has already resulted in a growing number of urban unemployment.

According to official figures (see Table 3.5, which already considerably understates the number of workers laid off¹⁸), employment in SOEs fell from 113 million in 1995 to 85 million in 1999, a reduction of 24 per cent. At the same time, collective enterprises ‘released’ 45 per cent of their workers, reducing employment from 31 million in 1995 to 17 million in 1999. There was 5.75 million registered unemployed in urban areas in 1999, but according to Hu’s calculation (1999) which combines the numbers of *xiagang* workers with those officially registered as unemployed, the total number of unemployed amounted to 15–16 million in 1998 and 18–19 million in 1999.¹⁹

Urban unemployment is further exacerbated by rural underemployment. The birth boom in the 1960s and 1970s encouraged by state policy led to a rapid increase of rural population. Even the low productivity of Chinese agriculture could not create enough jobs. Hu (1999) estimates that in 1995, more than one-third of the 500 million able-bodied labourers in rural China were actually underemployed. To make things worse, in the 1980s and early 1990s, township and village enterprises (TVEs) used to absorb millions of rural labourers, thus helping to relieve the employment pressure. But according to the figures in Table 3.3, the TVEs seem to have lost the power of job creation after 1996. Employment by the TVEs has been steadily declining since 1997. The need for efficiency had driven millions of rural labourers off their land to flock to the cities.

In the short to medium term of China’s WTO accession, it is widely accepted that the unemployment problem will get worse. Three factors should be considered. First, in the face of both domestic competition with the growing private enterprises and the onslaught of foreign investors, most of the large, inefficient and unproductive SOEs formerly kept alive by transfusions of state subsidies will either go bankrupt or survive by further downsizing. Second, with the help of the export-orientation strategy and influx of FDI, Chinese domestic industries will be restructured to be more in line with its comparative advantage. It is estimated that redundant industrial employees alone will amount to about

Table 3.5 Employment in China, 1995–99 (unit: 1,000,000)

	1995	1996	1997	1998	1999
SOEs employment	112.61	112.44	110.44	90.58	85.72
Urban collective enterprises employment	31.47	30.16	28.83	19.63	17.12
Private enterprises employment	4.85	6.20	7.50	9.73	10.53
Self-employed individuals	15.60	17.09	19.19	22.59	24.14
TVEs	128.62	135.08	130.50	125.37	127.04
Registered urban unemployment	5.20	5.53	5.70	5.71	5.75
Registered unemployment rate (%)	2.90	3.00	3.10	3.10	3.10

Source: annual statistical data compiled by the National Bureau of Statistics of China. Online available at: www.stats.gov.cn/tjsj/ndsj (accessed on 28 February 2005).

20 million. The overall redundant urban work force will probably be about 25–30 million. Third, agriculture is one of the main losers from WTO membership. After the phase-out of the state subsidy, more rural labourers are expected to lose their jobs and join the unemployed population. It is estimated that between 13 and 15 million growers of China's main agricultural crops will become unemployed between 2000 and 2010, ten million of whom will have to be transferred to non-agricultural sectors (Wang, S. 2000).

The reformists were well aware of the short-term shocks that may result from WTO accession. They argued that China's only hope to defuse the potential unemployment time bomb is to accelerate the reform and more rapidly integrate China into the world economy. Indeed, as far as employment is concerned, WTO accession may produce unemployment both in urban and rural areas, but it may also generate several counter factors to create more jobs. First, WTO accession will stimulate Chinese exports, especially labour-intensive export processing industries, which will produce more employment opportunities. This has particular significance to rural employment, since the majority of the export processing industries are situated in towns and villages rather than big cities. This will accelerate the urbanization of the rural areas, which in turn will generate a need for local service industries. Second, WTO's national treatment principle not only gives foreign investment the same starting line with the SOEs, but also gives the domestic private sector a fair go, which is expected to absorb part of the work force retrenched from the SOEs. In addition, the unemployment problem could be relieved with the help of industrial restructuring that China has to take in the face of WTO membership. On the one hand, China's production will be more in line with labour-intensive industries where China has comparative advantages in international competition. On the other hand, the service industry, which employs the largest part of the work force in developed economies, will see a rapid development after China's accession. At the same time, with the growth of the economy, the government may have the required funds to establish a social security system and run various employment training programmes to help people upgrade their skills to enable them to return to work.

Opposing views and the WTO debate

In China as elsewhere, the notion of 'globalization' is used to describe the process of the integrated global exchange of goods, services, capital and technology. With its rules covering most of these areas, the WTO is considered to be the key facet of the institutionalization of globalization (Garrett 2001). Hence, much of the intellectual debate over WTO in China has been implicitly and explicitly linked to globalization.

The threat of greater social polarization and unemployment has been an important variable in the top leadership's thinking and policy making,

and has greatly restrained the initiation of bold programmes that may have potential large social and political impacts, such as the WTO accession and globalization. On the other hand, the conservatives, facing mounting social problems and setbacks in foreign relationships generated in the reform and opening up process, were even more concerned about the consequences of WTO accession and globalization than the reformers. They focused attention on the negative effects of WTO membership and hence opposed either the accession *per se* or the timing and terms of the accession. This increasingly strident minority, whose members range from those in the Party, media, military and academia, strongly oppose the WTO and globalization as a threat to China's sovereignty, economy, culture and socialist values. Over the years, the conservative camp used any signs of economic downturn or political unrest to call for a rethinking and postponement, if not abandonment, of the globalization process. The anti-WTO, and more generally, anti-globalization sentiment presents three lines of thinking: the ultra-left ideology, the New Left, and hardline nationalism, whose critiques of the WTO and globalization are rooted in the broader analysis of economic and social trends both domestic and around the world in the 1980s and 1990s.

Ultralefts: globalization or capitalization?

The ultraleftists and leftists in the initial years of reform and the opening up process expressed themselves largely by defending Marxist and socialist doctrines in theoretical terms and attacking so-called 'bourgeois liberalism' on the ideological front. The ideological opposition was so strong that the initial international economic contacts were limited to the SEZs, and then only gradually extended to other parts of the country (Kleinberg 1990; Fukusaku and Wall 1994). However, the ultraleftists' argument essentially lost ground by the middle of the 1990s, largely due to the success of experiments of the SEZs. Despite a comeback during the retrenchment period after the Tiananmen crackdown, the leftists experienced continuous sabotage after Deng's southern tour in 1992 that generated a new wave of marketization and economic internationalization. The Party's official recognition of the market as the major means for resource allocation rather than central planning in the following fourteenth Party Congress meant that the left ideologues had lost ground in the ideological debate.

However, they did not withdraw from the stage. They continue to challenge the rationale for reform and liberalization from an orthodox socialist perspective while incorporating popular grievances into their criticisms. Their later criticism was reflected in a series of anonymously-written '10,000-character manifestos' (*wanyanshu*) which were circulated in Party circles between the spring of 1995 and the spring of 1997 (Chen 1999). This time, the adverse consequences of 'capitalist-style' market reform and

globalization were targeted, such as the massive lay-offs, the growing gap between the rich and the poor, rampant corruption and the decay of SOEs. To the left ideologues, China was meant to be a socialist state laying the foundation to create a classless society. In their eyes, the so-called 'global economy' and 'international system' is an order serving the interests of capitalist powers. For them, the integration of the Chinese economy into the world market is to surrender to the capitalist ideology, play by capitalist rules of the game and cooperate with if not subordinate to the capitalist world order. Moreover, the leftists fear that re-engagement with the global economy would lead to the influx of Western cultural products, which they call 'spiritual pollution', and a growing interest in Western political ideas that could loosen the Party's grip on power.

The New Left

The New Left (*xin zuopai*) is another school of opponents to WTO membership and trade liberalization. This is mainly a group of intellectuals presenting an alternative to both the Old Left (the ultraleft, conservative ideologues) and the liberals. Despite the apparent consensus in the 1980s among Chinese intellectuals embracing the economic and political liberalization by domestic reforms which at least partly led to the democratic movement in 1989, the early 1990s saw a cleavage among them. Facing various problems such as rampant inflation and social dislocation that had arisen in China after a decade of reform, many turned away from neoclassical liberalism and began to seek alternative models. Their critique of liberalism partly reflects the neo-Marxist critique of capitalism and particularly of globalization. The New Left's critique draws on intellectual resources such as the works of Michel Foucault and Edward Said and points out that capitalism and democracy is not necessarily compatible. Rather, it covers up the power relations that dominate society. The critique of capitalism is extended internationally by drawing on Immanuel Wallerstein's centre-periphery paradigm, arguing that the Western-dominated international system perpetuates international inequality, and that those nations stuck on the periphery of the capitalist order are condemned to stay there. Therefore, economic openness and integration with the world market is 'an attractive trap' for developing, periphery countries such as China. Therefore, after Zhu Rongji's April trip to Washington in 1999 failed to make a deal, especially after the bilateral agreement between China and the US reached that year, a number of prominent New Left scholars have come out either against China's entry into the WTO, or against China's concessions made in the deal (Shao 1999; Cui 2000). Perhaps the most vociferous attack on the WTO and globalization was led by Han Deqiang, a Chinese economist who published his controversial book *Collision: The Trap of Globalization and China's Practical Choice* in January 2000. In this book and his various articles (2001) Han argues that

free trade, favoured by liberal economics, contributed to the widening divide among nations in the world. China's WTO bid was simply driven by a sentiment of 'market romanticism' insisting that China could achieve sustainable development by fully integrating into the world market, which was a trap exemplified by a number of cases of developing countries failing to catch up with the developed and so lagging further behind.

Domestically, the New Lefts are fully conscious of and alert to the social problems generated from the process of economic liberalization and opening up. They argued that the apparent losers, namely urban workers and farmers, were excluded from the debate and the making of China's WTO policy, while the bureaucrats had degraded to be the servants of the multinational corporations (MNCs) that set out to dominate China's domestic economy in the name of the WTO rules (Han 2001). Their critique is thus rooted in a demand for social justice in the face of the pending accession. They point out that the worsening social polarization and unemployment problem will be exacerbated by the lack of an effective social safety net (Yang, F. 2001). They admit that, although the government has made developing a social security system a priority, so far little has been achieved. They warned that Beijing is sitting on a time bomb of potential social upheaval resulting from rapidly growing numbers of unemployed, poorly-educated workers with no skills and without a viable safety net.

Nationalism: globalization, Westernization or Americanization?

Perhaps the strongest opposition to WTO accession and globalization came from the hardline nationalists because of their appeal to the grass-root populace and a recall of the humiliation in the Chinese modern history. The leftists put equality as their policy priority, while the nationalists put sovereignty as their priority. The nationalist perspective on globalization was reflected in a number of books, such as *Behind the Demonization of China* (Liu and Liu 1996), and *China's Road under the Shadow of Globalization* (Wang *et al.* 1999). They portray globalization and its agent, the WTO, as the systemic invasion of Western values and culture. It is a trap by the West to dominate the world and exploit developing countries. Therefore the real nature of the process is Westernization rather than globalization. They warn that China must learn from the lessons of other countries, especially Russia and East European countries who lost their sovereignty and 'are ruled by Western imperialism'. In their eyes, the accession concessions were identical with the unfair treaties that Western powers forced China to sign after the bitter defeat one and a half centuries ago. Following this logic, members of the Chinese negotiating team were deemed as 'traitors' (Zuo 2002, 2003). Some hardliners even condemned Jiang and other Chinese leaders for 'selling out Chinese interests to the West by joining WTO' (Garrett 2001).

On the other hand, the issue of WTO and globalization was also linked with China's foreign policy, particularly Sino-US relations. One of the most surprising changes in the Chinese polity in the 1990s was the Chinese intellectuals' perception of the United States. Deviating from the positive view of the US as the campaigner and representative of freedom and democracy in the world that prevailed among students and scholars in the 1980s, the 1990s saw a darker, negative image of the US. Chinese nationalists put Sino-US relations in the historical context of the rise and fall of great powers, insisting that, after the fall of the Soviet Union, China became America's next global rival, that the strategic confrontation of the two powers is inevitable, and that the United States will do anything in its power to prevent the rise of China (Liu and Liu 1996; Song, Zhang, Qiao, Tang and Gu 1996). To the Chinese intellectual 'opinion makers', even some liberals, the issue of human rights is only an instrument of the United States to oppose to China and to the Chinese people (Fewsmith 2000a). Thus, according to nationalists, China should stand up and say no to the United States clearly and loudly. This sentiment generated best selling 'Say No' books, such as *The China that Can Say No* (Song, Zhang and Qiao 1996), *The China that Still Can Say No* (Song, Zhang, Qiao, Tang and Gu 1996), and *How China Can Say No* (Zhang 1996). According to the 'Say No' club, 'globalization' is a US-led globalization, in other words, Americanization, in which China is incorporated into a US-dominated regime serving the interests of the US at the expense of Chinese sovereignty. NATO's attack on Yugoslavia, the bombing of the Chinese embassy in Belgrade in 1999 and more recently, the reconnaissance plane incident in 2001 further reinforced the already widely accepted suspicion of US strategic intentions and the 'grand conspiracy' against China. Thus, Chinese nationalists contend that China can and should pull away from deep integration in the globalization process and develop its own economy on the basis of self-reliance, that Beijing's foreign policy towards the US (and Japan) should be more aggressive and confrontational, given China's increasing comprehensive national power, and a readiness to use force once Taiwan declares independence.

The nationalists' critique of the WTO is not confined to political issues. They are also concerned about China's economic sovereignty and economic security once China enters into the global trade body. Take FDI. Despite the fact that FDI has been the major form foreign capital has taken in China and has powered the economic take-off in the reform era, FDI inflows have provoked a rise in domestic economic nationalism. Yet the nationalists do not support simply shutting the door to foreign investment. Their argument is to take priority in encouraging domestic rather than foreign investment. To the nationalists, the goal of most foreign investors is to make profit, not strengthen China's economy (Wang, Y. 2000). MNCs are particularly accused of dominating the Chinese market.

Policy debate?

Despite the existence of the various and often vociferous criticisms of WTO accession and globalization, there has hardly been an open and public policy debate in Western terms. This is mainly because of the apparent dominance of the reformists group within the top leadership and the fact that the mass media in China have been under tight control of the Party. As will be further discussed in Chapter 4, the expression of the opposing views was largely filtered off from the reach of the general public fed up with the official line supporting the membership. Therefore, the counter arguments, especially that of the Old Left and New Left, were mostly confined to intellectual, professional and bureaucratic channels and internal publications.

On the other hand, those within the opposition group challenged the WTO and further trade liberalization for varying reasons and with different values, concerns and political agendas. They are far from unanimous among themselves on priorities and goals, and are not organized in a strong, unified and institutionalized way to make a powerful voice in policy making. For example, the New Left discards the Old Left's orthodox socialist appeal, while the Old Left's communist internationalist ideology fundamentally contradicts with that of the 'selfish' nationalists. Moreover, although some of the opponents' arguments sounded convincing, especially at times when downturns of policy outcomes and political incidents took place, such as the Asian financial crisis and NATO's bombing of the Chinese embassy, the policy alternatives they suggested are unpopular, advocating either a return to Maoist autarky or self-reliance. Their policy alternative, in deep contrast with the generally positive popular idea on reform and the opening up to the outside world, cannot be accepted by both the top leaders and the public at large who have suffered much from the old autarkic regime for decades and whose idea has been further reinforced by the economic achievement so far and the pro-opening official propaganda in the reform era.

Although marginalized in the policy-making process, the leftists and nationalists have a certain impact on the leadership's awareness of, and alert to, the negative effects the WTO accession and globalization may entail. Even though the opposition's arguments, especially that of the nationalists, exerted a degree of pressure on central decision makers, the leadership was reluctant to order such views suppressed for fear of appearing 'soft' on domestic issues and foreign relations, especially with the US. After all, the nationalist sentiment could be used, and in fact, sanctioned by the Party to reinforce its new legitimacy of nationalism for its authoritarian rule and national unity, especially after the demise of its orthodox communist/socialist legitimacy following the Cultural Revolution.

At the same time, the debate that has been kept *internal* has had an educational effect on Chinese bureaucracy and domestic industries as well as

the implementation of China's WTO policy. The old state protectionist regime successfully screened off international price signals as well as the negative fluctuations of the world market. Domestic industries had little information about their competitiveness in the international market or what an open market would mean to them. In light of the articulation of various schools of alternative thought regarding WTO accession through channels other than the mass media, domestic industries and the bureaucrats in charge of these sectors came to recognize their potential gains or losses from the accession. For the potential losers, they accept that resistance to further opening up and WTO accession is hopeless to the extent that it is a top leadership decision, but they hope to at least delay the negotiation process and the schedule to comply with new WTO-related regulations, or to convince the government to compensate them for their losses for the upcoming foreign competition. As Chapter 5 will argue in detail, the bureaucratic and industrial resistance had resulted in major delays in China's WTO accession.

Public opinion?

In an authoritarian state like China, public opinion has seldom been a variable in the central policy-making process that counts. As noted above, policy alternatives to WTO accession were largely detached from the public sphere through the control of the mass media by the Party. This enabled the leadership to manipulate public opinion by initiating rounds of education campaigns targeting the bureaucrats and the public on WTO rules, and by presenting them with mostly positive images towards the WTO membership. However, two aspects have to be taken into account. One is the underlying nationalist and anti-American public sentiment in the 1990s, and the other is the increasing prevalence of the Internet in contemporary China, a new channel of public expression largely beyond the effective control of the Party. Once these two factors are combined, such as the massive denunciation of the US and China's US policy on the Internet after the embassy bombing in May 1999, public opinion increasingly shaped the overall political atmosphere to which the policy elites had to respond. Li Minggang, who runs China's Ministry of Foreign Affairs website, told the *Asian Wall Street Journal* in a recent interview that 'policymakers can't make decisions based on public opinion, but they can't ignore it either' (Mooney 2004).

However, this does not necessarily suggest that the Chinese public now plays a strong and independent role in Beijing's decision making. In this case, even though it more or less delayed the bilateral negotiation process at certain times, it did not change the leadership's policy agenda. Six months after the bombing, Beijing signed the bilateral agreement with Washington with even more concessions than the package offered by Premier Zhu in April. Again this was applauded as a huge success by the domestic media and was followed by a new round of public 'WTO fever'.

Conclusion

The 'reformist/conservative' cleavage within the top leadership was also reflected in the contending policy inclinations to China's WTO membership. The reformers saw that the accession was a great opportunity for China to further integrate with the international economy, to gain economically from the world market by realigning domestic production according to China's comparative advantage, to force the domestic SOEs to reform their operating mechanisms to be more in line with the requirement of a market economy in light of foreign competition, and to fight against rampant government corruption by increasing the transparency of its trade regime. The WTO membership was also expected to elevate China's political status and establish a responsible image in the international community. However, this was a tough decision, given the social problems that have been growing in recent years and the fact that WTO accession may exacerbate them, especially the widening gap between the rich and the poor and massive unemployment resulting from domestic industrial restructuring. However, reformers are convinced that gains from the accession outweigh the losses, and that as long as appropriate measures are taken, the negative effects can be limited, and that only by further opening up and joining the global trade regime can these social problems be resolved. As MOFTEC Minister Shi Guangsheng pointed out, 'the joining of the WTO and participation in the multilateral trading system was a strategic decision by the Chinese leadership in the context of the accelerated globalization' (Deckers 2004: 105).

However, ultraleftists, New leftists and the nationalists were not so optimistic. They are more worried about the development of social injustice, the systemic invasion of Western or capitalist values and culture and the erosion of Chinese sovereignty by participating in the international regime. They call for a rethinking of mainstream 'wisdom', slowing down, if not withdrawing from the globalization process embodied by the WTO, and enhancing China's national security by resurrecting the self-reliance doctrine. Their policy alternatives did not pose much threat to the reformers' argument, for they were not invited into an open, public and thorough debate. But their sidelined arguments helped build for the leadership a more realistic and comprehensive image of the WTO and the ongoing trend of globalization. Apart from the intellectual challenge by the various domestic anti-WTOisms, the Chinese public's role in policy making is minimal. Public opinion was largely subject to the manipulation of the party-controlled mass media. Meanwhile, a new trend was noticeable that public sentiment could be spread and amplified through the Internet that is less effectively subject to surveillance by the state. At times of crisis, public opinion could shape the political environment limiting the leadership's room to manoeuvre.

The examination of policy players' ideas and preferences alone cannot

answer the question of who gets what, how and why. Variables such as ideas and perceptions have to be accompanied by an analysis of the distribution of power to explain what, how and why policies are formulated and advanced among various ideas and interests. The next three chapters will look into the specific institutional and power structure through which political elites, the domestic bureaucracy and foreign players act and interact, and examine how these variables are combined to shape the dynamics of the WTO policy process.

4 Elite politics and the WTO accession

Introduction

The preceding chapter examined the ideological and policy cleavage within the top party leadership towards reform and opening up in general and the WTO accession in particular. The contending reformist and conservative lines with which the party elites aligned reflect their perceived national good and the corresponding policy inclination in this issue area. Meanwhile, as Chapter 1 has argued, political power is always on the radar of political leaders' considerations, while policy outputs are, to a substantial degree, the result of the distribution of power in a given institutional structure.

In fact, as this chapter suggests, both policy preferences and political power are essential in explaining elite politics in policy process. In Chinese politics, 'line' and 'core' are the corresponding variables to 'policy preferences' and 'power'. There have always been different policy lines within the party leadership, but, at the same time, the CCP's power structure has always featured a one-man core who possesses the greatest political power compared with the rivals. Therefore his line becomes the official line of the Party. The fact that Deng Xiaoping and Jiang Zemin were officially recognized respectively as the 'core' of the second and third generation party leadership demonstrates that the reformist line has been dominant in the party's policy orientation. Jiang consolidated his power base by keeping Deng's legacy of reform and opening up, and by pushing it forward. Zhu Rongji, who replaced Li Peng as Chinese Premier in 1998, is a liberal-minded reformer who undertook bold reform programmes with great resolution. Li Peng, who was number two in the political hierarchy and the number one conservative, was a representative of the entrenched bureaucracy that was unwilling to give up their vested interests in the period of economic transition and opposed the further integration of the Chinese economy into the world market. Overall, however, the conservative forces were increasingly marginalized in the top leadership, which enabled the reformers to keep up the momentum of the accession process.

By examining the policy process and outcome, this chapter argues that

elite politics played a critical role in China's WTO policy making. The reform-minded leadership initiated China's quest for WTO membership, manipulated domestic debate in favour of the accession, broke the negotiation deadlock by legitimizing a market economy as the goal of the reform, and kept up the momentum of bilateral talks through a series of summit meetings with the most important negotiation rivalry, the United States. In 1999, the reformers further threw themselves directly into the negotiation process and struck the deal with the US. In a word, elite politics largely shaped the dynamics of China's WTO accession.

The chapter begins with an analysis of the power structure within the top party leadership during the accession process and argues that conservatives were largely marginalized by a dominant reformist group headed by Jiang and Zhu. It continues with an examination of the role the leadership played in WTO-related issues, such as the domestic debate, the ideological breakthrough in 1992, and the institutional reform in 1998. It concludes with a detailed description of the reformist leaders' personal involvement in the policy-making process in 1999 and their conflict with conservatives, which determined the timing and content of the accession.

The power structure of the top party leadership

As discussed in Chapters 1 and 3, policy outcomes are the result of the power configuration between various opinion groups whose members have similar policy inclinations. Therefore, both ideas/preferences and the power structure are essential variables in explaining the Chinese policy process.

The preceding chapter analysed the policy orientations, or the 'lines', within the party leadership. Meanwhile, the CCP's internal party politics features not only contending lines, but also the dominance of a particular line with a one-man 'core' (Fewsmith 1996). The traditional existence of the 'core' is the result of factional struggles for total victory and the need to maintain party unity (i.e. 'hang together'). Policy making in large part hinges on a contest of political strength because there is a lack of institutionalization, especially an absence of the procedures for sorting out policy differences, at the top of the political system (Dittmer 1992; Shirk 1992; Zhao 1995).

Thus, one who possesses the greatest political strength and reputation becomes the 'core' (*hexin*) of the Party; like Mao in the so-called first generation leadership, and Deng in the second.¹ Therefore, the policy direction preferred by the 'core' becomes the Party's official line. As Deng asserted in a speech to the newly formed Politburo Standing Committee, 'a leadership without a core is unreliable' (quoted in Fewsmith 1994: 8).

The co-existence of different political lines and the one-man dominance within the party leadership have certain consequences. First, the core leader will always try to maximize his power and make his line prevail over all rivals, while rival leaders, whether or not they intend to challenge

for power, tend to undermine the capacity of the 'core' to set policy agenda for the country. At the same time, because policy preferences and political power are inextricably linked, criticisms of policy preferences associated with a certain leader are inevitably political assaults on the leader's power and reputation (Fewsmith 1996). In fact, Deng succeeded in manoeuvring the attacks and erosion of Hua's line on rural policy, enterprise policy and ideology, which enabled him to replace Hua as the paramount leader of the Party (Bucknall 1989: 37–51).

Throughout the 1980s and the first half of the 1990s, the central political relationship has been that between the reformist Deng Xiaoping and the conservative Chen Yun. Although Deng never took the position of Chairman or General Secretary of the Party, his number one status was formally and informally recognized within the Party.² Chen, on the other hand, had an extensive power base in the central bureaucracy, particularly the planning system. He was also deputy party chairman and maintained membership in the Standing Committee of the Politburo for much of Deng's era.³ Although the two were closely allied at the beginning of the reform period, the differences of the two lines began to emerge in the early 1980s when Deng rejected Chen's approach to urban reform (Dittmer and Wu 1995; Teiwes 1995). After that, the gap between the reform and the conservative wing of the Party increased dramatically. Deng's line was to emphasize a higher rate of growth, bolder experimentation, allowing non-socialist economic forms to grow, rapid and full integration of the Chinese economy into the world economy and extensive marketization of the economy. In contrast, Chen's more conservative policy orientation was to work within the basic framework of the planned economy, pursue 'steady and proportional growth of the economy', maintain the leading position of the SOEs, and emphasize concerns that integrating the Chinese economy into the world market would lead to economic and political dependence on the outside world. The conflict between the two groups has shaped the dynamics of domestic reform. Although there were obvious differences between Deng and Chen, Chen never openly challenged Deng for power. Chen's strategy was to stage a side-protest to Deng's approach once the economy was overheated by radical reform programmes and thereby force him to follow Chen's preferred policies. The conflict between the reformers and the conservatives to a large extent created rounds of economic and policy cycles during this period: the Dengists launched bold reform programmes, leading to the high growth rate of domestic economy; this always resulted in an overheated economy with high inflation and excessive decentralization and extra-budgetary investment; the conservative group then used this economic hardship to justify the necessity to tighten central control, reduce investment and control wages to cool off the economy; after a period of autarky due to the conservative retrenchment, the reformers again gathered the momentum and launched a new round of reform.

This power structure was largely inherited after Deng's death in 1997 albeit the two lines were supported by different contenders. The post-Deng period has seen the rise of the third generation leadership. The former Deng–Chen configuration has evolved into a new round of reform-conservative contention among Jiang Zemin, Zhu Rongji and Li Peng.

Jiang Zemin

Jiang was elevated by Deng in 1989 to be General Secretary of the Party after the Tiananmen crackdown to replace Zhao Ziyang who was accused of sympathizing and supporting the democratic movement. In the following eight years, Jiang gradually built up his capacity within the Party, military and diplomatic sphere. Nevertheless, it was the death of Deng in February 1997 that gave him the opportunity to step out from Deng's shadow.

To Jiang, making a smooth post-Deng political transition and securing the ultimate power were his top priority. Lacking the revolutionary prestige of Deng, Jiang realized that the most convincing way to take over the paramount position was to inherit Deng's legacy. As he put it, 'I believe the only thing I would like to do is to continue to follow the Deng Xiaoping theory and to continue to move along the course of reform in opening up as initiated by Deng Xiaoping'.⁴ Right after Deng's death in February, Jiang gave a speech at the Central Party School in May. In the unpublished portion of the speech, Jiang explicitly criticized the left and laid out his rationale for reform (Fewsmith 1998). He revived Deng's slogan 'guard against the right, but guard primarily against the "left"' that had been dropped from the official media following the Fourteenth Party Congress in 1992 and therefore identified himself with Deng's reforms. Four months later, the continuity of Deng's reform 'under the new core of Jiang' was officially acknowledged in the Fifteenth Party Congress in 1997. Jiang claimed that the CCP would continue Deng's line of 'socialism with Chinese characteristics'. The Party Constitution was also revised to parallel Deng's theory with Marxist–Leninism and Mao Zedong Thought as the Party's guiding principle. In addition, in Jiang's report to the Congress, he cited Deng's 1978 battle with party Chairman Hua Guofeng's 'two what-ers' as a period of 'emancipating the mind', and Deng's 1992 southern tour was a second, and called for 'emancipating the mind in the new period'. For a leader often criticized as bland, cautious and technocratic, Jiang was beginning to reveal bold programmes covering ownership, personnel and industrial reforms that would result in further liberalization of the economy.

At the same time, Jiang also steered a bloodless succession after Deng's death and consolidated his political power. Jiang managed to sideline the two potential rivals, Li Peng and Qiao Shi.⁵ The death of Long March veteran and party elder Yang Shangkun in September 1998 saw the threat

from party elders recede considerably. In addition, Jiang's power status was further fortified by personnel appointments⁶ and his control of the party's leading small groups (LSGs, *lingdao xiaozu*) which make major policy decisions and coordinate work between the party and the government.⁷

Despite these delicate arrangements to strengthen his grip on power, Jiang's authority as a core-leader was admittedly weaker than Deng's. Deng was the remaining highest profile veteran and one of the founders of the PRC, with a strong revolutionary reputation and broad and deep personal networks developed from his career. There is no convincing evidence of his position ever being under threat from any grouping within the higher echelons of the elite. Jiang, however, like most of the third generation leaders, has a largely technocratic background with a much narrower career path and therefore lacks Deng's legacy from the past and the popular 'charisma' derived from the revolution.

Jiang's weaker authority within the party leadership has two important consequences. First, it saw him refrain from breaking fundamentally with the left and conservatives who made a remarkable comeback after 1989. Jiang needed and in fact had drawn much support from the left wing of the Party in his early years in Beijing. As late as 1996, Jiang had to accommodate the left in a party resolution stating that building 'spiritual civilization would not be sacrificed to material civilization' (Fewsmith 1998: 252).⁸ Although Jiang, Zhu and other reformers formed a majority in the Politburo Standing Committee and thereby dominated the top leadership, this gives no credit to say Jiang is unfettered. Amidst the fluctuations of political succession and in a party that remains divided on the way the country should engage with the external world, Jiang has to play a balancing role between the reformers and conservatives, a consummate conciliator who will isolate the opponents and stay carefully out of the disputes himself. Second, Jiang's weak position caused a dilemma regarding foreign policy. On the one hand, a stable foreign environment, especially the recognition by the international community as a market economy by entering the WTO and the prestige from a warm Sino-US relation strengthened Jiang's domestic position. On the other hand, on occasions of sensitive issues and diplomatic crises, Jiang's policy preferences have often appeared to be more or less compromised by the upsurge in nationalist sentiment and attacks from party rivals, therefore he tends to adopt a tough stance so as not to be seen as 'soft'. This is also demonstrated in China's bid for the WTO membership.

Zhu Rongji

Zhu Rongji, an electrical engineer, developed his early career in state planning. Like most of his contemporaries, his career fluctuated with the political upheavals of communist China in the 1960s and 1970s. He was

purged twice in 1958 and 1970 for his 'rightist' criticism of Mao's 'irrational high growth' policies, and politically resurrected by Deng Xiaoping for his economic ideas after the Cultural Revolution. Deng reportedly said that 'we cannot promote cadres solely on political trustworthiness, but also on knowledge on economics. There aren't many senior cadres in our party who know about the economy. Zhu is one who really does' (quoted in Ling *et al.* 2003).

Zhu has long been widely recognized as a reform-minded economic thinker and political leader. He was promoted to Executive Deputy Premier in 1993 after two years as Deputy Premier, and was widely perceived as the pilot behind the 'soft landing' of 1993–96, following the runaway growth triggered by Deng's southern tour in 1992. For several years he had been consolidating his control over China's fiscal and banking system. Zhu's promotion to number three in the political hierarchy at the fifteenth Party Congress in 1997 and his appointment as Chinese Premier in the spring of 1998 signalled Jiang's strategic launch of a new wave of reform. Facing the enormous obstacles ahead, Zhu was so determined to carry on the domestic reform that he declared at the news conference immediately after his appointment as Chinese Premier that 'no matter whether there is a minefield ahead of me or whether there is a deep ravine in front of me, I will bravely forge ahead, will not turn my back, and will do my best until my last breath' (Pang 2002).

The ideological victory of the reformers at the fifteenth Party Congress and Jiang's series of personnel arrangements enabled Zhu to introduce a bold programme, including reforming the SOEs, legitimizing and increasing the role of the private sector, halving the size of the bureaucracy, closing the army's businesses, launching an anti-corruption campaign, establishing a viable unemployment insurance and retirement scheme and entering the WTO. Zhu made it a political goal to maintain an 8 per cent GDP growth and to revitalize SOEs in three years, but was not enthusiastic about joining the WTO at the beginning of his premiership. Facing the harsh reality of the Asian financial crisis and the strong resistance to his SOE and government reforms, Zhu had to turn to the WTO to help apply external pressure for his domestic programmes. In the 1999 government work report, Zhu said, 'Rapid waters should wash away dirty sands (*dalang tao sha*)', which implies that those uncompetitive industries and inefficient SOEs that cannot take the necessary reforms and adapt to the new environment will have to be ousted from the market after the WTO accession.

Dubbed as 'iron face' by the media, Zhu is a strong-willed person with a furious temper. In his campaign against corruption in 1995, Zhu was reportedly telling his aides to prepare a coffin for himself as well as for the corrupt officials he was chasing (Loh 2003). Zhu's hands-on political style also influenced the accession negotiations. His policy making relies more on top down initiatives, which partly explains his increased role during the

final stage of China's accession negotiations. His personal involvement in bilateral talks with the United States in 1999 decisively broke various bureaucratic and policy impediments.

Both Jiang and Zhu were in favour of pushing the reforms forward and entering the WTO as early as possible. The two also forged ties during their co-governance in Shanghai in the 1980s. However, given their different positions in the political hierarchy, it is not convincing to say that they are fully united. Zhu certainly remembered the lessons of Hu Yaobang and Zhao Ziyang, who implemented Deng's reform policy only to serve as the scapegoats of Deng in times of economic and political difficulty. To Zhu, Jiang is his political boss to 'patronize, not antagonize' (Zweig 2001). On the other hand, Zhu's authority is more limited compared with that of Jiang. Despite his base in the banking sector, Zhu lacks a broad network of national political support, and is particularly unpopular with provincial leaders for having cut provincial subsidies and depriving provincial control of local state banks. Therefore, on issues of political importance, Zhu needed Jiang's intervention. So when Jiang tended to compromise on sensitive issues, Zhu's room to manoeuvre was also limited.

Li Peng

Li Peng is the adopted son of Zhou Enlai, a long-time Party veteran and Premier, and hence deeply embedded in the network of Party elders. He was the only high profile conservative who exerted political influence in both the Deng and Jiang era, taking the Chinese premiership from 1987 to 1998 before being appointed as the Chairman of the NPC.

As one of the second generation of conservatives, Li largely inherited the rationales of the elders such as Chen Yun and Yao Yilin, advocating a supplementary role of market to central plan and cautious economic opening. This is not surprising if Li's career path is taken into account. Before 1987, Li had been developing his career in the electric power sector of the central bureaucracy (Zhao 1995). His strong bureaucratic background in heavy industry, a sector that had enjoyed the most favourable policies under the central planning system, shaped his vested interest in the old economic regime, and his high political position in the apex of the Party made him the representative of the interests of bureaucrats who have managed to enjoy both the fruits of the old privileges of authoritarian rule and of gradual economic reform. Once the bureaucrats themselves became the target of the reform, they were unlikely to give up without a fight.

However, Li's conservative wing has been marginalized in the Jiang era. Li lost the battle in the succession and was eased out to be chairman of the powerless NPC. The conservatives also became the obvious minority in the Politburo Standing Committee. Even the remaining elder conservatives, Bo Yibao and Song Ping, pose a remote threat to Jiang. Yet the

conservatives still have political influence and cannot be ignored. Li was number two in the political line-up and, as the head of the NPC, he could slow down laws that were part of Zhu's reforms. Also, by strengthening the NPC's constitutional authority over the government thus scrutinizing Zhu's policy initiatives, he could keep pressure on Jiang and Zhu.⁹

WTO accession: leadership in action

Because of the tremendous implications of the WTO accession on the Chinese polity, the formulation of China's WTO policy not only reflected the reformer-conservative cleavage, but also the involvement of top party elites and the power conflicts between the two groups. The central aspect of the domestic dimension of China's WTO policy making is that there had been a shift from the early bureaucratic bargaining to the direct intervention of political elites, especially around the year of 1999. Due to reformers' dominance within the party leadership, the pro-WTO wing managed to marginalize opposing views and their policy alternatives and circumvent bureaucratic resistance. They also kept up the momentum of the accession negotiation and made a decisive step in critical talks with the US to secure China's WTO membership.

Conditioning the domestic debate

Chapter three examined the various ideologies, perceptions and policy preferences within the Chinese polity that were against the reformers' support for WTO membership. In the reform years of China, intellectuals and officials used policy debates to influence the political elites in policy making. At the same time, however, it is the elite politics that set the parameters of the domestic debate. The reformers faced two fronts with domestic opponents: an ideological battle with the ultraleftists, and a policy battle with the New Left and the nationalists.

The ideological battle with the ultraleftists

Facing the ultraleft's harsh criticism of market reform and the opening up policy manifested in the four '10,000-character manifestos' (*wanyanshu*) that circulated in Party circles between 1995 and 1997, the reformers launched a series of counter attacks under the banner of 'the third emancipation of the mind', insisting that Marxism should not be dogmatically applied to changing realities, but should evolve and adjust to social changes, and that opposing this line of thought is essentially anti-Marxist. Under this scheme, *Jiefangjun bao* (Liberation Army Daily, the official newspaper of the military) and *Qiushi* (Seeking Truth, the official periodical of the CCP) published a group of articles criticizing the ultralefts as phoney Marxists. Xing Benshi, chief editor of *Qiushi*, who, echoing Jiang's

speech at the Central Party School, published an article in the *People's Daily* (the official newspaper of the CCP) to defend Deng's views on socialism and accuse the ultralefts of 'obstruction' to the reform. Later, in the summer of 1997, *Zhongguo jingji shibao* [China Economic Times], a newspaper subordinated to the State Council, published three special interviews with some reformist theoreticians who strongly defended Deng's reform.

Jiang tended to avoid open disputes on ideological issues unless they threatened to derail his overall programme. Therefore, it is not surprising to see that, while the reform-minded theoreticians launched ferocious assaults on leftists, the official propaganda apparatus refrained from a direct and open critique of leftists. The *wanyanshu* was not actually mentioned in any major official media. It is traditional practice in CCP politics to keep ideological debates within a theoretical realm to maintain a public image of party unity, but the reformers knew all too well that an unfettered leftist criticism would cause enormous confusion within the Party. This issue was addressed at the following Fifteenth Party Congress in 1997. The reformers won a dramatic victory over leftists, legitimizing the theory of 'socialism in preliminary stage', which was originally expounded at the Thirteenth Party Congress under Zhao Ziyang in 1987 but quietly dropped after 1989. According to this theory, China was in the 'primary stage of socialism' featuring a poor, backward, underdeveloped and primarily agrarian economy. The main goal in the short and medium term was 'expanding the productive forces', and anything that helped reach this goal was therefore compatible with the long-term blueprint of building communism (Breslin 2000). This approach conveniently meant that using capitalist mechanisms and opening up to the outside world was a legitimate approach in keeping with socialism and communism, which set a general tone in the domestic debate.

The party leadership was also involved in the controversies on the book *Jiaofeng* [Confrontation] (Ma and Ling 1998) in 1998, written by two journalists at the *People's Daily*. In reviewing the history of Deng's reform since 1979, the book examines the sharp political debates of 1995–97 between a clear-cut grouping of ideas towards reform and economic opening. Under the general editorship of Liu Ji, a close personal friend of Jiang, the book portrays Jiang as a reform cohort of Deng in pushing forward the 'emancipation of the mind' begun in 1978. The publication of the book jumped on the nerves of the conservatives. Ding Guangen, the conservative head of the Party's Propaganda Department, quickly condemned the book before a collective response was made at a meeting organized by leftists in April. Under great pressure, Party elder and reformer, Wan Li, met the authors on two occasions and offered his support of the book. Wan further emphasized his point in a rare press interview in May by the *Farmers' Daily*. Although there was no open comment on the book from Jiang, his surprising visit to Beijing University

on 4 May showed his personal gesture by reaching out to intellectuals to shore up support, which turned out to be very successful (Fewsmith 1998: 255).

Public education and restraining the bureaucracy and media

As China's accession negotiations went into the final stage, particularly with the denial by the US of China's one-basket concessions made during Zhu's Washington trip and the diplomatic crisis caused by NATO's bombing of the Chinese embassy in Belgrade in 1999, domestic criticism of China's WTO accession from the New Left and nationalists surged to a new high. The Chinese leaders' policy had been to stifle internal debates regarding the downside risks of WTO entry. The Chinese leadership ordered the media to avoid 'sensational', 'attention-grabbing' and 'exaggerated' coverage of the WTO accession and instead asked them to strive for 'objective and accurate' reports of the issues (Su 1999a: 52). Far different from three years previously when books stirring up nationalist sentiment occupied the top-seller's list, this time few new books from the opposition were published despite a few moderate articles in newspapers. The intellectual and bureaucratic critique was largely confined within the academic and professional sphere and on the Internet. For instance, a professor at Beijing Post and Telecommunications University wrote an article for the *Beijing Daily* in February 1999 on the protection of the domestic telecommunications industry. The University is sponsored by the Ministry of Information Industry (MII), a strong advocate for domestic protection. However, he was told that this article could not be published by order 'from above'. It was published finally two months later by the *Telecommunications World*, a professional magazine also sponsored by the MII.¹⁰ After the Sino-US agreement in November 1999, many ministries expressed significant opposition to the WTO deal. Zhu managed the internal debate within the party and muted all criticism of the deal.

At the same time, books and articles blossomed aiming at popularizing 'relevant' knowledge about the WTO, the necessity of entering the WTO, and how Chinese enterprises face the challenges posed by WTO membership. The overall tone of these publications was optimistic, claiming that WTO membership is a must for China to boost its economy, and that the gains should greatly outweigh losses from further opening up. In the massive public education campaign, the official rationale of the accession was taken for granted and the reasons why China should enter the international regime *per se* were never questioned. Given the Party's firm grip on the mass media, the flourishing of pro-WTO publications are apparently supported by the top leadership who can decide what information to feed the public. The restriction on and manoeuvre of the mass media undoubtedly removed a key channel for bureaucracy and the populace to

express their opposition to the WTO deal and helped shape a favourable public environment.

Institutional reform

Entering into the global trade regime amounts to a comprehensive opening of China's domestic market, which has profound implications to the various economic sectors as well as to the political and social sphere. The superior authority that bureaucrats enjoyed in the old economic regime was bound to be weakened by the WTO membership. Also, some SOEs they directly manage are likely to fight for survival in the face of unprecedented foreign competition after the accession. Representatives of those industrial ministries that fear they have most to lose from international competition are, not surprisingly, reluctant to go ahead with further liberalization. They are supported by leaders from geographic areas where the SOEs are most heavily concentrated. Therefore, officials who believe themselves to be losers in the accession have used bureaucratic bargaining to obstruct the building of internal consensus, hoping to at least delay the accession process and get greater compensation from the top.

The institutional reform launched by the direction of the elites in 1998 was to cut the number of state cadres in half and reduce the number of ministries from 40 to 29, of which nine economic ministries/bureaus were to be eliminated or downgraded (Chapter 5 provides a detailed analysis of the 1998 government reform). Interestingly, according to Zweig (2001), this reform was introduced while then-Premier Li Peng was still in office before Zhu's promotion. And, to protect Zhu with a positive vote for his election at the NPC, Luo Gan, Secretary-General of the State Council, not Zhu, introduced the policy to the NPC in March 1998. However, Zhu was the man behind the scenes. In a speech as early as December 1997, Zhu revealed that he was working on the institutional reform of the State Council. He complained that he had talked with each and every minister of the Council on this issue, yet none of them conceded the agencies of which they were in charge should be eliminated (Feng 2003). Despite the grievances and resistance, reform was carried out with Zhu's resolution.

The official line of the government reshuffle was to downsize the bureaucracy and change the government's function more in line with the requirements of a market economy. The existing literature and the author's interviews provide little evidence to support the argument that WTO policy making was also one of Zhu's considerations of implementing the reform. However, this government reorganization had a degree of impact on the policy-making process. As will be further discussed in the following chapter, management of the national economy was carried out by a number of parallel government ministries under the old planning system. This scattered power structure within the bureaucracy led to the

natural result of systemic bargaining on policies that involved more than one ministry. Thus, policy making on the bureaucratic level, such as the WTO accession, was often a protracted and incremental process requiring the consensus of all the participants. The reduction of government ministries in the 1998 reform meant that there were far fewer contending players in internal policy formation. Moreover, the reorganization plan centralized economic management in the hands of the State Economic and Trade Commission (SETC). SETC's predecessor, the State Economic Commission (SEC), was largely powerless before it was revitalized and transformed by Zhu as a supra-ministerial body in charge of national economic affairs.¹¹ The inclusion of the economic ministries to the SETC and Zhu's personal control of the Commission enabled him to establish his own policy priorities by eliciting more information and coordinating policy deliberation in the face of the entrenched bureaucracy, thus facilitating the consensus building badly needed by accession negotiations.

Keeping up the momentum

Apart from weathering the domestic debate and rebuffing bureaucratic resistance, Chinese leaders have also managed to keep up the momentum of GATT/WTO accession throughout the process.

The initial decision to join the world trade regime was made by Deng Xiaoping and Zhao Ziyang in 1986 after the then GATT director-general Linden and Dunkel's visits in 1984, 1985 and 1986 (Jacobson and Oksenberg 1990: 87–92). However, ideological rigidity was a great obstacle to China's GATT bid in the 1980s and the early 1990s. The concept of 'market economy' was still forbidden. Instead, the nature of the transitional economy was officially described as 'a combination of planning economy and market adjustment', and later 'planned commodity economy'. This generated great confusion among foreign negotiators during the review of China's foreign trade regime, an essential step before bilateral negotiations can be carried out. The Americans put it directly: 'We only know about two economic regimes in the world, one is the planning economy, the other one is market economy. We never heard of "commodity economy"' (Wen 2002). The Chinese delegation tried to explain the nature of China's economic and trade regime, but their Chinese political jargon only made their counterparts more frustrated. The economic retrenchment after 1989 further increased the foreign suspicion about the nature and direction of the Chinese reform. The then Director-General of GATT, Arthur Dunkel, told Chinese chief negotiator, Mr Shen Jueren: 'The biggest challenge you are facing is to convince your counterparts with facts that the reform and opening up policy is irreversible.'

Crucially, the ideological breakthrough could only be made from the top. During Deng Xiaoping's 'spring-tour' to south-east China in 1992, the paramount leader urged Chinese officials to abandon orthodox thinking

about plan and market according to the communist doctrine. He claimed that both plan and market are means, not ends, to economic development, and that market mechanism can also be utilized by socialism. Deng's series of talks broke the ideological iceberg and economic retrenchment after the 1989 crackdown, and stimulated a new wave of liberal reform programmes. At the following fourteenth Party Congress in October, China formally announced that the aim of economic reform was to build a 'Socialist Market Economy', which became part of the constitution in 1993. On the twelfth Working Party meeting held at the same time in Geneva, Chinese delegates finally found the common language of 'market economy', which produced an overwhelming effect among negotiating parties. The reviewing process of China's trade regime was finalized at the meeting. Tong Zhiguang, then head of the Chinese delegation, admitted that China's responses to the questions posed by the contracting parties could not be passed without the 'theoretical breakthrough' by Deng and the Party Congress (*Beijing Morning Post* 11 November 2001). China's chief negotiator Long Yongtu made it clearer: 'we negotiated six years just for the four characters' (in Chinese, 'market economy' (*shichang jingji*) is composed of four characters).

The Chinese leadership also generated the momentum of accession through so-called 'summit diplomacy'. For example, Taiwan President Li Teng-hui's visit to the US and China's subsequent military exercise in 1995 froze the bilateral relationship with the US as well as the accession negotiations. The thawing of bilateral relations began with the exchange of summits between Chinese President Jiang Zemin and US President Bill Clinton. On 24 October 1995, both expressed their concern over China's accession to the WTO at the summit on the fiftieth anniversary of the UN. Right after the summit, the US side showed ample signs of taking a more flexible stance regarding China's developing country status in the bilateral talks. In October 1996, Presidents Jiang and Clinton met during APEC's Manila meeting. Both sides agreed to speed up the accession process. The US side even changed its negotiating team. Partly in response to the positive signals from the US, at the APEC's Osaka meeting, Jiang claimed China would cut its average tariff rate from 36 per cent to 23 per cent from 1 April 1996 (Yu 2001), and in October 1997, China further cut its import duties to 17 per cent. During Jiang's formal visit to America in October 1997, both sides agreed to speed up bilateral talks on tariff, non-tariff, services, industrial standard, agricultural products and implementation of the WTO commitment. The next Jiang-Clinton summit during President Clinton's visit to China in 1998 was highly symbolic, but it finally 'normalized' the bilateral relationship and gathered the momentum for the upcoming conclusion of bilateral agreement on WTO accession in 1999.

The dramatic year of 1999

If the whole process of China's WTO accession is taken into consideration, no period better illustrates the top leadership's role in the making of the policy than 1999. It was in this year that party elites became directly involved and took the lead. Serious concessions were made, leading to the most important bilateral agreement with the United States. All in all, the year 1999 was full of drama that put political leaders' resolution, flexibility and wisdom to the test.

Why 1999?

Before 1999, China's WTO policy, except for the critical point when China tried to accede in late 1994 in order to be a founding member of the organization, had seldom been put on the top leaders' agenda. The internal consensus building was coordinated by various intra-ministerial bodies supervised by Vice Premier Li Lanqing who was in charge of foreign economic issues, while the top leaders did not get heavily involved. As will be explained in Chapter 5, a number of economic ministries and industrial bureaus supported a delay in China's membership talks, and the specific structure of the Chinese bureaucracy made the delay possible. Meetings held to promote internal coordination turned out to be fruitless. Moreover, the reluctant bureaucracy also found some support from the conservatives at the top. As a result, China's process towards membership was severely slowed and went into stalemate.

However, in early 1999 all this changed. Just months before Premier Zhu's April visit to the United States, Chinese representatives to the WTO talks suddenly offered extraordinary concessions on nearly every issue previously contended. The concessions included foreign access to Chinese agricultural and industrial markets, dramatic cuts on tariff rates, and a phase-in period of foreign competition in key and sensitive service sectors such as banking, insurance, and telecommunications; arenas long protected by the Chinese government (Steinfeld 1999). Given the apparent impasse of the domestic bureaucratic politics, this entire new package could only come from the direct instruction of the top leadership. But why did the political leaders step in at this point?

Apart from the long-term strategic incentives of entering the WTO that has been listed in Chapter 3, short-term urgency propelled the involvement of the leadership around 1999. First of all, the party leaders had established their legitimacy through the continued high rate of economic growth and improving the Chinese people's standard of living. But ample evidence indicated that, though still strong by developed country standards, the Chinese economy in the late 1990s was slowing down considerably (Table 3.2). China's GDP growth had been declining steadily since the mid-1990s, which was an embarrassment to the newly elected Premier

(1998) who gave much political significance to a sustained 8 per cent growth rate. The Chinese economy suffered from prolonged deflation that partly derailed Zhu's 'soft landing'. Also, with nearly 40 per cent of its economy linked to the international market, the eruption of the Asian financial crisis in 1997 was a severe blow to Chinese exports and the economy. The export growth rate in 1998 and 1999 was 0.3 per cent and 6.3 per cent respectively, compared with 21.1 per cent in 1997 (Table 2.4). Meanwhile, the total FDI China utilized between January and October 1999 decreased by 10.5 per cent from the same period the previous year to US\$32.1 billion (Lai 2001). Given this economic hardship, WTO membership became an important, if not vital, card for the leadership to boost its exports and attract FDI, the two pillars of China's growth in the past decade. The reformers were also convinced that, by increasing the growth of GDP, more jobs would be created, which could help alleviate the worsening problem of urban unemployment due to the SOE restructuring.

The Asian financial crisis not only posed a threat to Zhu's soft landing effort, but also served as a wake-up call to the leadership. China shares similar problems to those that triggered the crisis, namely numerous loss-making large firms (in China, SOEs), a state-bank-dominated financial system and a large build-up of non-performing loans. Jiang and Zhu clearly recognized the central role and urgency of SOE reform in China's economic transition, but the industrial restructure encountered tremendous resistance both from the bureaucrats and SOE managers. Jiang's speech at the fifteenth Party Congress politically legitimized the use of a shareholding system to convert small and medium enterprises (SMEs) into companies with mixed public-private ownership. Even though reformers limited the transfer of property rights to joint stock companies rather than privatization, the initiative was implemented with distortion. On the one hand, bureaucrats in the central government used the slogan of 'grab big firms, let small ones go' (*zhua da fang xiao*) to enhance their control over large SOEs. On the other hand, local officials sped up the privatization of SMEs, a process from which they could profit. Soon after the party congress, some 90 per cent of SMEs were privatized with massive lay-offs. This privatization was sharply criticized by leftists and conservatives. In fact, when Shaanxi, Sichuan and Henan Provinces passed provincial laws to 'enliven' (i.e., privatise) the SMEs, they were attacked by Song Ping and other conservatives who wanted to protect the state's ownership of SOEs. Li Peng reportedly sponsored the attack, forcing Zhu to call for an investigation by the State Council's research bodies (Zweig 2001). In January 1999, responding to rising social unrest, Li insisted that the state establish a system for managing and helping unemployed workers before further lay-offs. In April 2000, Li praised an article in a leftist journal which accused the sale of SOEs as 'selling ancestral lands'. Under mounting pressure from both conservative leaders and industrial bureaucrats, the ownership reforms and the industrial restructuring, the two essential components

of the SOE reform, slowed down in late 1998 and early 1999. However, the WTO membership was perceived as a ready way for the reformers to dismantle the traditional core of the planned economy. Facing ferocious foreign competition, SOEs would have to subject themselves to the rule of market instead of government administration, while SMEs had to be privatized and large firms consolidated in order to survive. The significance of the WTO accession to the domestic SOE reforms evolved from a case of 'reform or die' to one of 'open or die'. Only at this time were the Chinese leaders determined to strike a deal.

Moreover, there were some practical considerations involving the policy shift. One was the upcoming Seattle meeting of the WTO Ministerial Conference in which a number of issues relevant to China would be discussed. Zhu told Jiang that if China could not accede to the WTO soon, the price of admission would be much higher (*International Daily* 16 November 1999). There were also concerns that pressures would mount for letting Taiwan into the WTO ahead of the PRC, since Taiwan had concluded most of its bilateral negotiations with the contracting parties.

Finally, as noted above, the exchange of summit and presidential visits by Jiang and Clinton from 1995 to 1998 alleviated the negative effect to the bilateral relations and made further concessions politically more acceptable and less risky to domestic constituency. Both sides talked in terms of building a 'strategic cooperative partnership.' The Chinese also recognized that a 1999 deal might facilitate a US congressional vote on granting China permanent normal trade relations (PNTR) with election politics in 2000. China's policy shift was further boosted by President Clinton's personal intervention. Jiang received three letters from Clinton between November 1998 and February 1999 expressing his hope that the bilateral agreement would be reached as soon as possible (Fewsmith 1999).

Jiang and Zhu then used Clinton's active gesture to gain final concessions from domestic opponents of the WTO deal. Jiang convened an expanded Politburo meeting and pushed through the WTO package. All major bureaucracies had been represented at the meeting, but constrained by the obvious support of Jiang for the WTO accession. As Pearson (2001: 365) puts it, 'Opposition within China was not won over . . . but rather was run over.' Observers were optimistic that reaching an agreement with the US during Zhu's pending trip to Washington was possible.

The empty-handed visit

Before Zhu's highly anticipated visit to the US, several incidents cast a shadow on the bilateral relations. In March 1999 Wen Ho Lee, a Taiwan-born American nuclear scientist was suspected of stealing nuclear secrets for China. Although no concrete evidence supported the allegation, China was portrayed as the primary enemy of the United States by politicians

and the media of the US. In addition, NATO launched the Kosovo war in March to force Yugoslavian President Milosevic to accept the Ramboullait Accord. Given the central role of the US in NATO, Chinese conservatives and nationalists believed this was an obvious indication of American global hegemony, for the military operation was launched without China's consent in the United Nations as a standing member of its Security Council. Some argued that Zhu's scheduled trip to the US should be postponed or cancelled in protest. Nevertheless, Jiang supported Zhu's trip. As Zhu admitted later in the US, 'President Jiang Zemin decided that I should come according to a schedule, and he is number one in China so I had to obey him'.¹²

On Zhu's trip, the Chinese negotiators provided their American counterparts with unprecedented offers for a WTO deal, regarded by Zhu as having 'made the biggest concessions'.¹³ China agreed to lower tariffs and remove trade barriers to US major agricultural products,¹⁴ and further open up the Chinese market including banking, insurance and telecommunications. President Clinton, however, feared that this deal could not be passed in Congress given the harsh tone on Capitol Hill towards China, and believed this could in turn damage bilateral relations. Failing to get more favourable concessions from the Chinese side, he refused to conclude the WTO agreement with Zhu. Only an agreement on agriculture was reached to save Zhu's face.

Zhu's domestic humiliation

As the top leadership imposed restrictions on the media, opponents to the WTO accession had to pick opportunities to voice their grievance. To them, Zhu's failure to conclude a deal with the US came at the right time. To make things worse, details of China's April package were revealed by the American side on its Trade Representative web site. The original intention of the Americans was to gain support from the domestic business community and to ensure that the Chinese did not backtrack on their offer, but the publication of the Chinese concessions turned out to be another blow to the Chinese negotiators. It disabled the leadership's control of the information flow by giving opponents in China their first close and full look at the package that had been put together, or at least the provisions that Zhu had agreed to. Moreover, large enterprises and the provinces that would be affected by the WTO accession began to calculate the impact on themselves.

By the time Zhu returned to China empty-handed, he was an easy target of his policy rivals. The Standing Committee, special committees and the party groups of the NPC headed by Li Peng, questioned Zhu's claimed goal of his trip in front of the Americans as 'allowing the Americans to let off steam (*xiaoxiao qi*)'. The party group of the NPC, together with the party group of the Political Consultative Conference, questioned

whether China should make unrealistic concessions to satisfy the US in order to join the WTO. Six ministries and one industrial bureau reportedly asked who had decided on the concessions to the US, and why they were not consulted ahead of time (Luo 1999a, 1999c). The Minister of Information Industries (in charge of telecommunications industry), Wu Jichuan, even tendered his resignation, which was not accepted (Fewsmith 1999).

Jiang, in an attempt to calm the bureaucratic complaints, told an internal meeting that China had waited 13 years to join GATT/WTO and it would not be a bother to wait another 13 years. Zhu, with other high-ranking officials, such as Li Zhaoxing, China's ambassador to the US, and Wu Yi, the State Councillor in charge of WTO accession, similarly adopted a strong language. Meanwhile, Jiang defended Zhu's package offer in April by stating in a Politburo meeting that:

Given the current China-US relations, Comrade Zhu Rongji's visit to the US has achieved our anticipated goal. He has neither deviated from the decision and policy of the Politburo, nor has he erred politically or on principle. Among the high, middle, and low bottom lines of our accession of the WTO, he took the low bottom line. He has not made concessions that give up the principle, nor has he deviated from the Politburo's bottom lines, nor has he accepted conditions that our country cannot bear. He might have done it a bit fast and early, and might have left some kind of influence. The Politburo is responsible for them. The members of the Standing Committee of the Politburo and the members of the Politburo will explain it to the Standing Committee of the NPC and the State Council.

(Luo 1999a)

It was not long before another incident made things go from bad to worse. On 8 May 1999, the Chinese embassy in Belgrade was bombed by NATO's air assault on Yugoslavia. Although the US claimed it was a mis-bombing, the Chinese believed it was both an attempt to test China's resolve and American's retaliation to China's support of Yugoslavia. During a three-day emergency meeting after the bombing, Li Peng and the military leaders mocked Zhu's April trip and the Sino-US 'constructive partnership'. The WTO talks became the immediate casualty of the diplomatic crisis. Li Peng reportedly took a strong stance on the WTO when meeting with a Japanese delegation, declaring that 'China need not join the WTO by making concessions or under attached conditions. The CCP does not set a deadline for joining the WTO' (Su 1999b). Although the WTO negotiations were not cancelled, they were delayed for four months.

With various theories of United States' anti-China conspiracy to explain its motives, the domestic nationalist sentiment surged to an all time high. Criticisms of Zhu's concessions to the US peaked in China, from within the CCP, the government ministries and the public, virtually all levels of the

Chinese polity. Zhu was even portrayed as a 'traitor' on the Internet for selling off Chinese sovereignty and economic rights to please 'American Imperialism'.¹⁵ Even though Jiang was widely believed to be the real man behind Zhu and the April offer, Li Peng, expressing his complete support for Jiang, tactically directed his criticism at Zhu, at a Politburo meeting after the bombing. Zhu was criticized by Li for acting on personal decisions and bypassing other top leaders (including Li, of course) and his subordinates (the central bureaucracy). Li also accused Zhu whose 'radical programmes' had trapped the bureaucrats and common people into financial hardship. At the Beidaihe Conference in the summer of 1999, Li further staged his attack on Zhu's economic management (Fewsmith 1999).

Although Jiang defended Zhu on several occasions, he had to balance his stance against popular criticisms, so he reportedly expressed agreement with Li. Subsequently the editorial articles in the CCP's official newspaper used a tough tone towards the United States with the apparent approval of Jiang, which reflected Jiang's difficult position with little room to manipulate the situation other than to act at Zhu's expense. Zhu found himself in such hot water that in the months following his return to China, he tendered his resignation three times, the last in August. Despite the fact that Jiang refused his requests, Zhu's authority had been severely damaged. The job of reforming SOEs went to Wu Bangguo, who had managed that portfolio unsuccessfully in the mid-1990s (Zweig 2001). Nevertheless, Zhu being the scapegoat made it possible for Jiang to recover his balance and won valuable time for the damage control.

The final round of talks in Beijing

However harsh the left's and conservative's criticisms were, the leadership wanted a continuity of domestic reform and a healthy relationship with the United States. After the bombing, several rounds of discussions were held by senior leaders over China's social and economic prospects as a potential consequence of joining the WTO. They acknowledged that certain sectors would face the greatest challenge, and that inter and intra-regional inequality would be aggravated. The Chinese leaders were convinced that, despite these downside effects, as a whole the benefits outweighed the drawbacks. Therefore, they ordered the relevant agencies to initiate contact with the Americans in order to hasten the resumption of WTO talks.

At the same time, the Sino-US relations warmed up again with a financial settlement of the bombing incident. In September US officials conveyed the message to the Chinese that the US was ready to start talks at any time. At the summit meeting of APEC in New Zealand that month, Jiang and Clinton decided to resume the WTO negotiation. However, the initial talks in Washington in September were extremely brief, lasting only a couple of hours, although it was scheduled for two days. Both sides disagreed on a number of areas.

It seemed that the Chinese were not the only side ready to make a deal. A month after the Washington meeting, President Clinton telephoned Jiang twice to urge a resumption of serious talks.¹⁶ Clinton's promise to deny the Taiwan President Lee Teng-hui's statement of 'state-to-state' relationship with the PRC appeased Jiang and strengthened his domestic position. US Treasury Secretary Lawrence Summers came away from a meeting in Beijing and met with Zhu Rongji who was making a provincial trip to Lanzhou. With a series of exchanges between the political leaders, Clinton sent US Trade Representative, Charlene Barshefsky, and National Economic Council Chief, Gene Sperling, to Beijing to start the final round of WTO talks, the last opportunity before the WTO's Seattle Conference. The US side was optimistic as Barshefsky recalled: 'I would not have gone had we not felt and had President Clinton not felt that the chances of at least making very significant progress were not readily apparent.'¹⁷

The Chinese side paid special attention to this round of talks. Before his nomination by the NPC as Deputy Director of the Supreme Court on 31 October, Cao Jianming, the former President of East China Political and Legal College in Shanghai, reportedly conducted a final cost-benefit analysis of China's accession to the WTO on behalf of the government. Cao firmly supported China's WTO bid (Cao 2000). At the same time, Jiang Zemin replaced Zhu Rongji as the Director of the Financial and Economic Leading Small Group, and took charge of the WTO talks. Zhu became the Vice Director (*United News* 16 November 1999). This leadership change was advised to provincial governors by the Party's Central Committee and demonstrated Jiang's full support for China's WTO bid. Jiang asked Zhu to accelerate the talks so that China could contain the negative impact of its accession. On 9 November, the night before the Beijing round of negotiations, Jiang held an emergency meeting of the Standing Committee of the Politburo regarding the talks. On a final vote on whether to accept America's terms, of the seven members of the Standing Committee, six favoured the deal, Li Peng was the only exception (Zweig 2001). This vote cleared the way for the final deal.

The beginning of the Beijing round of talks went slowly with serious disagreement between the two sides. Two of the major sticking points were the US demand for its continued use of non-market economy anti-dumping rules against China for an extended period of time even after China joined the WTO, as well as US demand for use of a special mechanism, newly created for China, to ensure that the US could address any import surges from China over an extended period of time. On the same day, 11 November, China's chief negotiator Long Yongtu and MOFTEC Minister Shi Guangsheng directly reported to Premier Zhu. The Chinese side deemed these extremely unfair and that by accepting these, China would be exclusively targeted in WTO's multilateral arrangement. The American negotiator, facing a stalled negotiating process, realized that 'the key here was to ensure that those people in the Chinese government

who were “the” decision-makers, be those people with whom we also dealt apart from the negotiating level’.¹⁸ They asked to see Premier Zhu Rongji on 12 November. In a lengthy conversation between Clinton and Barshefsky, both agreed that if Zhu was unavailable, ‘the signal from the Chinese was that these talks would prattle on and on to no conclusion that I [Barshefsky] should absolutely get on a plane and leave’.¹⁹

Early on the morning of 13 November, Zhu Rongji convened an urgent State Council meeting discussing responses to the US demand,²⁰ and he met the US negotiators twice, on the mornings of 13 and 15 November. Zhu expressed his hope that this round of talks would succeed, and that China could only accept the terms that it could sustain. Later, it was Zhu who agreed to compromise on two of the final seven US demands (*Far Eastern Economic Review* 6 December 2001; Hu and Hu 2001 and author’s interview). The Chinese negotiators subsequently made concessions on opening China’s financial and telecommunications markets, an anti-dumping rule continuing for 15 years and an anti-import surge remedy existing for 12 years after China’s WTO accession. These concessions paved the way for the all-important Sino-US WTO agreement signed on 15 November 1999. The negotiators from both sides acknowledged Zhu’s critical impact on the final conclusion of the agreement. Long Yongtu commented on several occasions that the WTO agreement was indeed ‘a political decision’ and that ‘political leaders’ played a vital role in hammering out the deal (Hu and Hu 2001; *Shiji Zhongguo* 2001). Barshefsky put it simply: ‘the architect of this deal [Sino-US agreement] for China is Premier Zhu Rongji . . . Zhu Rongji was critical – having Jiang Zemin’s imprimatur on what Zhu Rongji would offer, would actually be put on the table – was critical.’²¹

Zhu originally arranged to meet the US negotiators after the conclusion of the agreement. Fully aware of the WTO deal’s domestic and international significance, Zhu asked Jiang to host the event, who agreed (Lai 2001). Jiang’s following meeting with the US delegates signified his approval of the Chinese commitments in the WTO agreement.

While the bilateral agreement with the US was at hand, the accession had been on the top agenda of the leadership. The terrorist attack on the US in September 2001 presented China’s accession with some uncertainty. President Jiang, in his call to President George W. Bush immediately after 9/11, reportedly asked that this issue among others not be lost in the Administration’s agenda that would follow the attacks (Prime 2002). The tenacity of the Chinese leaders’ push towards joining the WTO for over a decade and a half is remarkable in the light of difficult transition challenges and serious opposition at home.

Conclusion

The ideas and perceptions of policy elites determine their policy preferences, whereas the power configuration of the institutional structure helps

to deliver the actual policy outcome. The dominance of the reformist line within the top party leadership enabled the accession not to be derailed by conservatives and resistant bureaucrats with various opposing views towards the WTO.

Throughout the accession process, party elites played a vital role in the policy making. There are a number of mechanisms through which the leadership can influence the WTO policy process. They can weather the domestic debate and quieten the dissenting groups by their control of the mass media, which created a favourable policy environment. By initiating an ideological breakthrough, such as Deng's southern tour in 1992, the leadership eliminated key obstacles in the external negotiations. For the domestic bureaucracy that had managed to delay the membership talks for years, the leadership could resort to institutional reform to alter the power structure of the government system, reducing actors in the internal bargaining process. It could also bypass or circumvent the bureaucracy by control of information flows, like the cover-up of the concessions to the bureaucratic complaints that were made during Zhu's visit to Washington. The most effective way for the leadership's involvement in the policy process was Jiang and Zhu's personal and decisive touch on the Beijing round of WTO talks with the US that finally sealed China's seat in the global trade regime.

The power of the reformist leadership and the conclusion of the accession process were also constrained by several factors. Their power was not dominant enough to exclude conservatives in the policy process. Even though conservative leaders such as Li Peng could not challenge Jiang's line, Li could direct his criticism to Zhu, particularly at difficult times of political and diplomatic crisis. This domestic factor intertwined with foreign relations. The response of foreign governments and external political crisis could severely limit the reformers' room to manoeuvre and damage their domestic credibility. This was demonstrated by events such as President Clinton's walking away from Zhu's April offer and NATO's subsequent bombing of the Chinese embassy in Belgrade in May 1999. Moreover, bureaucratic infighting has been one of the main factors in explaining the sluggish pace of the accession despite a resolute leadership. However, to the extent that the leadership initiated the GATT/WTO membership bid, kept up the momentum in the accession process, and stepped in at a critical stage to conclude the bilateral negotiations, it is safe to argue that the policy elites played a vital role in China's WTO policy making.

Meanwhile, as noted above, it is inadequate and unconvincing to explain the dynamics of the accession process without considering other factors or variables that have influenced policy making, namely the domestic bureaucracy and the foreign actors. Thus, the next chapter will examine the role of the bureaucracy and its interaction with the leadership in the WTO policy process.

5 Bureaucratic politics and WTO accession

Introduction

As the previous chapter shows, the party leadership made the strategic decision and the critical push to enter the WTO. However, the nature of WTO accession is different from that of other international organizations such as the IMF and the World Bank. The accession itself involves intensive bilateral and multilateral negotiations with existing member nations on an extensive range of issues governed by the global trade body. Therefore, the leadership's strategic decision has to be substantiated by concrete policies; that is, the exact terms and conditions China is willing to accept to be a member of the international trade regime. This task was left mainly to the bureaucratic institutions in the government.

Modern institutional studies have shown that government branches are not mere *executive* organs implementing orders from the above. Institutions often play important, sometimes critical roles in policy making in facilitating or distorting the policy process. This part of the book seeks to examine the institutional variable of China's WTO policy making outlined in the analytical model. It looks into the preferences of Chinese bureaucrats and bureaucracy, the specific institutional structure through which government agencies interact with each other and with the political leadership, and how these bureaucratic preferences and institutional power structures interact to influence policy outcomes.

This chapter argues that the institutional structure of the Chinese bureaucratic system partly shaped the policy process. The system can be characterized as fragmented, with overlapping jurisdictions and diffuse authority, and therefore policy making necessarily involves the seeking of consensus. Foreseeable foreign 'economic invasion' after the WTO accession aroused great resistance among the potential losers and their bureaucratic representatives who managed to use their *de facto* veto power under the scattered power structure to obstruct the formation of consensus. The process was further complicated by the weak status of coordinating bodies, such as the State Economic and Trade Commission (SETC) and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), assigned

to coordinate contentious bureaucratic units. As a result, Chinese negotiators found themselves fighting on two fronts: external negotiations and the internal bargaining process. The internal front was at least as difficult as the external one, which made the accession a slow and protracted process.

The chapter begins with a review of institutionalist theory on policy making, followed by a general account of the changing relationship between the communist party and the government bureaucracy since 1949. The rigid 'parallel rule' copied from the Soviet Union was partly abandoned by the political reform in the mid-1980s which shifted the authority of economic policy making from the Party to the government apparatus. It then examines the structural features of the Chinese bureaucracy and contending bureaucratic interests towards the WTO membership, followed by an analysis of how the reluctant agencies exploited the scattered power structure to stymie the accession process, and the role of MOFTEC in building internal consensus on the accession. The chapter then provides a detailed examination of the 1998 government restructuring and its implications for the WTO policy-making regime. It concludes with a description of the new, more centralized and effective decision-making mechanism after the government reforms, in which political elites took the lead and steered the process to its final conclusion.

The institutional factor in policy making

Modern institutionalist accounts stress the role of institutions in political analysis. Institutions, with their own power and resources, can shape actors' decision making, policy behaviour and even the power and perceptions of political actors (Bell 2002a; Bell and Carr 2002). In terms of policy making, institutional settings create rules for decision making, provide information to policy makers and structure the agenda. Therefore, institutional factors are an independent variable in policy-making analysis.

Bureaucratic institutions have a number of attributes that shape and constrain the policy process. Various elite approaches tend to search for a coherent and consistent logic in the policy process. However, Allison (1971) argues that institutional and organizational processes ('standard operating procedures' in his terms) and bureaucratic politics do influence decisions. Thus rational-actor assumptions do not fully capture the forces that shape policy making and implementation. Instead, bureaucratic organizations could largely stir up the policy process and make a 'coherent' and 'consistent' logic at the leadership level incoherent and inconsistent through their routine structure, process and outcomes. By the same token, many of the organizational decision-making models recognize that policy outcomes in large organizations often fall short of the 'best' outcome (Taylor 1959; Downs 1967). Instead, the decision-making process with the involvement of bureaucratic organizations only achieve 'acceptable' or 'satisfying' outcomes with participants carrying different criteria

defining their acceptability (Kelley 1974). Therefore, the nature of the institutional structure provides perhaps a key explanation of the distortion of policy outcomes.

Another important characteristic of institutions, especially according to sociological and historical models of institutional analysis, is their tendency towards stickiness, stasis and inertia. 'Institutional life tends to emphasize the role of established rules, routines, taken-for-granted practices, policy legacies, sunk costs and path dependency' (Bell 2002a: 376). On the macro-level, institutions 'are established at particular moments in history and tend to persist' (Ikenberry 1988c: 194). On the micro-level,

at any given historical moment, executive officials will be making choices in the context of a relatively fixed set of institutional arrangements. When old institutions shape and influence the approach to new problems, the policy that emerges is influenced by what we call the 'shadow of the past'.

(Ikenberry 1988c: 195)

However, institutional change could occur, either by mounting pressures that cause sudden change (Krasner 1984), or in small incremental steps (Cortell and Peterson 1999), or through pressures exerted by elites (Levi 1988). Because of their influence in political life, political institutions reflect domestic actors' policy preferences, especially in rational choice institutional models, since they are intentionally created to facilitate the pursuit of particular goals. As Levi (1988: 3) puts it, '[elites] will design institutions that they believe will be efficient in promoting their interest . . . [However, institutions that once facilitated the fulfilment of these interests may begin to hinder this process]. Rulers will then try to redesign state structures and rewrite state policies.'

These general attributes of institutions are also reflected in this case. As we will see in this chapter, China's deep integration into the world market embodied in WTO accession involved a bureaucracy that operated under the 'shadow of the past'. On the one hand, the leadership's decision to join the world trade body was hampered and delayed by a bureaucracy that was mostly inherited from the old planning system and by a correspondingly fragmented bureaucratic structure which required consensus building. On the other hand, the political elite, with their ultimate power in a steeply hierarchical system, prevailed over the bureaucratic gridlock by institutional restructuring in favour of their policy preferences.

The Party and the government

In Chinese politics, the institutional structure of authority is an important arena to identify potential actors and their role in policy making. Generally speaking, the structure of authority within the Centre consists of three

tiers. Members of CCP's Politburo, headed by the collective leadership of its Standing Committee, are at the apex of the power hierarchy. These party leaders deal with national, strategic policies with the paramount leader having the final say on policy disputes. The layer of bodies immediately under the Politburo leadership consists of a few 'leading small groups' (LSGs) which link political elites with the country's bureaucratic network. This arrangement groups most of the major bureaucracies into broad functional clusters and assigns a small group, typically led by a member of the Politburo or its Standing Committee, to manage that policy cluster and to act as liaison between it and the elites.¹ The LSGs do not appear on any organizational chart and their membership is not announced. However, they serve very important functions in the policy process. They work on materials for the consideration of the top decision makers, initiate and supervise policy research, resolve issues that cannot be handled at a lower level and coordinate activities among the various bureaucracies in each functional cluster. One step below the LSGs are the bureaucratic institutions within central government, including commissions and ministries that have supra-ministerial status, such as the State Planning Commission (SPC) and the State Economic and Trade Commission (SETC) and various line ministries in charge of implementing policies.²

The relationship between the Communist Party and the government in a Leninist state is that of principal and agent (Shirk 1992). The Party is the 'principal', to the extent that it has the authority to appoint and promote government officials, to set the general policy line for the government to implement, and to oversee the work of the government. However, to administer the country, the Party has to delegate authority to the government bureaucracy, the 'agent', due to the latter's possession of specialized information, expert staff and closeness to problems. To ensure that government bureaucrats are carrying out policies that conform to the Party's preferences, the Soviets developed a method of so-called 'parallel rule'. In such a system, both the Party and the government have their sets of bureaucracies, with government institutions overseen by their counterparts in the Party. Thus, the real power was effectively concentrated within the party apparatus. The Chinese pattern of bureaucratization mostly copied that of the former Soviet Union in the socialist central-planning era.³

However, the Party had to pay a high price for its 'police patrol' over the government, especially in terms of the bureaucratic duplication and the resultant low efficiency, and the fact that policies were usually made by the poorly-educated party veterans instead of government specialists, on the basis of political instincts rather than technical expertise. To address this issue, a political reform was launched by then Party Secretary Zhao Ziyang in the mid-1980s aiming at separating the Party and the government (*dangzheng fenkai*). As a result, most of the institutions

within the Party that had overlapping duties with the government were eliminated. Those left were to manage party affairs. The Party delegated much of the responsibility to the government bureaucracy, especially in the economic sphere. The new arrangement did not fundamentally alter the principal–agent relationship between the Party and the government, to the extent that the Party still retains the power of political leadership and personnel appointment over the government. Also, the LSGs now play an important role in linking the party leadership and relevant government bureaucracies, ensuring the implementation of the Party's strategic and political line. Nonetheless, the expanded discretion of the government bureaucracy largely shifted the centre of gravity of economic policy making from the Party to the government. Consequently, the government came to be the locus of bargaining over economic policies in the reform era.

Fragmented bureaucratic structure

Within the Chinese government bureaucracy, administration of all aspects of the country was divided into different vertical functional agencies (*xitong* or *tiao*), including the management of the national economy, a legacy of the soviet bureaucratic system. Before the 1998 government restructuring, there were more than 40 ministries, commissions and agencies within central government, more than half of which were directly related to economic and industrial affairs. Moreover, their jurisdictions often overlapped. As Figure 5.1 illustrates, for example, in the foreign trade realm, the State Council Commission on Tariffs is in charge of tariff issues together with the General Administration of Customs, and, when setting new rates, the two have to consult with other agencies. The power to determine quotas is divided between MOFTEC and the SPC, with the former overseeing export quotas while the latter import quotas (Wang 1999). However, the State Council Office of Import and Export of Mechanical and Electronic Products under the SETC shares the authority of import quota with the SPC.⁴ Both the MOFTEC and the SETC issue import licences and allocate foreign trade rights (Sheng, B. 2002: 267, 269).

The functional distribution of authority among various bureaucracies, together with China's bureaucratic ranking system, has produced the scenario in which it is necessary for a body to seek consensus with other concerned bodies before a certain policy is made or implemented. This means it has to achieve agreement among an array of agencies, where no single body has authority over the others. This kind of arrangement in effect allocates mutual veto powers to bureaucratic participants in the policy process. This was messy indeed, and one bound to frustrate decision making. At the same time, the political leaders reduced the use of coercion, such as purges, labelling and demotions, against those whose ideas were rejected or denounced, thus emboldening participants to argue

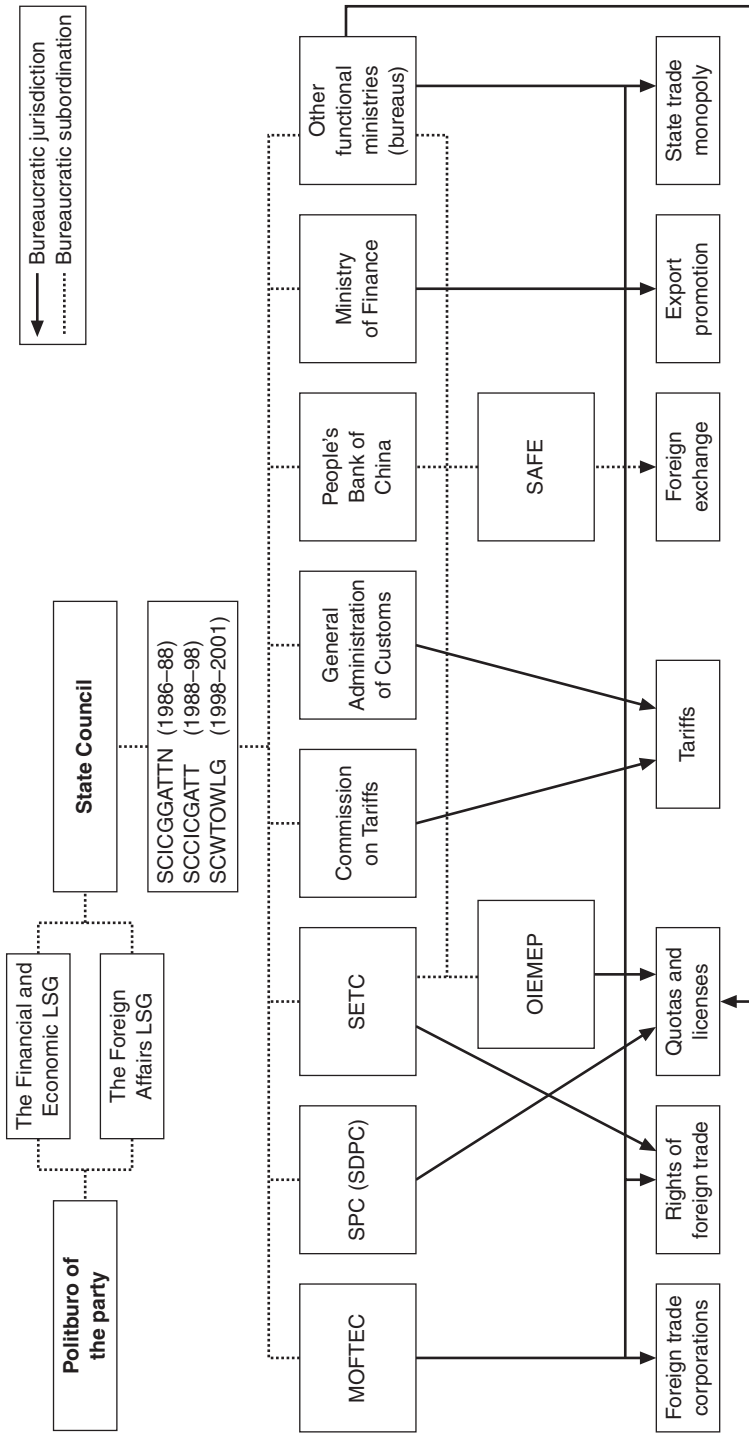


Figure 5.1 The bureaucratic structure of China's WTO policy making (source: Sheng (2002), Wang (1999, 2001), Pearson (2001) and author's interviews in 2002, Beijing).

Note
 SCICGGATT: State Council Interministerial Coordination Group on GATT Negotiations; SCCIGATT: State Council Committee on Interministerial Coordination on GATT; SCWTOLG: State Council WTO Work Leading Group; OIEMEP: Office of Import and Export of Mechanical and Electronic Products; SAFE: State Administration of Foreign Exchange.

proposals forcefully. It also strengthened the tendency of bureaucratic units to work vigorously to promote and protect their own interests in the policy-making process. Moreover, the administrative and financial decentralization measures adopted in the reform era enabled many institutions to acquire funds outside of the central budget which they could use to pursue their own policy preferences. As a result, the policy process was highly consultative, with intensive and extensive bargaining among political and bureaucratic participants.

According to Lampton (1987) and Lieberthal (1992), fragmented authority within the central bureaucracy had certain consequences. First, elaborate efforts had to be made to create and maintain a basic consensus to move forward at every stage of the policy process. Any damage to the consensus building was likely to frustrate decision making. Second, disputed issues tended to rise to higher levels in the system in which coordinating bodies are required to preside over contending alternatives. Thus the power status of the coordinating settings became an important variable in reaching a consensus. Third, gaining support from the top leaders became vital in times of bureaucratic impasse. In other words, one or more top leaders have to enthusiastically support the initiation of a major policy in order to overcome bureaucratic resistance and stalemate.

Therefore, the making and implementation of policy depended on at least three factors: the preferences and willingness of bureaucratic units to reach and sustain a consensus, the power of coordination agencies, and at times the willingness and power of top leaders to intervene and break lower level impasses. As the following discussion will reveal, contending interests towards WTO membership within the bureaucracy, the structure of the Chinese institutional setting and the resultant bureaucratic politics also helped shape the dynamics of China's bid for the WTO membership. The bureaucratic resistance to WTO accession, together with the weak power of the relevant coordination body, explains the sluggish pace of accession before 1999. Nonetheless, the determined intervention of the top elites afterwards brought China back on track regarding the WTO bid.

Resistance from within

WTO, created on the basis of GATT, has extended its jurisdiction from trade in goods to trade in services, investment, and other related areas. This means that, to enter the WTO, China had to conduct a series of complex and technical talks with the existing member nations on all their interested areas and issues. Because the domestic bureaucratic system was functionally divided, the interests of a large number of government agencies would be affected by the accession negotiations. The participation of various domestic agencies was also made possible by the conscious practice of MOFTEC, the main internal coordinating body of WTO policy, engaging almost all industrial and economic agencies in the internal

coordination meetings as well as external negotiations.⁵ However, there had been strong opposition within the bureaucracy to further opening up to the international market and entering the global trade regime. Several factors explain this.

First, bureaucratic resistance arose from vested institutional interests. Under the regime of central planning and the command economy, economic bureaucracies, from the Centre to the local, had been enjoying all-encompassing authority over economic affairs: from drafting the grandiose Five-Year Plans, to supervising their implementation, to allocating resources, and to even managing the day-to-day operation of industrial enterprises. Virtually every aspect of the economy, at both macro and micro level, was under the rigid control of the country's sprawling bureaucratic leviathan. During the transition from the command to the market economy, the Chinese bureaucracy further benefited from its monopoly of economic administration. In the emerging market, the bureaucrats profited from their administrative authority in various ways, including manipulating price differences between resources under the plan and those decided in the market, and rent-seeking from the burgeoning private and foreign enterprises lobbying for equal treatment with their state-owned counterparts, etc.

Although the party leadership had been well aware of this dubious bureaucratic by-product of economic transition, rounds of anti-corruption campaigns turned out to be of little success. In such a context, accession to the WTO posed the greatest challenge to the Chinese bureaucracy. The rule-based and market-oriented global regime would increasingly force the bureaucracy to change its function, abandoning its micro-economic management while concentrating on broader regulatory and macro-economic supervision. The monopoly of administrative resources will also be broken by WTO membership. In the foreign trade realm, for example, the central ministries had the exclusive authority to issue import licences or allocate import quotas to more than 1,000 items, which was reduced to around 100 at the time of WTO accession and will have been totally eliminated by 2005 (Zhang 2004). Moreover, the bureaucracy has to ensure WTO's principle of national treatment that enables a more level playing field between enterprises of different ownerships. All this implies the deprivation of government agencies' former authority, something which encouraged them to resist WTO membership.

Second, strong sentiments of industrial protection also resonated within the bureaucracy. An important feature of the Chinese economic regime lay in the inextricable relationship between state industry and the bureaucracy. According to the central planning practice, most of the industrial enterprises were directly managed by the functional ministries in charge of the sector, of which large state-owned enterprises (SOEs) were in the hands of the industrial ministries. Heads of SOEs always concurrently hold government positions, and vice versa.⁶ This kind of arrangement

established specific bureaucratic-economic interest between the ministries and the large SOEs, such as industrial subsidies, proportional dividends from state investment, benefits from state monopoly in production and services, the profits and bonus from their subordinate enterprises, etc.⁷ These entrenched institutional and economic interests thus in effect bound the large SOEs and bureaucracy together and made the latter a natural representative of industrial interests in the government.

It is widely accepted that WTO membership, which will lower tariff rates and secure better access to overseas markets, will provide a strong boost to China's labour-intensive industries such as textiles, garments, toys and shoe-making, where the nation enjoys considerable comparative advantage in the global market. Nonetheless, China's developmental pattern used to be heavy-industry-biased, with local government managing most of the light industries and central bureaucracy in charge of the giant heavy industrial plants. Therefore, the interests of heavy industry were much more strongly represented in the Centre and, because of its low efficiency and poor management, stood to lose most from WTO accession. Other sectors put in danger in the face of mounting foreign competition include traditional agriculture, growing sectors such as automobiles, telecommunications and chemicals, and the so-called 'infant industries' such as financial services, insurance, retailing and information technology. Fearing the collapse of domestic industry and massive unemployment, the relevant ministries strongly favour the industrial demand for trade protection.

The debate on WTO membership, illustrated in Chapter 3, further fuelled the industrial protectionists. Initially, the 1980s saw general enthusiasm towards the accession among the leadership, bureaucracy and across the domestic industry. The dominant view was that the membership would generate great opportunities for economic take-off. But when the domestic discussion became more sophisticated, especially the industry-specific research conducted on GATT/WTO accession consequences, either by academics or by corresponding ministries, potential losers came to realize what membership really meant to them. The Asian financial crisis gave another severe blow to domestic optimists who favoured economic liberalization and globalization against protectionism. Many came to support limited and more cautious measures in opening the domestic market to avoid the financial instability and economic recession suffered by China's crisis-hit neighbours.

Hence, vested institutional, industrial and economic interests shared by many government agencies preferred protection or only limited liberalization to WTO accession. However, the party leadership's strategic decision to enter the WTO was given to the bureaucracy to substantiate into policies on which its negotiating team could stand. The apparent lack of consensus among institutional agencies, facing gains or losses, formed the basis of a slow bid process. The bureaucracies admitted to the fact that

they could not change the leadership's decision to join the WTO, but they knew all too well how to delay the process and bargain with the top and their counterparts in the government for a better deal.

One means of lobbying is to simply show to the top decision makers how devastating it would be for a particular industry after WTO accession. Specially-designed research was conducted by institutes attached to or sponsored by the ministries and the final grim reports were conveyed to the top. For example, the Ministry of Agriculture (MOA) produced three consecutive reports on the WTO membership effects on Chinese agriculture within two months before the November talks with the US in 1999.⁸ Lobbying also occurred through contact between relevant ministers and vice premiers or other top leaders. Right before the critical talks with the US, there were rumours among the top ministerial bureaucrats that Premier Zhu was willing to make further concessions on agriculture in return for the guaranteed Chinese ownership of telecommunication joint ventures. The Agricultural Minister then met with the vice Premier in charge of agricultural affairs twice in a day before the two had an exclusive meeting with Zhu the next day. Zhu was said to have confirmed with them that no further concessions on agriculture would be allowed regarding his April package offered during his trip to Washington in 1999.⁹

Apart from the personal, informal channels used to express bureaucratic grievances, the most effective way for the bureaucratic opponents to stall the accession process was to exploit the fragmented distribution of power within the central apparatus to prevent the establishment of domestic consensus needed for external negotiations. In fact, amidst other domestic and international factors, they managed to reach this goal before 1999 with the absence of strong and determined coordination in the Centre.

Weak policy coordination

As discussed above, the functionally divided bureaucratic system makes coordination essential when the issue area covers more than one institution's jurisdiction. This is also the case in relation to China's WTO policy making. Throughout the accession process, formal channels were set up to receive and coordinate various bureaucratic and industrial opinions.

The coordination mechanism itself had undergone numerous changes. In August 1986, right after lodging the application for GATT resumption, the Chinese government established the State Council Interministerial Coordination Group on GATT Negotiations (SCICGGATTN, *Guowuyuan guan shui ji maoyi zong xieding tanpan buji xietiao xiaozu*) to coordinate the ministries with differing views on GATT, with State Councillor Zhang Jinfu the first director of the Group. The vice directors included Minister of Foreign Trade, Vice Minister of Foreign Affairs, and the General Director of Customs. The group members included vice min-

isters or vice chairmen of other relevant ministries and commissions. Zhu Rongji, then vice director of the SETC, was also a member of the Group.¹⁰

In 1988, this group was renamed the State Council Committee on Inter-ministerial Coordination on GATT (SCCICGATT, *Guowuyuan guanshui ji maoyi zong xieding buji xietiao weiyuanhui*), with Vice Premier Tian Jiyun as chairman and several vice-chairman-level agencies. The member agencies of the Committee included the Ministry of Finance, the Ministry of Machine-Building Industry, the Ministry of Posts and Telecommunications (renamed Ministry of Information Industry in 1998), the Ministry of Electronic Industry, the Ministry of Textile Industry (restructured as the General Association of Textile Industry in 1993), the State Council Office of Import and Export of Mechanical and Electronic Products, SETC and other relevant agencies. A vice minister from each agency was present at committee sessions (Wang 1999; Lai 2001).

SCCICGATT remained in place for a decade until its dissolution in late 1998. Despite the high stakes at hand, the Committee found itself powerless to preside over conflicting ministries and was therefore brushed aside by bureaucratic drift. Several factors can explain the Committee's awkwardness. First of all, the rank of the Committee's head had been on the vice premier level. In the Chinese bureaucratic system, individual vice premiers are normally in charge of certain sectors. Therefore, various industrial ministries had their corresponding vice premiers with the same rank. In fact, vice premiers in charge of industry – notably Wu Bangguo and Wen Jiabao in the late 1990s – were conduits for industry views at the highest level of the State Council. While the consensus needed to be built among various sectors, the one appointed as the Committee's chairman was easy to be accused by other participants as favouring the sectors he oversaw, which tended to undermine his authority. Therefore, the head of SCCICGATT had no convincing and overriding power to enforce effective coordination.

Second, the Committee was only an *ad hoc* body for consultation rather than a standing agency. The arduous consultation with various institutions of diverse views towards WTO membership required it to be highly institutionalized and routinized. Yet, as a temporary arrangement, there was no secretariat within the Committee to provide the essential staff support. As an institution whose mandate was to seek domestic consensus, the lack of support was so difficult for the body that it was even hard to call it a meeting; its sessions were 'usually short, when they occurred at all' (Wang 1999).

The absence of the SPC was another blow to SCCICGATT's authority. Charged with the overall control of the planned economy, the SPC was the largest, most powerful and most comprehensive Chinese economic policy-making organ, often referred to informally as 'the little State Council'. As a supra-ministerial body, the SPC oversees the work of the various economic ministries with which it has 'a relationship of professional

leadership' (*yewu lingdao guanxi*). Each specialized section in the SPC directly interacts with a corresponding specialized ministry or a subordinate bureau of the State Council. Because of its deeply embedded interests in the planned economy and its superior bureaucratic status, SPC had been a stronghold of conservatives in reform era. It kept resisting, deflecting and enervating the market-oriented policies put forth by reformers such as Hu Yaobang and Zhao Ziyang in the 1980s, while reflecting and supporting the political power of the conservatives such as Chen Yun in the 1980s and Li Peng in the 1990s. GATT/WTO's doctrine of free trade and free markets is a severe, if not decisive, challenge to SPC's traditional authority over economic regulation. Expecting its apparent loss in the adjustment to GATT/WTO norms, SPC protested at not being listed as a vice-chairman level agency in the coordination body, the status it deserved and the responsibility it should take. This implied SPC's effective withdrawing from the coordination mechanism. Since any formation of domestic consensus required the cooperation of the heavyweight player, the absence of the SPC turned out to have made policy coordination extremely difficult.

The supra-ministerial agency that did participate in the internal consultation process was SETC. However, its authority was historically weak. SETC's predecessor is the State Economic Commission (SEC). While the economic plan was drafted and its overall implementation was supervised by the SPC, the nation's production plan was carried out by SEC. Later SEC was abolished and absorbed by the SPC before it was resurrected as the State Planning Office in 1990. In 1993 it evolved into the State Economic and Trade Commission (SETC) with the support of then Vice Premier Zhu Rongji as an organ to oversee the routine operation of the economy as well as to implement his reform package (Wang and Fewsmith 1995). The establishment of SETC also echoed the domestic transition from central planning to market-orientation, with the SPC looking after the planned section of the economy and SETC managing the macro-adjustment of the developing market.

Despite the important role SETC was assigned in the economic bureaucracy, its actual role in WTO policy coordination was very limited. This was partly due to its relatively short history that did not allow it to form a solid power basis within both the central bureaucracy and the party leadership, which is essential for any supra-ministerial organ in the Chinese bureaucratic system. Moreover, as Zhu's initiative, SETC was personally linked with Zhu and therefore its authority was largely dependent on his political power. This helps to explain why SETC was accused of being 'duplicative and unnecessary' by other agencies until 1998 when Zhu gained the premiership and the number-three status in the country's top elite team.

Since the SPC was absent from the leadership of the coordination framework, the SETC and MOFTEC, the ministry responsible for foreign

trade, had to take responsibility to consult among different views. Measures were taken in 1996 to tackle the weak leadership of the coordination process by separating coordinating responsibilities into two: SETC would coordinate policy on trade in services (non-tariff items), while MOFTEC would build consensus on trade in goods (tariff items) (Wang 2001). However, part of SETC's jurisdiction also fell within the realm of commodity trade, and this functional overlapping created new tensions between the two coordinators. Since Zhu's policy focus was primarily on the reform of SOEs rather than GATT/WTO accession, internal consensus building on the membership had not been on SETC's top priority list. As a result, SETC played a much more enthusiastic role in SOE reform than in WTO policy making.¹¹

The MOFTEC

During the whole period of China's WTO accession, MOFTEC has been the country's external negotiator and an important internal coordinator. Facing the powerful yet non-cooperative SPC and the powerless and reluctant SETC, MOFTEC was left to fulfil the difficult mission of forging domestic consensus.

From the start, MOFTEC was also a potential loser in WTO accession. The institution's mandate was to govern China's foreign trade and economic exchange with other nations. As the supervisor of the country's foreign trade regime, it enjoyed enormous lucrative authority envied by other agencies, such as the issuing of import and export licences, determining export quotas, etc. WTO accession will require the Ministry to make its regulation regime totally transparent and much of its former authority and rent seeking will be lost. Nonetheless, MOFTEC was not a resistant opponent but a strong advocate of WTO accession. Several reasons contributed to its pro-WTO stance.

First, the fundamental institutional interest of MOFTEC is to promote China's smooth and sustainable trade with its foreign partners. WTO membership will grant China automatic MFN status by other countries, especially the United States, one of the country's largest export markets (after the passage of the Permanent Trade Relations bill in US domestic legislation). With better and wider access to foreign markets, China's exports were widely expected to boom after accession (see Table 3.1). Thus the Ministry has been inclined to promote its role in the country's foreign economic policy making by taking the lead in China's bid for the WTO membership.

Second, the top bureaucrats of MOFTEC were in favour of WTO accession. The institutionalization of the Chinese bureaucracy in the reform era produced a generation of technocrats in the ruling regime, especially in institutions where professional expertise is required to manage a far more complex and sophisticated economic system. They

differ from the former revolutionary cadres to the extent that, albeit both may have similar political ambitions, they have less or little ideological bias against opening up to the West. In addition, the ever-deepening integration of Chinese economy into the world market increased MOFTEC's engagement with the international system. Through external engagement, norms and rules of the international regime have had a profound effect, not only on the ministerial leadership's conceptual understanding of economic opening and industrial protection, but also its internal bureaucratic style, which is more tolerant, professional and efficient. The working style of its WTO Division, the organ directly in charge of WTO issues, differs from other units within the Ministry. 'They look more like a branch division of WTO itself in Chinese government.'¹² The practice of the Ministry was adjusted more in line with the requirement of WTO. For example, in 1999, SETC forced all foreign exporters of silicone sealants to sell their products through the China Yuanwang Corporation, a company set up by SETC bureaucrats. MOFTEC dismissed this regulation, albeit unsuccessfully, in favour of foreign complainants, asserting that SETC's new regulations violated the WTO spirit of 'equal treatment' (Zweig 2001).

At the same time, those in key positions of the Ministry tend to accept liberal values and believe that what China gains from free market and free trade will eventually outweigh potential losses. Both heads of the Ministry, Wu Yi (until March 1998) and Shi Guangsheng (thereafter) are strong advocates of market liberalization and globalization, and exerted important influence in China's WTO policy making. Another is Long Yongtu, China's chief negotiator of WTO accession, who was sent abroad to study at the London School of Economics by former Premier Zhou Enlai. He steered the Chinese negotiating team in the last and most critical stage in the 1990s. In a series of public interviews after the Sino-US agreement in 1999, he repeatedly said that the most precious experience for the Chinese to learn from the accession process is that 'we should respect and abide by the rules of the international regime' (Gong 2001; Hu and Hu 2001; *Shiji Zhongguo* 2001; Yang, L. 2001).¹³

Another factor worthy of mention is that, as the Chinese economy is more and more integrated with the international system, some bureaucrats within the MOFTEC are specifically assigned to deal with external negotiations. Therefore, their personal careers have depended on the smooth conduct and successful conclusion of these negotiations. The Ministry's officials who directly participated in the negotiating team of China's bid for WTO formed the backbone of pro-WTO force in the Ministry.¹⁴

The SCCICGATT ceased functioning in 1998 due to its lack of results in getting a consensus among conflicting agencies. In the aftermath, MOFTEC took the initiative and acted as the coordinator. However, as mentioned above, the domestic context had changed at that time from the initial enthusiasm in the 1980s to a more hesitant and cautious sentiment

after 1994, and especially after the 1997 Asian financial crisis, with growing difficulties in reforming SOEs and popular concerns with competition from foreign business. A number of industrial sectors and ministries supported a delay in China's membership bid. Bureaucratic opponents managed to use veto power in the formal coordination process in which MOFTEC had to gain their assent to the portions of a deal relevant to their industry. Some, such as Wu Jichuan, Minister of the Information Industry, one of the most powerful conservative ministries and vocal opponents in domestic liberalization, did not even show up at several internal coordination meetings.¹⁵ Without his presence, no agreement could be reached.

Moreover, this coordination regime failed to address the structural problem that had hampered SCCICGATT. First, MOFTEC's ranking was no higher than other ministerial participants of the process, therefore, it lacked formal authority in policy making. The MOFTEC Minister Shi Guangsheng in 2000¹⁶ and the vice director of its WTO Division Zhang Xiangchen in 2001¹⁷ publicly voiced similar complaints about the state monopoly in the telecommunications industry. Later they were furiously accused of speaking beyond their jurisdiction and 'acting as a super-government (*taishang zhengfu*)'.¹⁸

Also, MOFTEC's ministerial ranking was even lower than the former coordinating bodies such as SETC, which implies it had to bargain with other equal-ranking players. Despite having the mandate to preside over various agencies to reach a deal, MOFTEC had no final authority on policy making. For instance, on the issue of tariff reduction, it was the duty of MOFTEC to present the tariff concession list in the accession negotiation, but it had to consult with each and every relevant ministry on the listed items and on the reduction scale. During this process, those 'sensitive products' were eliminated from the list in the name of 'protecting national economic security', 'protecting national industries' or 'promoting the development of the pillar or high-tech industries'. The Customs, as the body implementing tariff reduction, also had the authority to express its view on the supervision of imports and exports after the reduction. However, all potential changes to the tariff regime had to be rectified by the State Council Commission on Tariffs, whose primary concern is to protect the country's tariff sovereignty. Therefore its attitude towards the tariff concession was much more cautious.¹⁹ Moreover, MOFTEC's coordinating authority was not comprehensive, that is, it lacked formal responsibility to coordinate certain issues in the WTO accession. For example, the People's Bank of China, the country's central bank, was responsible for negotiations on finance (banking and securities) both in the GATT and WTO era. Some specialized bureaucracies took the lead on sectors new to the WTO agenda, such as MII on telecommunications, the MOF on accounting and insurance services, and the Ministry of Internal Trade on distribution (Pearson 2001). Not surprisingly, it turned out to be

very difficult, if not impossible, for relevant ministries to play the coordinating role.

On the other hand, the resistant institutions manipulated the weak status of MOFTEC in the internal negotiations to hamper external talks, sometimes by presenting invalid information to the MOFTEC negotiators. The 1994 negotiation is a good example. During the desperate dash to resume China's GATT status, both Australia and New Zealand expressed their view that, as long as China's import quota of wool was settled at 180,000 tonnes per year, they would support China's entry. At that time, the authorization MOFTEC got on this category was for 169,000 tonnes per year. Considering that the conclusion of bilateral talks with these two countries could split the unitary Western bloc and facilitate the overall accession process (see Chapter 6), Long Yongtu expressed internally that he was ready to accept their demand. However, when he consulted with the members of the relevant ministry in the negotiations delegation, he was told that the authorized bottom line was the maximum amount that China could import without jeopardizing the domestic wool industry, and that no higher demand should be accepted. Consequently, the offer was turned down by the Chinese, and the two countries joined the US in exerting much higher pressure on Chinese market access. However, it later turned out that between 1990 and 1993, China's average wool import had been 220,000 tonnes per year, and this figure in 1994 alone was even 310,000 tonnes. Given these statistics, MOFTEC officials admitted that the two countries' offer of 180,000 tonnes was 'not too excessive'.²⁰ Hence, simply because of invalid information provided to the negotiators, China lost a potential opportunity for speeding up its accession process.

MOFTEC's awkward position in WTO talks was best summed up by Long when recalling China's failed dash to join GATT in 1994: 'I was trying my best to conclude the negotiation. In fact it was not impossible to reach our goal at that time. Unfortunately we did not have enough support and coordination among different ministries. I failed to make concessions I should have made because I did not have the authority to do so. This was largely the major reason we failed to finalise the negotiations as we planned to' (Yang, J. 2001). As China's GATT resumption talks turned into WTO accession negotiations, which entailed much more profound and substantial opening at the Chinese side, ministries that believe their interests would be hit hard by the accession, especially in the banking, telecommunications and insurance sectors, stepped up their opposition. The ministerial representatives sent to the Chinese negotiation team, dubbed by MOFTEC officials as 'backseat drivers', increasingly voiced different opinions from those of MOFTEC negotiators, who were accused of 'sitting at the American side'. This internal frustration consumed most of the Chinese energy behind the negotiation table. Something has to be done to keep it on track.

The 1998 government restructuring

Right after Zhu Rongji was elected Chinese Premier, a campaign of government restructuring was launched in 1998 under his direction. Under the slogan of 'a small government and a large market' (*xiao zhengfu, da shichang*), this campaign had two broad aims. One was to drastically cut personnel to the bureaucratic force, and the other was to redirect government functions to abolish departments that were directly in charge of micro-economic management while reinforcing the departments that handled macro-economic controls. As Chapter 4 mentioned, there is insufficient evidence to argue convincingly whether WTO accession was within the leadership's consideration in implementing the government reform, but empirically, by bringing about these structural and functional changes, the 1998 government reshuffle had significant influence in the bureaucratic context of China's WTO policy making.

First, it effectively reduced the number of players in internal bargaining over the WTO deal. This organizational streamlining was the largest scale of reduction since 1949, in which 40 State Council ministries, commissions and agencies were cut to 29. More than 200 bureaus under the direction of ministries and commissions were also abolished (Guowuyuan bangongting mishuchu 1998: 39). More directly related to WTO policy coordination was the fate of the specialized economic bureaucracies in charge of competitive industries. Some were merged into new departments in the 1998 reform. For example, the Ministry of Posts and Telecommunications, and the Ministry of Electronics Industry were amalgamated into a new Ministry of Information Industry. Most of the others, including nine industrial ministries, were downgraded and reorganized into industrial bureaus (*gongye ju*) before they were finally overhauled at the end of 2000, and their function of industrial macroeconomic administration was concentrated into one or two departments within SETC with much less independence. This included some of the vocal opponents to the WTO membership, such as the Ministries of Coal Industry, Ministry of Machine-Building Industry, Ministry of Metallurgical Industry, Ministry of Chemical Industry, and Ministry of Internal Trade. The new framework of the central bureaucracy largely reduced the number of (resistant) participants in the WTO policy coordination, thus shifting the decision making to a higher level in the hands of a smaller circle.

Second, the organizational streamlining aimed to achieve a more clear-cut division of responsibility and unified authority, which reduced much of the unnecessary conflicts among the remaining bureaucratic players with overlapping jurisdictions in the process of consensus building. For example, MII was placed in charge of the administration of the country's information infrastructure. Meanwhile, some of the important state agencies and corporations, such as the Ministry of Radio, Film and Television and the China National Astronautics Industry Corporation, had also been

responsible for carrying out government functions in information and networking management before the reform. Each has its own ground on the relevant terms of WTO accession.²¹ These functions were transferred to the MII after the restructuring, and thereby simplified the bureaucratic context on this issue.

Third, the drastic cut of personnel diverted the bureaucrats' priority from battling for favourable deals on WTO accession to their own survival. The leadership was so determined to address the long-standing problem of overstaffing that eight million government employees across the country were to be cut by half in the 1998 campaign. Among them, 47.5 per cent of the 32,000 officials working in the central government, the State Council, were expected to leave their posts in three years. For the specialized economic ministries, the percentage was even higher (Chan and Drewry 2001). The situation the bureaucrats had to face was further complicated by the institutional reshuffle that resulted in the merger and the abolition of the agencies. In particular, most of the economic bureaucrats, especially the ones at the top of the hierarchy, worried about their future with the phase-out of the industrial ministries instead of the WTO accession.²² Moreover, the career uncertainties surrounding the bureaucrats gave the top decision makers greater leverage regarding WTO policy making.

Fourth, perhaps most importantly, the restructuring greatly reduced the resistance of industrial agencies against WTO membership by cutting the specific relationship between enterprises and their supervising economic departments. The bureaucratic legacy of the planned economy featured the direct management of industry by government agencies, which left enterprises with little independence in day-to-day operations and resulted in low efficiency. To make them more independent, rational and profit-oriented, the rigid control of the government over enterprises had to be removed. This issue had been put onto the reform agenda from the late 1980s when then Party Secretary General Zhao Ziyang initiated his reform of 'separating the government and enterprises' (*zheng qi fenkai*) at the thirteenth Party Congress. However, various levels of government continued to intervene in the affairs of enterprises. The 1998 reform thus aimed to redefine the relationship between government and enterprises by changing the function of the government. The rationale was to decrease the government's micro management of the enterprises and increase its macro-level regulation of the market. Under the streamlining plan, the economic bureaucracies no longer enjoy their former authority over enterprises. It was a sea change in the relationship between enterprises and their supervising departments. With the functional transfer of authority, bureaucratic and industrial interests were finally severed and the sectoral administration function of the former economic ministries were transferred and concentrated in SETC with the direct patronage of Premier Zhu, who was determined to push for an early WTO deal. This functional

change largely relieved the WTO policy coordination from the harsh pressures of industrial protection.

Moreover, the power of managing SOEs went to a newly formed party apparatus called the Central Working Committee on Large Enterprises (*Zhongyang Daxing Qiye Gongwei*) established in 1998, and was renamed the Central Working Committee on Enterprises (CWCE, *Zhongyang Qiye Gongwei*) in late 1999. Premier Zhu Rongji plays a key role in the CWCE, which gave him new leverage in dealing with complaints and concerns about WTO accession from SOEs (Wang 2001).

Another noteworthy consequence of the institutional reform is the strengthening of the macroeconomic regulation bodies, such as the SPC and SETC. The SPC, one of the most powerful departments in the State Council, used to have a close relationship with the large and medium-sized SOEs by setting production quotas. Under the institutional restructuring, the Commission, renamed the State Development Planning Commission (SDPC), narrowed its function to becoming a think tank responsible for drafting annual and five-year plans and other macroeconomic policy proposals. As far as its interest in WTO accession is concerned, it has been reduced to trading in grain and vegetable oil, and the pricing of some important industrial products. Meanwhile, with the merger of the nine industrial ministries and the acquisition of the authority of industrial policy from the former SPC, SETC's power was enhanced so that it could play its corresponding role in policy coordination.

In summary, the 1998 government restructuring led to the creation of a more centralized decision-making system, which used to be characterized by fragmentation, overlapping jurisdiction, diffused authority, and conflicting constituent bodies. Although it may not have fundamentally changed the basic bureaucratic structure of the central government, there is no doubt that the institutional campaign largely altered the balance of power within the bureaucracy towards WTO membership and helped facilitate the internal consensus on WTO policy.

The new coordination regime since 1999

After the top pro-WTO elites' decision to directly intervene into the policy-making process and carry out the bureaucratic reshuffle, a new policy coordination mechanism emerged from early 1999 to seek internal consensus on WTO affairs. The new policy regime is highlighted by the following features.

As examined in the previous chapter, the top leadership, especially party President Jiang Zemin and Premier Zhu Rongji, personally intervened in the making of the nation's WTO policy. They managed to build a favourable public image towards the WTO, which created external pressure on recalcitrant bureaucrats. Internally, the reform-minded elites participated in the coordination process personally. On key issues, such as

foreign access to China's agricultural, financial, telecommunications and cultural market, the top leaders themselves presided over the coordination meetings to determine how much China could offer (Wang 2001).²³ The presence of the top leaders in such meetings not only ensured the attendance of all the relevant agencies, but also effectively kept their mouths shut.²⁴ Zhu also attempted to hijack the consensus building process from bureaucratic bargaining and going his own way by setting China's accession package and kept it away from the domestic bureaucracy. This was best illustrated by the fact that only after the American side openly revealed Zhu's offer during his April visit to Washington in 1999 did his bureaucratic subordinates know 'their' bottom line. Upon Zhu's return home, six ministries and one bureau of the State Council indirectly complained about making the concessions without being consulted. These included the SDPC, the MOF, the Ministry of Communications, the MII, the Ministry of Labour and Social Security and the MOA, as well as the State Bureau of Metallurgical Industry (Luo 1999b; Lai 2001). Finally, at critical points of negotiation, the leaders directly intervened in the bilateral talks with the US and the EU and made political decisions, which led to their conclusions.

Lessons were drawn from previous endless bargaining and fruitless coordination. A new policy coordination institution was established in 1999 within the State Council under the supervision of the top leadership. The new body, named State Council WTO Work Leading Group (SCW-TOWLG, *Guowuyuan WTO gongzuo lingdao xiaozu*), was directed by State Councillor Wu Yi and reported directly to Premier Zhu.²⁵ Zhu replaced the then Vice Premier Li Lanqing to take charge of WTO issues. On its upper level, the Leading Group coordinated with and received input from two LSGs that link to the party leadership, namely the Finance and Economic LSG (headed by Premier Zhu after 1997) and the Foreign Affairs LSG (headed by President Jiang after 1997) (see Figure 5.1). The SCWTOWLG was seen as the successor of the impotent SCCIGATT, which was dismantled in late 1998. One of the differences between the two committees is that members of the Leading Group are composed of all the relevant ministers of the central government after government restructuring. However, the leadership of the coordination was in the hands of Wu Yi, who was once head of the MOFTEC and famous for her strong advocacy of economic liberalization and toughness on bureaucratic dissidents. Backed by her cohorts on the top, Wu played a far more effective role than her predecessors.

MOFTEC's authority was strengthened, albeit on a limited scale, within the Leading Group. The new mandate of the Ministry clarifies its central role in international trade negotiations and granted more authority to coordinate WTO negotiations issues. The Division of International Economic and Trade Relations of MOFTEC was assigned the position of the negotiator as well as the coordinator of policies of different ministries and agencies.

Meanwhile, there was growing unease between MOFTEC and SETC after the government restructuring. The new regime inherited the former division of responsibilities between the two bodies since 1996 that saw MOFTEC in charge of the trade of commodities while SETC was responsible for service-related trade issues. SETC incorporated nine industrial ministries and the authority of industrial policy which it took from the former SPC, SETC also had concerns over trade in goods. To some extent, SETC represents the views and opinions of streamlined industrial ministries, and sometimes invites complaints from them. As a result, the power of SETC and MOFTEC in terms of coordination partially overlaps. They have a relationship of cooperation as well as competition.

In order to prevent new conflicts between the two coordination bodies, Zhu pushed the State Council General Office to the frontline. Although the Office was not in the formal organizational chart of the coordination regime, its agencies, especially the Second Bureau, had championed part of the work under Zhu's instruction in calling and hosting coordination meetings for various ministries and agencies on issues that might invite different views between MOFTEC and SETC (Wang 2001). Thus it is fair to include the three bodies as the coordinators of the policy process.

On the SCWTOWLG's member level, the number of agencies it needed to consult had been greatly reduced with more exclusive jurisdictions, thanks to the latest government reform. As a result, the focus of coordination concentrated on a small group of ministries and agencies. The preferences of the financial sector, including banking and insurance, Zhu's traditional backyard, are more in line with that of the Premier. Other ministries and agencies relevant to service trade such as National Tourism Administration, Ministry of Justice, Ministry of Finance, Ministry of Construction, and Internal Trade Administration and so on, posed less obstruction in the policy process (Wang 2001). More ministries and agencies were sympathetic to economic opening up and market liberalization, which, combined with the critical sanction and intervention of the top elites, facilitated the consensus building process essential for the WTO negotiations. In this sense, the top-down flow of state restructuring and institutional change have facilitated WTO entry.

Finally, in assessing the central bureaucracy's role in the policy process, it has to be noted that the actions of the central ministries mostly represented the industrial interests of the large SOEs, with limited consultation with the private sector and various social organizations and entities, such as trade unions, consumer associations, etc. One exception, though, was the policy making regarding China's signing of the optional Information Technology Agreement which slashed the import tariff of foreign IT products to zero. MOFTEC held conferences with large domestic private companies such as Legend and Stone to get their opinion on this issue.²⁶

Local government in WTO policy making

So far the analysis has been focused at the level of central government. With the deepening of the decentralization trend of China's government system witnessed by the last two decades of reform, local, especially provincial governments are expected to have their say in domestic policy making. Is this the case for WTO accession?

The answer so far is no. The administrative and fiscal decentralization did give local governments ample room to initiate economic and trade programmes within their jurisdiction. However, local agencies have played a very limited role in the making of China's national policy, including WTO accession.

China has had a unitary administrative system for more than 2,000 years. The dominance of the central government was further strengthened by the establishment of the centrally planned economy under the communist regime. Unlike the liberal federal regimes where local states' interests are typically represented in a senate, local representation in the Chinese centre is far from institutionalized. There are no formal institutions to make the locals' voice heard, except for the informal and personal contacts between provincial governors and the central leaders. This power structure was also reflected in WTO policy making. The accession will have different consequences on the various provinces. The coastal regions that had already benefited from the Party's coastal development strategy and also enjoyed favourable policies on export and foreign direct investment, will gain from the further opening up of both the domestic and foreign market after the accession. At the same time, the inland provinces, with geographical and economic disadvantages, will see the gap widen with their coastal counterparts. Simply from the gain-loss perspective, the local governments were bound to have conflicting views on WTO membership. Nevertheless, their concerns were not formally represented in the policy-making process in that there have been no constituencies of provincial governments in the central coordination mechanisms, namely the SCICG-GATT, the SCCICGATT and the SCWTOWLG. The only channels left available may include conveying provincial interests through functional ministries with local economic bureaucrats lobbying their counterparts in the Centre, and personal connection between provincial leaders and the top decision makers. However, my interviews with the central bureaucratic institutions indicated that little serious consultation with local governments had been carried out, which implies that the locals' views towards WTO membership were largely irrelevant in the policy-making process.

Conclusion

The highly bureaucratic decision-making process played a large part in creating the stalemate that, for a period, had engulfed China's WTO negotiations and accession. The delegation of economic policy-making authority by the revolutionary party to the specialized bureaucracy in the reform era made the government the central arena of policy bargaining. At the same time, this trend was reinforced by the fragmented structure of Chinese bureaucracy, in which government institutions were functionally divided according to various economic spheres, implying that policy issues had to be coordinated and debated among all the relevant bodies, and that a policy is formulated only after a consensus is built.

Regarding WTO accession, a number of bureaucratic institutions will stand to lose. They have entrenched bureaucratic interests in the old command economy. They also represent industrial interests, mainly that of the heavy industries that will face a gloomy future after the accession due to the lack of efficiency and competitiveness compared with their foreign counterparts. With these interests in jeopardy in the light of WTO entry, the internal policy-making process became a product of the need to generate agreement from many potentially hostile units. This situation was further exacerbated by lack of a strong coordination body with both the formal authority within the bureaucratic system and an informal power base with the party leadership. MOFTEC was and is a strong advocate of trade liberalization and WTO accession, but its bureaucratic opponents used various mechanisms to lobby the leadership and stall the negotiation process by ensuring Beijing's offer fell short of foreign demands. However, the 1998 government restructuring largely centralized the policy-making authority in the hands of political elites, reduced the number of players in the policy process, and ameliorated the bureaucratic resistance with the severing of the direct relationship between government institutions and the large SOEs. Crucially, the top party leadership was personally involved in the new policy-making regime, which greatly sped up the conclusion of external negotiations. It has to be noted that, although bureaucratic infighting delayed China's accession process, the compromises they obtained from bargaining could help ease the adjustment process after the accession.

Compared with their counterparts in the Centre, provincial governments' role in WTO policy making was very limited. Within the central apparatus, as this and the preceding chapter demonstrate, both the bureaucracy and the party leadership played an active and important role in delivering the policy outcome. Meanwhile, the Chinese polity was not immune from external pressures. Rather, the domestic actors had been in constant exchange with foreign actors in the policy-making process. Therefore, the next chapter will look into the external dimension from a game-theoretic perspective and examine how the international opportunities and constraints influenced the domestic decision making.

6 Foreign pressures on China's WTO accession

Introduction

The book has so far examined the domestic dimension of China's WTO policy making. It is incomplete if the external dimension is not taken into account. Foreign policy making is, by definition, more or less influenced by international pressures; Chinese foreign policy is no exception, even at the time when the country was isolated from the international community. With the economic opening since 1978, Chinese foreign policy making has been subject to more types of foreign pressure, and at more levels of the decision-making structure. Nowhere was this more apparent than in the area of foreign economic policy, an area in which the government attempted to integrate the domestic economy into the world market and the existing multilateral organizations, particularly the World Trade Organization.

Therefore, this chapter looks into China's WTO policy making from a two-level game perspective. It argues that China's accession process reflects the domestic decision makers' response to external opportunities and constraints and is the result of the interaction between domestic and foreign actors. Three types of external forces are identified: foreign governments, foreign businesses and the international regime in general. Foreign governments, especially the United States, have been a very important factor in Chinese policy makers' WTO consideration. In fact, China's accession has been entangled with US domestic politics and the Sino-US relationship. With its comprehensive national power, the US exerted direct pressure in bilateral negotiations with China, played the Taiwan card with Beijing, and organized a Western coalition to extract more concessions from China, which Beijing largely failed to break. Foreign businesses often influenced Beijing's agenda by lobbying their own capital to advance their interests by putting pressure on Beijing. The international regime, including multilateral organizations such as WTO itself, also had a profound impact on the ideas and perceptions of Chinese policy makers by internalising the norms and rules of the domestic trade conduct.

The chapter begins with a review of the theoretical account on the international sources of domestic policy making. It then explores the role the US has played in China's membership bid. The US is the single most important rival for China in its accession negotiations, and the pace of entry was subject to the up-and-down of US domestic politics and Sino-US relations. The political climate in Washington not only had direct impact on the bilateral talks, but also had a powerful influence on Chinese domestic politics, which indirectly affected China's decision making on the WTO. On the other hand, Beijing also tried to influence US politics for favourable outcomes on the accession negotiations. This interaction of domestic and international politics is most evident in the bilateral talks during the Bush Administration (1988–92) and the battle for China's most favoured nation (MFN) status throughout the accession process. This is followed by an analysis of coalition politics. It argues that a US-led multi-country alliance exerted concerted and unified pressure on China. The chapter then examines the pressure of Taiwan's WTO entry. Beijing felt frustrated and made every effort to ensure that Taipei entered the WTO after Beijing, but this principle restrained Beijing's room for bargaining with the big players. The final section of this chapter deals with a more indirect yet more strategic influence of foreign actors on China's WTO membership: the international learning by Chinese polity and the education of the international community, including foreign governments, non-governmental organizations and multilateral institutions. These external efforts helped to bring about new ways of thinking as well as new ideas in the Chinese decision-making elite and among Chinese business leaders on a wide range of WTO-related issues.

The international sources of WTO policy making

In an international system in which nation-states are in constant political and economic exchange, the domestic process of policy making is subject to not only internal interests and pressures, but also the opportunities and constraints of the external environment. As reviewed in Chapter 1, the international approach, applied to examine foreign economic policies, focused on the interrelationships and interactions among nation-states and provided a valuable perspective on the international sources of domestic politics. According to this approach, domestic decision makers formulate foreign economic policies based partly on their perception of the international system and the relevant position of the country in the system. Policy outcomes also reflect the distribution of power of the institutional structure. At the same time, the international system can also influence domestic policy makers' ideas, perceptions, policy inclinations, the power configuration of the institutional structure, and ultimately, the policy choices (Gourevitch 1978). Thus, the making of foreign economic policy is essentially a two level game between domestic and foreign actors (Putnam 1993).

China, as a nation-state, has never been detached from the international arena and its foreign economic policy has been under constant exogenous constraints and pressures, especially after its opening up in 1979. China's process of WTO accession paralleled its general process of opening to the outside world. On the one hand, with the gradual opening up to and increasing exchanges with the international system, China's domestic points of access for foreign pressure have multiplied. These include the political leaders, government bureaucrats, domestic businesses, as well as ordinary citizens. On the other hand, the significance of China's WTO accession also saw foreign actors multiply. For the global trade regime, China itself is a very unusual case. It is a developing country with a gigantic domestic market as well as a powerful export capability that has a significant impact on the international economy. For China, perhaps more than for any other country, there was no clear agreement among WTO members as to the precise template of an acceptable accession agreement (Lieberthal 1997). But the stakes were high and this drew much attention from the international community, with more types of actors actively involved in the process to gain favourable deals. These foreign actors range from foreign governments, foreign businesses, to multilateral institutions.

Foreign governments are more or less traditional actors in foreign economic policy making, often exerting direct influence through bilateral talks and negotiations. The degree of influence is largely determined by the two countries' position in the international system, as well as their relative political power and economic dependency. Moreover, trade talks are always bound up with non-trade, often political issues. Thus, bilateral relations between the two countries became an important parameter for the context of negotiations. At the same time, bilateral relations are subject to both sides' domestic politics, political crisis and international events and incidents.

Foreign investment, especially foreign direct investment, is seen as another source of influence on domestic economic policy making. Liberal democracies often provide institutionalized channels for foreign businesses to lobby for their interests, but this is not the case for authoritarian China. The foreign business presence has been growing steadily through the 1990s with more than 200 *Fortune* 500 companies active in China (Wang, Y. 2000: 54). Although foreign companies, particularly multinational corporations, may have increased their contacts with the central and local government officials and even specific party leaders, their direct influence on China's domestic strategic policy making, such as WTO accession, is limited. However, they could turn to their own governments to push for their desired deal with China, thus exerting pressure on Beijing's policy making. Therefore, foreign governments are also agents of foreign business interest.

The international regime, particularly the multilateral organizations

such as the WTO, is another source of domestic policy making. Through increased exposure to the international regime, the norms and rules of international practice were imported and entrenched. This had a fundamental impact on the evolution of the ideas and perceptions of domestic policy makers and the actual policy process.

The United States

Of all the foreign governments that Beijing had to deal with in its WTO agenda, the United States is certainly the most important factor in its accession equation. Although China had to negotiate with all concerned contracting parties of the WTO on its accession terms, the United States was the preponderant party that China had to satisfy, given its existing status, its financial contribution to the Organization, its own voting power and influence over other member economies within the Organization, and the sheer size of its domestic market in the world economy. While the US cannot alone grant China a ticket to the WTO, the bilateral negotiations between Washington and Beijing were crucial to China's chance of success. Meanwhile, among the 37 members with whom China had to strike a deal, most had only one or a few concerns regarding China's accession. For example, Thailand wanted more rice exports to China, Ecuador more bananas, Venezuela more emulsified pitch and the Philippines more coconut oil (Wen 2002). Such piecemeal issues were definitely not the case regarding the Sino-American talks. The agenda put on the table was the most comprehensive, covering virtually every aspect of the economy, from normal commodity trade to trade in services, investment and intellectual property rights (IPR). At the same time, however, the issues involved were not just purely trade-related. With much at stake, the actual negotiation was inevitably politicized by both sides. Beijing viewed its accession application as a test of the West's willingness to accept it as a member of the international community, while Washington wanted to keep Beijing's economic reforms on track, as well as push Beijing to improve its unimpressive record on issues such as human rights and arms proliferation. As a result, the all-important bilateral talks with the US, from the very beginning, were deeply embedded in, and affected by, the fluctuation of the relationship between the two countries and their domestic politics.

The international system and Sino-US relationship

The evolution of the international system from the bipolar regime during the Cold War to a US-led political order after the collapse of the Soviet Union altered US and China's position in the system as well as the relative position between each other. This had a systemic impact on the bilateral relationship and China's GATT/WTO accession.

As discussed in Chapter 2, from China's lodgement of its application in

1986 to the Tiananmen Incident in 1989, Beijing's membership bid and the talks with the Americans had been smooth enough for optimists to predict a possible entry within three years. This was mainly because of China's political significance in US global strategy in the 1980s. The triangular relationship between the US, Russia and China in the Cold War gave Beijing strategic leverage. The military conflict with the Soviet Union in 1969 reminded the Chinese leadership that Russia, rather than the US, was a real, substantial threat to Chinese security. Beijing needed an ally to deter the Soviet 'Revisionists'. At the same time, President Nixon initiated his doctrine of multi-polarism and saw China as an important force to contain the aggressive Soviet expansion. The mutual demand helped deliver Nixon's engagement with China in 1972 and led to the establishment of formal diplomatic relations with Beijing in 1979. The Russian threat had been the foundation of China-US relations for most of the 1980s, which resulted in frequent economic, political and military exchanges between the two countries.

Another US consideration was that the liberal reform programmes implemented by the Chinese communists after 1978 were a step forward compared to other communist countries in Eastern Europe and the Soviet Union. The US and other Western countries were eager to see a successful example of economic transition for other communist countries. Thus, the West, including the US, had the political incentive to encourage China's application for GATT that would further pin down Beijing's reform track and its integration with the international economy. This is more obvious if the way China's application was processed is compared with that of Russia during the same period. The US and the European Economic Community (EEC) even resisted the Soviet Union's attempt to obtain observer status at GATT (Liang, Y. 2002). Washington also showed its reluctance to have the Russians in the Uruguay round of trade talks.

Moreover, China's external trade was very limited at that time, amounting to only 1.2 per cent of world trade, with Hong Kong its largest trading partner (Ye 1999). Beijing even had a large trade deficit with the EEC, Japan and the US, which made it immune from trade conflicts with, and protectionist sentiment in, the Western countries. The concern of the Western countries was largely technical rather than political.

With the political willingness to 'reward' and only limited economic stakes at issue, the US took a very cooperative stance towards China's membership application. Beijing also recognized the favourable timing and kept in close touch with the US from the very beginning of the negotiations. Beijing consulted the US before it formally lodged the application. One draft of the memorandum on China's trade regime was presented to US diplomats in Beijing for comment before it was submitted to the Working Party in Geneva. In November 1986, February 1987 and April 1987, three rounds of bilateral negotiations had been held in Beijing and Washington, DC even before the Working Party held its first meeting (Ye

1999: 87). By mid-1987 the Sino-US talks had gone so far towards framing negotiating issues that they had to slow down to allow the talks with other contracting parties to catch up (Jacobson and Oksenberg 1990: 98). When the Working Party in Geneva had just begun the stage of assessment of the Memorandum, China and the US had exchanged with each other the framework of the draft of China's protocol during the fourth bilateral talks in December 1988 in Washington. The next round of talks made substantial progress and the US publicly supported China's entry by the end of 1989. That was May 1989, just days before the Tiananmen Incident took place.

Beijing's crackdown on the Tiananmen demonstration marked a turning point in the Sino-US relationship as well as its GATT/WTO accession process. The honeymoon relationship between the two countries ended with bitter political, ideological and economic conflict, which in turn caused China's steps towards entering the world trade regime to falter.

From the outset, the deteriorating bilateral relationship was spurred by Beijing's suppression of the democratic movement. However, from a broader view, the cool-down lay in the strategic shift of the bipolar system of the cold war and the resultant evolution of the triangular relationship between the US, Russia and China. With the collapse of the Soviet Union, Russia was no longer the single most important rival of the US. The democratization of Russia and other former Soviet countries in Eastern Europe left China the last important stronghold of the communist ideology. As a result, Beijing lost some of its strategic leverage and political importance to the US in the post-Cold War era. The strategic cooperation between the two countries in the 1980s was replaced by ideological confrontation, political friction (such as human rights) and economic calculations (such as US's growing trade deficits with China). Not surprisingly, Beijing's bid for WTO membership was also subject to the ebb and flow of its relationship with Washington. Washington exploited Beijing's eagerness in breaking its international isolation, asking for a more favourable package from China to become a GATT/WTO member.

The 1990s also saw the dramatic surge in Chinese international trade volumes, both imports and exports, which made China a heavyweight player in world trade. At the same time, it began to run a rising trade surplus with the US. In 1990, China's trade surplus with the US was US\$10.4 billion. This figure reached US\$57 billion in 1998, which was, according to the estimation of the US Department of Commerce, only a few billion less than Japan, the US's largest trade-deficit partner. The influx of Chinese low-priced manufacturing products tested the nerve of America's domestic interests, and the mounting deficit heightened political pressure on the US Administration and Congress, which began to reassess the economic consequence of China's GATT/WTO membership. As a result, US domestic politics largely determined China's case in the multilateral organization and played an important role in the overall

political equation, which in turn influenced Beijing's calculations. The following two case studies of the bilateral talks in the early 1990s and the MFN issue serve as good examples of the interactions between the domestic politics of the two countries, as well as the role of foreign businesses in China's accession process.

Bilateral talks: 1991–92

It was not difficult for Washington to figure out Beijing's eager intention to break its international isolation after the Tiananmen crackdown. It seized this opportunity to initiate three rounds of bilateral talks with Beijing regarding IPRs, market access and prison labour products.

The growing complaint by US industries regarding IPR piracy in China had been building up since the late 1980s. In April 1991 the US subsequently added China to the black list of countries harbouring the piracy of IPR such as copyrights, patents and trademarks, which cost US companies US\$799 million a year (Maggs 1992: 1A). After five rounds of unsuccessful talks with China regarding this issue, the Bush Administration threatened US\$300–500 million in punitive tariffs should China fail to meet the US demand by 16 January 1992. In the subsequent round of intensive negotiations, Beijing agreed to make credible improvements on its IPR conduct and law enforcement, and agreed to join the Berne Copyright Convention and the Geneva Phonograms Convention.

The ever-widening gap in Sino-US bilateral trade also generated growing concerns on the US side. However, the two rounds of talks regarding China's market access were unproductive. The US launched a formal investigation of China's market barriers to US exports under Section 301 of its 1974 Trade Act, which meant China had to reach an agreement with the US before 10 October 1992 to avoid a possible punishment to Chinese exports worth US\$3.9 billion. A consensus was reached at the last minute. China agreed to dismantle most of its import restrictions, overhaul the import substitution regulations, gradually reduce tariffs that had been raised after 1988, and eliminate the import regulatory tax. The Chinese side also agreed to increase the transparency of its trade system. In return, Chinese negotiators managed to extract from the US a statement to 'staunchly support China's entry into GATT'.¹

Another issue that frustrated the US was the report that some Chinese goods imported into the US were produced in prison-run factories. The two sides conducted bilateral talks on this issue before a memorandum of understanding was signed on 7 August 1992. The Chinese pledged to take steps to halt such exports and agreed that the US could post a customs official in the American Embassy in Beijing who had authority to access facilities suspected of using prison labour in export production (Liang, W. 2002).

These three bouts of talks between Beijing and Washington, although

out of the framework of GATT/WTO accession, had considerable implications for China's membership bid. On the one hand, under the ferocious pressure from domestic companies doing business with China, the US government resorted to bilateral talks with China when the negotiations under GATT's multilateral framework were in stalemate after 1989. On the other hand, it invited Beijing back to the international arena and the concessions it made on IPR protection and domestic market access more or less helped to reverse the negative image towards the Beijing regime. It also alleviated the pressure of the anti-Beijing sentiment in US domestic politics after 1989, paving the way for more serious talks on China's GATT resumption. Moreover, both sides got a clearer picture of the negotiation styles of their counterparts during the bilateral talks and the knowledge gained thus laid the ground for the later games between the decision makers and negotiators of the two sides.

The concessions China had made during these talks were so dramatic and far-reaching, especially if the negative elements of the bilateral relationship was taken into account, such as President Bush's decision to sell 500 F16 jet fighters to Taiwan and the hot debate in US Congress over the conditions for China's MFN status. The Taiwan issue has long been a hypersensitive issue in Beijing's relationship with Washington, and the annual scrutiny of Beijing's MFN treatment was a frequent frustration. Apart from its desire to return to the international community, China's concessions in this case was largely based on its understanding of US domestic politics. To the Chinese leaders, the above issues were necessary steps for Bush to win the coming election, for at that time they preferred him to the Democrat candidate Bill Clinton. Although it had not been easy for Beijing to deal with Bush, who was head of the US liaison office in Beijing in the 1970s and who led the international sanctions against Beijing after 1989, Beijing felt that it understood him. Privately, he was recognized as having done China a number of favours, including his vetoes of bills to rescind or put conditions on China's MFN trading status. Therefore, Deng Xiaoping personally vetoed a more confrontational reaction favoured by China's foreign policy establishment, to President Bush's military sales to Taiwan (Lu 2000: 171). In this case, Beijing felt it better to strike a deal with the then incumbent Bush Administration rather than having to negotiate one with a possible Clinton Administration which they knew little about.² Beijing's expectation was also shared by the White House. According to the Chinese chief negotiator at that time, Tong Zhiguang, who was in charge of the market access negotiation, a White House official had a meeting with him on 9 October 1992, one day before the announced deadline of US trade retaliation. The official frankly told him that on the morning of 11 October, President Bush would have a TV debate with Bill Clinton, and that President Bush needed this Sino-US bilateral agreement as one of his foreign economic policy achievements. The Chinese side was asked to cooperate, and so it did (Yang, J. 2001: 11).³

The battle on MFN status

Another issue that directly influenced the process of China's WTO bid was the grant of MFN treatment to Chinese exports to the United States. As many have suggested, the notion of 'most favoured nation' is really a misnomer, since the status confers no special favours to the receiving party other than normal rates on its exports to the granting country. While Beijing has already enjoyed permanent MFN treatment from most of its trading partners, the US import of Chinese goods had been subject to the scrutiny of the US Administration and Congress, thanks to the Jackson–Vanik Amendment to the 1974 Trade Act. The Amendment was originally targeted at the former Soviet Union's emigration policy. According to the Amendment, the extension of MFN tariff treatment to 'non-market' (communist) economies required the President to show that the country's emigration policies are undergoing reforms that would give its citizens the right to emigrate, or that waiving this requirement will ultimately promote open emigration. By majority vote in both houses, Congress had the right to refuse to agree to an extension. This refusal could be vetoed by the President, in which case a two-thirds majority of both houses is required to override the President's veto. In the final round, the President could secure the decision of extending MFN to the non-market economy if he could get 146 votes in the House of Representatives or 34 votes in the Senate (Lampton 1997).

This clause of the Trade Act unexpectedly muddled US trade policy towards China into an annual debate in which, other than Beijing's emigration policy, political and social issues intruded and dominated since 1989. Many groups participated in the debate with an ever changing kaleidoscope of demands and electoral strategies. The labour groups, especially AFL-CIO, were concerned about the development of free trade unions inside China and US domestic job losses due to the influx of Chinese manufactures. Human rights groups were strongly against Beijing's record on human rights, including its abortion and family control policies. Those concerned about Chinese weapon sales used the debate to draw attention to the consequences of the proliferation of weapons of mass destruction. The opposition tends to use the debate to show that it is tougher and more devoted to American values than the incumbent Administration which was always accused of being soft on China. This annual embitterment had several ramifications. The conditional approval by the US authority of China's MFN status subjected Chinese exports to both domestic and international politics. With the US being one of China's largest export markets, this uncertainty had an enormous influence on China's domestic economy. Politically, the annual review of China's trade status gave China's critics in Washington a field day in May each year, determined as they were to leave no stone unturned in Beijing's backyard. The debate over MFN renewal thus sharpened Beijing's sense of threat, uncertainty and insecurity from

Washington. It fuelled China's domestic patriotism, nationalism and anti-American sentiment that in turn put pressure on Beijing to act tough towards the Americans. This deprived Chinese reformers of much needed room to manoeuvre in its foreign policy making and strengthened the domestic conservative forces.

The GATT/WTO's MFN principle means a member country granting a special favour (including MFN) to another has to do the same to all the other members. However, Article XIII of the WTO charter, the so-called 'right of non-application', provides an exception clause for China's case. The rules allow specific WTO member-countries to set their own trade terms relative to certain other WTO members without regard for WTO rights and duties. This means the US could invoke its domestic trade legislation (the Jackson–Vanik Amendment of the 1974 Trade Act in this case) to deny China's MFN status even if China was accepted by the WTO. Given the anticipated painful effects the WTO membership could bring to China by the dramatic economic and social restructuring and China's large volume of exports to the US market, the MFN treatment became America's biggest lure to get China on the WTO hook. On the other hand, as the Article is reciprocal, China, in retaliation, could choose not to honour the agreement and could enjoy WTO membership free of any obligation to extend the trading rights hammered out in the November agreement in 1999 to US business. Washington was well aware of Beijing's concern on MFN treatment. The American negotiators, since the beginning of China's accession talks, have been noting to their Chinese counterparts that they would solve this issue after China joined GATT, but that they could not guarantee any success since it was a requirement of their domestic law. Before the Clinton Administration, Beijing's position on this issue was to rejoin GATT first and then to invoke the special mechanism of GATT to have a working party organized to inspect the MFN issue. My interviews show that Beijing was optimistic back then that it could succeed in fighting the US through the multilateral framework provided by GATT.⁴

However, Beijing's hopes were disturbed by the incoming Clinton Administration. Trade policy has been always a useful political leverage in the US grand strategy towards China, but it takes time for a new administration to draft such a strategy on a realistic and consistent basis. This was the case for the Clinton Administration. The issue of human rights was a focus and priority of Bill Clinton's international agenda during his presidential campaign, and China was no more than an easy target. Right after his inauguration, President Clinton announced his pledge to link MFN to human rights in China. At the same time, the new balance of power was not in favour of Beijing in Congress. The Republicans formed the majority in the Congress, represented by Senator Jesse Helms (the new Chairman of the Foreign Relations Committee) and Senator Frank Murkowski (the incoming Chairman of the Subcommittee on East Asian and Pacific

Affairs), who was expected to launch an anti-Beijing campaign on issues such as Beijing's conduct in Tibet and exports of military technology to Iran and Pakistan, while trying to tilt US policy in a pro-Taiwan direction. Many liberal Democrats joined Republicans in backing Taiwan's democratic movement, albeit with other agenda focusing on protecting the domestic market from Chinese trade competition. Hence, the MFN issue was politically suspended in the supposedly commercial talks of GATT accession.

Meanwhile, the aggressiveness in Washington did not generate much panic among Chinese policy makers in Beijing, who, after half a century's experience dealing with the Americans, know all too well how Washington operates in a quad-year electoral cycle. They had learnt to be patient. At the same time, with the increasing bilateral trade between the two countries, Clinton's linkage of MFN renewal with human rights assessment generated strong pressure from business, because a large part of imports from China were actually produced by American-invested enterprises in China. The linkage of foreign trade with political issues greatly increased the uncertainty in the bilateral trade and therefore American business interests. Their effective lobbying and a subsequent strong vote for China in the House of Representatives forced the President to break the linkage in 1994. With this success, Beijing raised the price on the MFN issue the next year: the US was asked to grant China permanent MFN status immediately after its entry into the WTO. In April 1995, Wu Yi, then Minister of MOFTEC, issued a letter to the US Trade Representative Mickey Kantor, demanding the linkage of permanent MFN with China's WTO accession. Washington rejected Beijing's request arguing that it did not have the right to revise its domestic laws (Liang, W. 2002). Without a strategic shift on its China policy, the Administration was apparently lacking the political willingness to push for a MFN deal in Congress.

The 1995–96 Taiwan crisis prompted a systemic review of the Administration's China policy. The Taiwan issue has long been the single most sensitive and troublesome issue in the Sino-US relations since the 1950s. The three Communiqués, bilaterally signed in 1972, 1978 and 1982, were interpreted by Beijing as the basis of the one-China principle taken by the American side. However, another regular of US domestic politics is that the government tends to follow a more pro-Taiwan policy in the face of any up-coming presidential election. President Bush sold F16s to the island in 1991. This time, President Clinton allowed a visa to be issued to Taiwan President Lee Tung-hui to visit Cornell University. Beijing quickly condemned Washington for violating the three Communiqués and humiliating Chinese sovereignty. Lee's American visit chilled the bilateral relationship to freezing point. Even the October summit between Clinton and Jiang in New York during the UN's fiftieth anniversary failed to prevent the situation going from bad to worse. On 23 March 1996, Taiwan held its presidential election. As a response, Beijing conducted two military exer-

cises firing missiles across the island, which was the most serious threat against Taiwan in nearly 40 years. The US sent two aircraft carriers to the Taiwan Straits, pushing Beijing and Washington to the brink of war. It was only after several rounds of visits and official exchanges between the two sides that bilateral relations were mended, including the separate visits to Beijing by former President Bush and former Secretary of State Kissinger in April.

Beijing's response to the Taiwan crisis was a lesson to the Clinton Administration on how serious the Chinese leaders are on the Taiwan issue. The crisis was a wakeup call for the Administration to draft a China policy that built upon long-term interests rather than short-term considerations. The US Secretary of State Christopher's 17 May speech to the Asia Society heralded such a strategic shift in US-China policy. China was recognized as 'taking its place as a world leader' and having 'an important and constructive role to play in the coming century'. Based on this, the overwhelming American interests were 'to resolve our differences through engagement, not confrontation', to 'support China's development as a secure, open and successful nation', and to deepen its integration into the international system to 'ensure that China's development as a strong and responsible member of the international community'.⁵ President Clinton later clarified his administration's policy towards Taiwan in Shanghai during his visit to China in 1998, which was summarized as 'Three Nos': no support for Taiwan's independence; no support for the policy of 'One China, One Taiwan'; and no support for Taiwan's membership in international organizations requiring statehood. It is widely known that these 'Three Nos' had long been Beijing's position, a position that Washington had refused to endorse, especially in the form of a new policy package. Under the new engagement strategy towards China, China was treated as 'a constructive strategic partner', rather than a potential competitor.

The MFN issue was also aligned with this new engagement. Admitting that revoking or conditioning MFN would not advance human rights in China but would only damage the economy of the US, Hong Kong, Taiwan and the Asia-Pacific region, Secretary of State Christopher stated that:

The MFN debate should not be a referendum on China's current political system or on whether we approve of the policies of the Chinese leadership. The issue at stake is whether renewing MFN unconditionally is the best way to advance American interests. The President and I are convinced that the answer is a resounding 'yes' – a conclusion reached by every American president since 1979.⁶

With both MFN and the WTO viewed by the White House as potential building blocks in a more constructive Sino-US relationship, in late 1996 there had been discussion about seeking permanent MFN renewal for

China in 1997. However, political currents in Washington began to move in the other direction. This time the Administration was under pressure on its China policy from segments of the Republican and Democratic parties. Bob Woodward's article in *The Washington Post* alleged that Beijing funnelled money to both the White House and Congress to subvert the American political process and to change US policy towards China.⁷ The Republicans seized on this allegation to call for the White House to submit any proposed WTO entry agreement to Congress for review. Their argument was that the White House, having allegedly accepted Chinese money, was subject to Beijing's manipulation and that it could not be trusted to protect American interests in a trade deal. Within the Democratic Party, its trade union base was also strongly against trade agreements with China, for Beijing failed to allow the formation and development of free trade unions that could engage in real collective bargaining to achieve decent wages for Chinese workers. Representative Richard Gephardt, the Democratic leader in the House, widely considered a likely candidate against Vice President Gore for the Democratic presidential nomination in the year 2000, opposed the White House and Gore personally on improving trade ties with China. Gephardt issued his own call for any China WTO agreement to be submitted to Capitol Hill for critical scrutiny before it was accepted. With the Democrats taking on the opposition side, therefore, it was difficult for the White House to characterize the Congressional pressures on WTO agreement as strictly a partisan effort. In the wider domestic context, a newly published book in early 1997 concerning Chinese strategy also took its toll. *The Coming Conflict with China* (Bernstein and Munro 1997) warned of an allegedly inevitable Chinese threat to American interests after the turn of the century and called for the United States to begin immediately to take appropriate action to contain and counter this looming danger. The book enjoyed impressive media coverage and generated political reaction. This series of setbacks put the Administration on the defensive. Despite reiterating its 'engagement' rationale towards China, it lacked the will and support to go through the political minefields. As a result, the discussion on seeking permanent MFN for China was dropped in mid-1997.

Although there had been various obstacles in US domestic politics, the MFN issue *per se* could not be dropped from Beijing's agenda of WTO accession. The MFN status was officially renamed as normal trade relations (NTR) by the US government in 1998. During the negotiations that led to the conclusion of the landmark bilateral agreement in November 1999, Beijing again raised this issue and showed serious concerns about the prospect of the US granting permanent NTR (PNTR) to China which guaranteed Chinese exports assured access to the American market. Premier Zhu insisted that 'granting PNTR status to China is the basis and prerequisite for the China-US bilateral agreement concerning China's accession to the WTO'.⁸ He told US Trade Representative Barshefsky that

Beijing managed to make concessions with tremendous political risk, and now it was the turn of the White House to show its political will to push domestic legislation for China's PNTR status, and that the PNTR issue was the basis of the implementation of China's WTO deal. The chief US negotiator assured the Chinese premier that Washington acknowledged and understood Beijing's concern and would make every effort in going through the legislative process and seeing it fulfilled.⁹

There was so much at stake that David Dreier, Chairman of the Rules Committee of Congress, regarded the PNTR bill 'the most important vote cast in the 213 year history of the United States of America'.¹⁰ This time, the overall atmosphere was largely encouraging in Washington regarding China policy. Few disturbing issues arose in the bilateral relations after both sides steered precariously through the embassy bombing crisis in May 1999. Unlike previously when many American companies supported a tough position on GATT/WTO accession in the face of low-priced Chinese products, the US fast-growing direct investment in China in the late 1990s had cultivated strong vested interests for a smooth and secure foreign trade with China. Moreover, the November deal in 1999 presented American banking, insurance and IT companies with very attractive prospects in the Chinese market. Not surprisingly, the so-called 'China Lobby' representing companies doing business with China, particularly the giant multinationals such as Boeing, GE, Kodak and Motorola, led the campaign to remove the obstacles to US trade with China. Among the US states, Washington State, California, Texas, Florida and Louisiana were the top five that exported to China, and therefore they supported a normal trade relation with Beijing. The big businesses also played an important role in shaping the stance of the states in this issue. For example, Kodak was in charge of lobbying Washington State and Kansas, while Motorola lobbied Texas and Illinois (Sheng 2002: 366). The congressional vote for PNTR, an implicit part of the November deal, became the most important battle for the Lobby to accomplish.

On the other hand, the far Left and the far Right joined forces in opposing the PNTR bill. The AFL-CIO supported the human rights lobby, and received some support from Vice President Gore. Some Republicans and liberal Democrats were worried that granting Beijing PNTR would lose a bargaining chip against Beijing's future possible denial of Taiwan's WTO membership once Beijing entered the Organization. President Clinton pledged to the reluctant legislators that he had got Beijing's guarantee it would not block Taiwan's entry. Senator Jesse Helms proposed to incorporate Clinton's pledge into the Bill. But the idea was rejected by the White House as well as by Taiwan's ardent supporters because any amendment, whatever its merits, would require a time-consuming conference with the House of Representatives. This meant that the bill could not be finalised as the congressional calendar was running out. With the principle of 'China first, Taiwan second' in place, as will be discussed later in

this chapter, this would further delay Taiwan's entry. Thus, a bipartisan understanding was reached that Taiwan's membership was an implicit part of the deal that grants China PNTR, which not only secured the Administration's support of Taiwan's accession but also cleared up a major concern of the opponents to China's PNTR.

With the most powerful opponents relieved and big business lobbying, the PNTR bill was finally approved in the House (237 to 197) on 24 May, in the Senate (83 to 15) on 19 September 2000, and was signed by President Clinton on 10 October 2000. The passage of the Bill gave Chinese exporters a level ground in its trade with the US, strengthened the hands of Chinese reformist leaders, and greatly facilitated China's accession to the WTO.

Coalition politics

International coalition politics involving multiple foreign countries was another noteworthy factor in China's WTO accession. China felt pressured by a US-led coalition of countries including the EU, Japan and Canada, collectively called the Quad. Chief Negotiator Long Yongtu admitted in an internal speech that

[d]uring the negotiation stalemate after 1989, we thought that GATT accession negotiation was a multilateral negotiation. If the US did not talk to us, we could turn to other contracting parties like EU, Japan, or our friends in the Third World. Surprisingly, the first question they asked us was the same: Have you talked to the US? Then we realized that the US was the absolute leading power in this organization. So if China was in the impasse with the US, no other countries could help us to break it. . . . Privately, a Japanese representative told me that no matter what, Japan had to follow the US on this kind of important international issue for 'historical and political reasons'.

(Liang 2002: 702)

Beijing made another try to break the Western bloc in 1993 when it was determined to join the world trade body before 1995 to be a founding member of the WTO. At that time, the US was not impressed by either China's new domestic reform efforts nor its accession offers. Beijing attempted to bypass the US and reach agreement with peripheral member economies first. The feedback was devastating: 'apart from being the most important world trade power, the US has been entrusted with negotiating China's protocol. There is absolutely no way Beijing can get round that fact. Beijing is just going to have to deal with it' (Crothall 1994).

However, this is not to say that the Quad is an iron bloc. There have been distinctive differences among them in negotiations with China. But the dominant influence of the Americans and the primary common goal of

access to the Chinese market helped to discipline the Western camp. For example, the EU had a more positive attitude than the US in the assessment of the economic reform process in China. It once acknowledged the fact that the reform process in China was still ongoing and therefore more flexibility in negotiations would be needed. Beijing captured this signal and ordered passenger aircraft from the Airbus company instead of Boeing. Li Peng in June 1996 clearly expressed Beijing's bargaining strategy of exploiting the potential competition between the EU and the US: 'If the Europeans adopt more cooperation with China . . . then I believe the Europeans can get more orders from China' (Walker *et al.* 1996). However, just one month later, in July 1996, the EU turned away a Chinese delegation led by Long who wished to conclude a bilateral agreement with it ahead of the US (Yang, J. 2001). It turned out that only after the Sino-US agreement was reached in November 1999 did the EU conclude its talks with China in May 2000.

The Western countries also met regularly to discuss and coordinate their position towards China during accession talks. This was in response to China's efforts to divide WTO members, particularly by attempting to convince others that Beijing was close to a deal with the US in the hope that they would rush to conclude their own deals with Beijing, which could isolate the US. For instance, the US, the EU and Japan held confidential talks in 1994 to coordinate their position when China's accession negotiations were intensified before Beijing's self-imposed deadline at the end of the year (Zarocostas 1994). Pearson (2001) recorded that, after at least mid-1997, the USTR coordinated informally with Canada, Australia and the EU to share offers being made to them by China, making sure their responses to China were consistent.

The race against Taiwan

Reunification with Taiwan has been a major aspect of the national strategy, paralleling economic development in the Chinese leadership's agenda. Ever since Kuomintang (KMT, the Nationalist Party) lost the civil war in 1949 to the Chinese communists but retained Taiwan as its last foothold, the mainland government has never given up its claim of sovereignty over the island. Beijing has been taking every effort to block the Republic of China (ROC, the official name of the KMT regime) from being recognized in the international community. To the Chinese leadership, the Taiwan issue is a highly emotional and fundamental challenge to the legitimacy of the communist regime. It is in this context that Taiwan's GATT/WTO accession took its toll on China's domestic policy making and its own pace in gaining membership.

ROC was one of the founding members of GATT but rashly resigned its position in 1950 after the KMT's retreat to Taiwan. The decision could be interpreted in several ways. The most obvious was that ROC could not

fulfil its legal obligations regarding GATT after its territorial loss of the mainland. Leaving the international trade institution also served to prevent the newly-born communist regime from taking advantage of the tariff reductions enjoyed by GATT members. Despite these considerations, the island took part in GATT as an observer between 1965 and 1971. Taiwan lost this status after the communist People's Republic of China (PRC) was recognized by the UN as the sole legitimate government of China in October 1971. Nearly two decades later, on 1 January 1990, Taiwan formally filed its application for GATT membership. The application and its timing reflected Taiwan's economic and political motives.

Taiwan's economy took off during the 1970s with the surge of foreign trade with the US, the EEC and Japan. Under the clout of the global economic crisis in the 1980s, Taiwan fell victim to rising international trade frictions and economic conflicts between countries and regions. The apparently weak status of Taiwan in bilateral negotiations with the trading powers made it both necessary and urgent to seek protection under a multilateral framework that could grant its member economies relatively equal rights in global trade practice. At the same time, GATT membership would put Taiwan's economic system more in line with the free trade regime and speed up its integration with the world market, which was crucial for a region like Taiwan that was implementing an export-orientation strategy and therefore highly dependent on external exchanges.

Political considerations were the other dimension behind Taiwan's decision to apply for entry into GATT/WTO. First, Taiwan felt more and more isolated after the PRC returned to the UN in the early 1970s. Consequently, Beijing's diplomatic ties with other countries, especially Western powers, expanded at Taiwan's expense. In addition, Beijing has driven Taiwan out of virtually all the international organizations that require statehood as a criterion for membership. Therefore, GATT/WTO accession was deemed to be part of the desperate efforts by Taipei to explore and expand its diplomatic space in the international system. The political implication of membership was also acknowledged by heavy-weight political players in Taiwan other than the KMT, including the Democratic Progressive Party (DPP) that won the presidential election in 1999. It was clearly stated in DPP's White Paper on foreign relations that, 'although the WTO is an economic entity, almost all of its members are important members of the UN. Thus, the WTO would be an important venue for Taiwan's global participation' (DPP 1999: 15).

Beijing's lodgement of its GATT application in 1986 further expedited Taipei's decision making. Taipei was afraid that, once Beijing became a member of GATT, it would be difficult, if not impossible, for Taiwan to enter the global trading system under the potential objection and harassment of the mainland government. However, the political atmosphere back then was more in favour of Beijing because of its warm relations with the US and its support of Beijing's GATT resumption. For instance, in

1987, a Taiwanese representative approached the GATT secretariat for the possibility of association with the organization and getting relevant technical assistance, which was politely turned down by the secretariat (Jacobson and Oksenberg 1990). Nevertheless, the honeymoon of the West and China came to an end, as we have seen in 1989 when the pro-democracy movement was smashed. With Western countries' condemnation and economic sanctions, Sino-US relations dropped below freezing point. Taiwan seized this opportunity and filed its application for GATT at the beginning of the following year.

Not surprisingly, Beijing immediately opposed Taiwan's application. One official recalled that the then Chinese Premier Li Peng called an emergency meeting with members of the Foreign Affairs Leading Small Group, the Ministry of Foreign Affairs and MOFTEC to discuss this issue, its implications on Beijing's own accession, and the policy to correspond.¹¹ Even officials of GATT felt the pressure and were reluctant to proceed. When the then director-general of GATT Arthur Dunkel received Taiwan's application, he chose to put it away for several months before circulating it to the contracting parties in an 'unofficial way' (Liang, W. 2002: 693). However, Beijing was left little room to manoeuvre under the harsh international isolation led by the US and had to deal with this issue with flexibility. Beijing was afraid that, under the hostile atmosphere, it was not impossible for Taiwan to enter GATT ahead of Beijing, which would be a big loss of face for the mainland regime.¹² Therefore, Beijing had no option of blocking Taiwan's application but to negotiate with the US a deal that could serve as damage control. In his letter to Dunkel and the national leaders of all contracting parties, Li Peng modified Beijing's blunt opposition to Taiwan's accession. Instead, three principles were stated along the lines that the PRC is the only legitimate government of China and Taiwan is part of China, that Taiwan could join only after PRC joins GATT, and that Taiwan's application must be considered and agreed to by the PRC government (Feng 1991).

Taiwan initially applied for GATT membership, according to Article XXXIII of the GATT Charter, under the name of 'the separate customs territory of Taiwan, Penghu, Quemoy and Matsu'. Beijing insisted that Taiwan's application be subject to Clause 5C, Article XXVI, suggesting that Taiwan's membership was only related to trade, with no implication of being recognized by other contracting parties as an independent political entity, since Hong Kong, and later Macau, had been admitted to GATT under the same article regarding separate customs territories.¹³ With the mediation of the US, Taipei agreed to consider Beijing's three principles and its concern about Taiwan's accession status. It was accepted by all sides that, to make the agreement legal, the Chairman of the GATT Council had to issue a statement. A four-person group was subsequently set up to draft the statement, including representatives from China, the US and the EU. It was an arduous task to get Beijing's consensus. One of the

participants recalled that Chinese negotiators turned down several drafts made by the US and the EU. Later the Chinese delegates had the statement revised word by word, which frustrated their Western counterparts. For example, regarding Beijing's principle of 'China First, Taiwan Second', the US and the EU preferred to use 'many' to describe the number of GATT contracting parties who supported Beijing's position and 'some' to describe those who supported Taiwan's position. However, Beijing insisted on the use of 'the majority' and 'a few' correspondingly (Liang, W. 2002). It took eight months to reach a compromise of a five-paragraph text in which the US and the EU won the wording and Beijing secured its bottom line.¹⁴ On 29 September 1992, the Council announced the landmark statement that embodied the three principles:

All contracting parties (to GATT) recognize that there is only one China;
 Taiwan would enter GATT under the name of 'Chinese Taipei';
 Taiwan would not get in before the PRC.

The acceptance of the 'Beijing First, Taipei Second' doctrine by the relevant Working Party countries had a profound influence on Beijing's GATT/WTO accession. First, Beijing was partly exempt from a race with Taiwan to enter the international trade regime, which might see the latter hit the finishing line first and therefore humiliate the former. In addition, Beijing did not have to make unnecessary concessions in order to accede ahead of Taiwan's accession.

Second, the agreement effectively meant that Taiwan would not achieve the membership until the mainland did, thus linking admission of Taiwan to a successful application of Beijing. Hence, it became in Taiwan's interest to see Beijing accepted to GATT/WTO, which removed the potential hurdle of, if not facilitated, the passage of PNTR to Beijing, considering Taiwan's traditionally strong lobby in US domestic politics. In fact, Taipei promptly welcomed the November US–China bilateral WTO agreement in 1999 (Dickie 1999). Taiwan's President Chen Shui-bian explicitly called upon the American legislators to help both Beijing and Taipei enter the WTO on 12 April 2000, reminding them that 'normal trade with China does much more than promote China's economic development. It also promotes Taiwan's . . . economic growth.'¹⁵

Beijing's rigid stance against Taiwan's entry into the WTO was also relaxed during its own accession process, thanks to the ever-deepening economic exchange across the Taiwan Straits. At the end of 1999, Taiwan's investors had funded more than 43,500 projects on the mainland worth more than US\$43.8 billion,¹⁶ which counted for some 40 per cent of Taiwan's overseas investment.¹⁷ Instead of military threat and political isolation, Beijing saw economic integration as a new and more effective way of reunification. The leadership of the mainland hoped that, under the

WTO's auspices, the economic interdependence would be strengthened and deepened by greater mutual and institutionalized market access. The leaders are particularly confident that the foreseeable increase of Taiwan's commercial interests in the mainland will bring about a strong pro-Beijing lobby in Taiwan composed of investors and entrepreneurs who are attracted by the mainland's huge market, cheap labour force and resources, and similar cultural background. With the balance tilted to the mainland, Beijing would gain an upper hand on its unification agenda and against Taiwan's claim of independence. Thus, on various occasions, Beijing publicly declared its support of Taiwan's accession and assured the concerned countries that it will not bar Taiwan's membership bid once Beijing gets in.

Nonetheless, what did concern Beijing was Taiwan's political intention behind its WTO application, given its fury over Taiwan's President Lee Teng-hui's implicit sponsorship of the movement for independence, his 'private' visit to the US, and his latest speech describing the relationship between Beijing and Taipei as that between 'two countries'. Thus, Beijing's WTO policy was given more significance as an important score board for the communist leadership over its island counterpart. Despite the fact that 'China First, Taiwan Second' had been an implicit understanding among contracting parties of the GATT/WTO working group on Taiwan's accession, Beijing still felt uncertain in winning the race. This was partly due to Taiwan's rising profile in world trade. In 1999, US exports to Taiwan exceeded exports to the PRC by US\$6 billion.¹⁸ Taiwan was the world's fourteenth largest exporter and fifteenth largest importer (WTO 2001). Domestically, Taiwan's GATT/WTO bid has been far less contentious than that of Beijing, which was besieged by leading conservatives, resistant bureaucrats and protectionist industrialists. Even though economic costs were also perceived as a result of entry, both the government and public in Taiwan remained enthusiastic about WTO membership. Moreover, Taipei took a series of practical measures in its bid. It applied for WTO accession as a developed economy on 1 December 1995, which means it was committed to take more responsibilities than a developing entity does. To expedite its application, in 1999 Taipei actually volunteered to abide by all the entry requirements of a developed economy and to subscribe to a range of optional rules in areas such as government procurement and high-tech import tariffs (Tucker 2000). Taiwan's enthusiasm for membership has heightened Beijing's discomfort with it. Consequently, Beijing reviewed and revised its WTO policy towards Taiwan. The result was a newer version policy that, albeit supported the island's entry in general, Beijing was determined to try everything to slow Taiwan's accession pace as well as contain the political advantages the accession might give to Taiwan, even at the expense of Beijing's own accession progress.

In fact, there had been political resources for Beijing to utilize to meet

this policy end. By November 1999, 25 of its 26 important trade partners had signed bilateral agreements with Taipei, the exception being Hong Kong.¹⁹ The fact that Hong Kong was singled out from this list is obvious if China's takeover of Hong Kong since 1997 is taken into account. Moreover, Beijing had sent letters to a few WTO members, demanding they object to Taiwan's early entry.²⁰ A WTO informal working party meeting was called in late July 1999 to review the protocol on Taiwan's entry terms and other related documents. During the meeting, Beijing instigated its allies, including Cuba, Pakistan, Sri Lanka, Bangladesh and Uruguay, the so-called 'Gang of Five', to speak against Taiwan's WTO entry ahead of China (Tucker 2000).

Beijing also tried to roll back the 1992 understanding and have the sovereignty issue revisited in Taiwan's WTO accession. Beijing originally agreed to Taiwan's WTO application in 1992 under the name of 'separate customs territory' – that is, not an independent country, but also not an explicit part of China. However, in the process of drafting PRC's accession protocol in 2000, Beijing asked to include in its accession clause that Taiwan is 'a separate customs territory of China', verifying its sovereignty over the island. Most of Beijing's key trading partners, including the US and the EU, accept the 'One China' policy, but were unwilling to endorse it in a legally binding document. In a letter to Senator Jon Kyl, President Clinton stated that 'we have advised the Chinese that such language [Taiwan is a separate customs territory of China] is inappropriate and irrelevant to the work of the working party and that we will not accept it'.²¹ Both Beijing's insistence and the contracting parties' reluctance to invite this kind of politics into international trade and the trade regime itself muddled the multilateral negotiations into an impasse. It took months before Beijing gave up. In another letter to Senator Trent Lott, President Clinton showed his relief, saying that 'based on our New York discussions with the Chinese [President Jiang Zemin], I am confident we have a common understanding that . . . Taiwan will join the WTO under the language agreed to in 1992. . . . The United States will not accept any other outcome'.²²

Perhaps Beijing's determination to join WTO ahead of Taipei is better illustrated by the price it was willing to pay. This time the price was not political trade-offs with the US or the EU, but real cash. PRC's WTO application was passed by the Organization's ministerial meeting at Doha, Qatar, on 10 November 2001, while Taiwan's final documents were passed on the following day. On the day when Beijing's representative signed the formal document, signatures of PRC President Jiang Zemin and the authorization of the NPC were also handed over to the Council Secretariat, so that PRC became an official member of WTO from 11 December 2001, while Taiwan finalised this formal procedure on 1 January 2002. Technically, according to WTO's charter, Beijing had to pay the membership fee of the whole year of 2001, estimated to be at least US\$4 million,

albeit being a member for only 20 days.²³ What's more, since the adjustment periods and the progressive tariff reduction Beijing had committed to, is based on the calendar year, the 20 days of WTO membership in 2001 also deprived Beijing of one year from the buffer time it fought so hard to achieve. The corresponding economic cost of tariff reduction and systematic adjustment is estimated to amount to US\$1.2 billion.²⁴

International education/learning

Along with direct foreign influences from negotiations, there have been indirect, underlying, yet more fundamental influences that foreign actors have exerted on China's accession to the WTO: the education by the international community and learning by the Chinese of the norms and rules of the global regime.

In order to integrate effectively with the world economy, China's foreign economic practice has to be aligned with the internationally accepted norms and rules of the existing regime. China's internationalization process, thanks to Deng's policy of economic opening, has not only expanded its trade with the outside world, but also brought in international ideas to all levels of government and society. There are several mechanisms through which international norms and rules could influence the beliefs and behaviours of domestic decision makers, and ultimately their policies. Outside ideas, brought in either through the business community or agents of international organizations, may lead to a shift in the dominant thinking among elites about the value of integration into the world economy (Economy 2001). This process involves two dimensions. One is the international learning of the country, the other is the education of the international community. Both dimensions give foreign actors chances to influence domestic policy making in various ways. As it turned out, this two-sided coin also played a part in China's WTO accession.

The technical demand of joining international regimes often results in endogenous efforts of domestic leaders to send individuals and experts abroad for relevant training, which could in turn channel international ideas into the domestic arena. As early as the first half of the 1980s, the Chinese government assembled experts on GATT to prepare for its formal membership application. In doing so, over the years Beijing sent groups of officials to take relevant courses organized by GATT.²⁵ Dialogue between Chinese leaders and officials of multilateral institutions, as well as publications by these institutions, presented information on China, offered policy recommendations relevant to GATT membership, some of which were adopted. For instance, in anticipation of its GATT membership bid, China adopted GATT-oriented policies in the 1980s including a long-term process of lowering its tariff rates (Jacobson and Oksenberg 1990). Representatives of foreign businesses, foreign governments and multilateral institutions were consulted about draft laws in the

areas of foreign investment, trade, IPR and renminbi convertibility (Pearson 2001).

However, the change of ideas towards economic opening and the international regime has been more fundamental. As early as 1986, Li Hao, then party secretary of Shenzhen, the first and most successful of the Special Economic Zones set up to attract foreign direct investment, pointed out that 'we [China] should play basketball by the international rules', and that 'China's participation in international competition cannot be handled like building a narrow-gauge railway, by which neither can you go out nor others can come in'. Then Vice Premier Zhang Jinfu, later the first director of the State Council Interministerial Coordination Group on GATT Negotiations, appraised Li's point of view and commented that, 'to participate in international games, the team is ours, the ideology should be socialism, while the rules should be international' (Ma 2001). Since then, 'aligning China's rail gauges to the world's' (*yu guoji jie gui*) has become a popular slogan in the Chinese polity. More than a decade later, Long Yongtu, who had been in charge of China's GATT/WTO negotiations mostly in the 1990s, echoed Li and Zhang's idea on economic opening. For instance, Long traced the discursive change on trade and protection:

The negotiation is not just a process of external bargaining, but a process of internal idea shift. We used to believe that the higher tariff rates we can retain from the talks, the better protection it will be for domestic industries. However, after 1998 we found that the tariff was so high that smuggling was rampant. The CEO of Lucky Co. [a Chinese film company] said on the *Jingji ribao* [Economic Daily] that 'we do not worry about foreign competition, but smuggling', which was a huge shock for us. We realised that even though we set a high tariff rate, we cannot achieve it at all. Wools were charged on a high tariff rate at that time. Premier Zhu Rongji thus asked us to figure out how much we should lower it to make the smuggling unprofitable . . . we realised that only market competition can boost the development of market. Only this is the best protection.

(Zhang, F. 2004)

As mentioned in Chapter 5, Long repeatedly said that the most precious experience for the Chinese to learn from the accession process is that 'we should respect and abide by the rules of the international regime'. Long also challenged the traditional Chinese wisdom that saw 'negotiation' as a zero-sum game and that any concessions made in foreign negotiations are an act of 'betrayal'. In his view, making concessions is essential in negotiations as long as they are on a mutual and reciprocal basis, and that foreign negotiations could be a win-win outcome (*shuang ying*) rather than at your counterpart's exclusive expense (Yang, L. 2001). This gradual change of ideas, i.e., the ideational acceptance of an international standard

of practice, provided an 'anchor effect' on China's economic reforms and external opening, in that it marked a shift of economic opening from short-term considerations of exploring foreign opportunities to a long-term strategy of participating in the process of global economic integration based on a regime of the market economy.

According to Economy (2001: 237), an important way in which international organizations influence domestic policy process is 'the establishment of new bureaucratic linkages and even permanent institutions. These institutions also provide a means by which domestic actors become inculcated with the values of the regime'. This is most evident for MOFTEC, and particularly, its WTO Division. As discussed in the previous chapter, the officials from the Division were observed as more liberal, internationally-oriented and the strongest advocates of China's adoption of international practices and deep integration into the world market.

On the other hand, exogenous efforts were also contributed to address the absence of knowledge and the global mindset of both Chinese central and local officials by various international actors, including foreign governments, non-governmental organizations and multilateral institutions. This kind of international education was intensified in the latter half of the 1990s, covering from general issues of WTO to more specific advice on how China can adjust its domestic regulatory regimes to comply with its obligations. For example, a range of US government offices, such as the commercial sections, economic sections, agricultural sections and public affairs sections (PAS), have all sponsored training programmes in China. The PAS, in particular, funds dozens of international visitor programmes that send Chinese officials, journalists and academics to the United States; grants for activities aimed at strengthening the rule of law; and donations of legal texts and translations to Chinese governmental and non-governmental organizations. The US Department of Commerce participated in US-sponsored seminars on standards and certification in China, and organized an IPR Enforcement Training Delegation to several Chinese cities (Goldstein *et al.* 2002). The EU has also established a series of capacity building projects to support China's integration into the world economy with a budget totalling over 20 million euros. The projects range from general training to specific issues such as financial services, statistics, public procurement, IPR enforcement, etc. (Beseler 2001). The German Technology Cooperation Co. (GTZ), under the German government, conducted training courses and workshops on the WTO legal framework, provided assistance to the National People's Congress Finance and Economic Committee, and cooperated with MOFTEC in the Sino-German Cooperation in Economic Law Programme. GTZ also helped establish a WTO Inquiry Centre under the China Institute of Reform and Development. Australia, through its AusAid programme, has been training Chinese officials in international economics, both in Australia and Beijing, since 1997. Japan has also been active on a number of fronts.

In addition to the foreign governments, private and international organizations have also initiated various WTO educational programmes for Chinese officials and business leaders. These include the US–China Business Council, the Ford Foundation, the Asia Foundation, the Asian Development Bank, the United Nations Industrial Development Organization and the World Bank. Local chambers of commerce, including the American Chambers of Commerce in Beijing and Shanghai, have also lent support and expertise to WTO implementation efforts through policy recommendations and communications with Chinese officials on a full range of WTO issues (Goldstein *et al.* 2002).

Conclusion

China's WTO policy has swirled in the cross currents of both domestic and foreign factors and several conclusions can be drawn here.

First, traditional actors, e.g., foreign governments, have a direct impact on China's foreign economic policy making. This is most obvious for the case of the United States and the coalition of the Quad. The US and other developed countries exerted their pressure through government-to-government negotiations. The domestic politics of foreign governments, particularly in the case of the US, have important ramifications on the domestic power base of Chinese decision makers. The accession was also under the influence of the bilateral relations with foreign governments, which set the overall political context for accession talks. Foreign businesses, as we have seen in the case of US bilateral talks with China in the early 1990s and on the issue of granting PNTR to China, also influenced the dynamics of China's accession by their domestic lobbying.

Second, the WTO policy is an inseparable part of the Chinese foreign policy and therefore is subject to its grand strategy of foreign affairs. In Taiwan's case, Beijing insisted throughout the accession process that the sovereignty issue of Taiwan is untouchable and unnegotiable, although this could and has influenced its pace of accession and it has had to pay for this ironclad principle.

Third, with China's gradual opening to the outside world, sources of foreign influence on trade policy making multiplied. Actors other than foreign governments, namely non-government organizations and multilateral institutions, such as WTO itself, entered the policy arena and impacted on various sections and levels of the Chinese government and society.

Finally, the game between the domestic and foreign players has built up a steady and strong current that helped drive the country into the world market. On the one hand, an opening China turned to foreign sources for international ideas, which served as the basis of the so-called 'paradigm shift' to a new thinking which influenced the leadership's perception and ultimately its policies. On the other hand, foreign actors brought in the

norms and rules of the market economy and international regime into the Chinese polity, including various levels of the government and the business community. Although this international education may not have had direct impact on policy making, it alleviated the domestic tension towards the opening up in general and the WTO accession in particular. It could also help facilitate the future implementation of China's WTO commitments after the accession.

Conclusion

WTO accession: politics behind the great leap forward

The process of China's accession to the World Trade Organization (WTO) was not only paralleled but also intertwined with the process of domestic economic reform. China's WTO membership hammered almost the final nail into the coffin of its planned economy and marks a decisive step towards its integration into the world market since the open-door policy was adopted in the late 1970s. This study suggests that the two decades of economic liberalization and internationalization since then led not only to the ebb and flow of the power status of the traditional actors but also to the multiplication of actors in China's foreign economic policy making. On the one hand, the paramount party elites still exert crucial influence on strategic policies and the government's agenda. On the other hand, decisions from the top have been dragged in a bureaucratic muddle in the policy process by a compartmentalized institutional system. Hence, the domestic dimension of the WTO policy making is best portrayed as an arena of both elite and bureaucratic politics. At the same time, more actors participated in the policy process, notably various government ministries that realized they would stand to lose because of WTO membership, and various foreign actors, such as multilateral bodies (i.e., WTO itself), foreign governments, especially the United States, and foreign businesses. They influenced China's trade policy by either exporting internationally accepted rules into China, or by exerting direct pressure and collective action in bilateral negotiations. The book has shown, by unpacking the 'black-box' of the Chinese state, that China's entry into the global trade regime was primarily driven by a determined political leadership that bypassed and prevailed over a reluctant and resistant bureaucracy, and under the constant influence and pressure of the international system.

The Maoist rigid command economy, the autarkic development pattern of import substitution, together with the political catastrophe of the mass campaign of class struggle during the Cultural Revolution, helped to form a consensus among the Chinese polity, especially the top party elites, that the Party had to shift its legitimacy from communist revolution to eco-

conomic development, that the economic system had to be liberalized and that China had to open up to seek foreign investment and technology to aid economic catching-up. However, there had been differences on the priority, goals and speed of the reforms and external opening up within the leadership. The reformers preferred raising the efficiency of the economy by establishing market-oriented mechanisms and by integrating into the world market on the basis of China's comparative advantages, an idea that has been reinforced by the widely acclaimed achievement of its implementation. WTO entry is considered as a great leap forward in Beijing's overall strategy of reform and opening up. It was perceived to help deepen the domestic reform process, to reap long-term economic benefits from the opportunities provided by the international economic regime, to curb rampant corruption, and to gain political prestige and facilitate reunification with Taiwan. The conservatives, on the other hand, stressed the equality issue after the dismantling of the former socialist distributive system and preferred a minor, supplemental role of market to plan. They were and are also concerned about the social costs, such as widening income disparities and the increasingly devastating unemployment, which they see as associated with the reforms and opening up, including WTO accession. Therefore, they are more in favour of a largely semi-autarkic self-reliant strategy than of deep integration and WTO membership. Despite the existence of the two contending lines towards the accession, the pro-opening, and therefore the pro-WTO line prevailed within the party leadership that has been dominated by reformers led by Deng Xiaoping and Jiang Zemin consecutively. This power configuration largely enabled the reformers to keep up the momentum of the accession, despite sporadic harassment by the conservatives who could only stage their protests and exert pressure on the 'collective leadership' at a time of economic and political hardships, such as the embassy bombing crisis in 1999.

Having made the strategic decision to resume China's membership in the GATT in 1986, the political leadership employed a number of mechanisms to ensure the accession was on track. The elites weathered the domestic debate on the WTO accession by generating a positive image of WTO membership in the public mind through the party-controlled media, and by keeping various counter-arguments of the official line within the academic and professional sphere. The accession process was also sped up by ideological breakthroughs of the paramount leader, such as Deng who managed to set the 'market economy' as an openly declared doctrine of the Chinese reform in the first half of the 1990s.

The major domestic obstruction of accession was the government bureaucracy. According to the Chinese governing system, once the political decision of WTO entry was made by the party leadership, the relevant government institutions were in charge of substantiating it into specific policies, i.e., the commitments and obligations China was willing to make and take for the entry ticket. The bureaucratic system is mostly an intact

legacy of the planned economy in which government institutions are functionally divided with similar ranking authorities and overlapping jurisdictions, thus the power structure is fragmented, scattered and dispersed. It gives a degree of veto power to each and every concerned ministry once an issue is tabled for consultation, which means consensus building is essential in the policy process. However, many of the functional ministries had already been losers in the domestic reforms, and WTO membership will further deprive their administrative authorities and industrial and economic interests. It is not surprising that these ministries, some of which are powerful players representing large SOEs in heavy industries that were favourably biased by the former economic regime, exploited the fragmented structure, bargained for favourable deals with the upper authority, and, when necessary, obstructed the formation of consensus. The internal process was further complicated and devastated by the weak status of a series of institutional bodies established to coordinate contentious units. Although the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), whose officials have been more exposed to international regimes and globally-accepted rules, took the lead in both internal coordination and external negotiations, there were no tangible alterations to the basic institutional structure and therefore the accession was for a period stalled by the bureaucratic impasse.

Meanwhile, the political leadership exerted exclusive authority to overcome the bureaucratic infighting. The 1998 government restructuring, under the directive of Premier Zhu, had a profound impact on the bureaucratic bargaining in the policy process. It fundamentally severed the direct relationship between government ministries and the industries they oversee and helped centralize the decision-making system, which greatly reduced bureaucratic resistance to WTO accession and helped to deliver the much needed consensus for external negotiations. Moreover, the elites bypassed key protectionist ministries in drafting the accession package by manipulating the information flow, and lent their support to the liberal-minded key bureaucrats. Finally, at the critical stage of bilateral negotiations such as the one with the United States in 1999, the direct and personal involvement of party leaders decisively hammered the deal.

Another institutional feature of the economic reform is the decentralization of authorities from central to local governments, which gave the latter more leverage in economic policy making. However, the evidence of this study has shown that, for a comprehensive, strategic and national policy like WTO accession, there has been a lack of institutionalized and effective (other than personal and informal) channels for local governments to have a say in the policy process. Therefore, their role in WTO policy making was indirect and marginal.

The gradual integration into the world market and the international system since 1978 has offered more access points to the Chinese state for external forces and correspondingly more leverage in affecting China's

foreign policy making. In this case, the international, transgovernmental and transnational factors played an active role in shaping Beijing's policy behaviour as well as the actual accession process. The WTO itself served as an agent of education to a generation of young bureaucrats in China of the universal principles in international trade conduct which is little known to a country under the rule of men, not law. Foreign governments, especially Western developed countries led by the United States, effectively pushed Beijing's bottom-line in bilateral negotiations, sometimes by manipulating sensitive issues, such as Taiwan's accession. Foreign businesses, notably multinational corporations, lacking a formal mechanism to lobby the Chinese central government, turn to their own capital to articulate their interests in access regarding the Chinese market, which in turn boosted foreign pressure on Beijing.

Theoretical implications

By examining the political economy of China's WTO policy making, the findings of this book resonate with the basic premise of the school of East Asian developmental state (EADS) literature, namely a *state-led* process of economic growth and opening (Li and Lian 1999; Polidano 2001). In terms of the state-society relationship, the party-state of the communist regime still enjoys dominant power, authority and influence over Chinese society. It is true though that liberal economic reform has differentiated societal interests within the polity, but the formation of professional interest groups in Western terms and open articulation and lobbying activities are not legitimized but deliberately oppressed. China's WTO accession is a comprehensive package that will no doubt affect a wide range of societal interests. But, as this study suggests, the policy making was largely confined within the government, especially the top party leadership and central state apparatus. Various societal interests, such as farmers, trade unions and consumers, get their voices heard mostly via informal channels and mechanisms with the government, and their influence in policy making is dispersed, indirect and minimal. It is also true that industrial interests, especially those of the large SOEs, were represented by their corresponding functional ministries which managed to hamper the process of internal consensus formation. Nonetheless, the institutional relationship between the large SOEs and the government agencies were subject to the initiatives of top leaders, as we have seen in the government reform in 1998.

However, the EADS model can only go so far. The state itself is not a unitary actor as some of the cruder statist models assume. Once the Chinese party-state is put under a microscope, there is both a political leadership that is in a reformist-conservative alignment and a fragmented and competitive set of bureaucracies. The case shows that, even in a country like China, whose governing apparatus used to be depicted as an

iron bloc, the state is not a rational actor operating in a unitary and rational way. Rather, it is composed of complex organizations with various participants and internal dynamics, and the policy-making process is one that is shaped by the interaction of often contending actors through historically evolving institutional structures. The Chinese bureaucracy is not cohesive and impartial from societal interests as developmental statism assumes, but tends to go the neoliberal way of maximizing personal, institutional and industrial welfare (Krueger 1974; Tullock 1993). This leads to predatory behaviours such as rent seeking and bureaucratic empire building and, in this case, protectionist inclinations to impede the WTO membership. This study has demonstrated that the accession process has been driven mostly by the political elites, not the bureaucracy. The shift of legitimacy of the Party to economic development and raising people's living standard becomes the incentive of the party elites to seek external opportunities provided by an increasingly globalized market.

The research is also relevant to the conceptualization of China's economic policy making as well as to the debate regarding institutional change. The popular 'fragmented authoritarianism' model, developed by Lampton (1987), Lieberthal and Oksenberg (1988) and Lieberthal (1992), posits that, within the state apparatus, a complex matrix of relevant leaders, bureaucracies and interests produce decisions through extensive bargaining and coordination, and that the policy process is 'protracted, disjointed, and incremental' (Lieberthal and Oksenberg 1988: 22). This approach fits well in the explanation of how WTO policy making was enmeshed in a fierce battle among government institutions, in other words, how 'the shadow of the past' clouded the new policy arena. However, this institutional inertia, emphasized by historical and sociological institutionalism, overestimates actors' interpretiveness and reactivity while it underestimates policy elites' affirmativeness, activeness and adaptiveness. According to rational choice writers, 'institutions are not only an important *cause* of behaviour but are also an *effect* of behaviour' (Bell 2002a: 369, original emphasis). According to this account, institutions are designed and established by rational actors to pursue their interests. Over time, institutions can be redesigned in a changing policy environment and actors' (especially elites') preferences. In China's economic policy making, the model of fragmented authoritarianism more or less underestimates the commanding ability of political elites in contemporary China. This case suggests that, given the current pattern of power distribution between the Party and the government, elite authority and bureaucratic authority is asymmetric. During the country's transition from a planned to a more market-oriented economy and the transition from a totalitarian to an authoritarian regime, the top party leadership still possesses the capability of integrating internal political and bureaucratic resources and conditioning institutional settings to meet policy ends. Evidence produced by this book has shown that Chinese political leaders employed a number of

mechanisms to curb and bypass a resistant bureaucracy to break the pattern of seemingly endless bargaining.

Another related issue is state capacity in terms of policy making. According to Bell and Carr (2002), state capacity has both institutional and relational dimensions. The institutional dimension refers to the institutional structure of the state, financial and bureaucratic resources, and availability of policy instruments, while the relational aspect refers to the 'connectedness' of state and society. This study presents contradictory implications on the capability of Chinese state in this regard. On the one hand, the fact that local governments have been largely marginalized in the WTO policy process suggests that the Centre has avoided inviting more conflicting interests into policy formation by creating a centralized institutional structure of decision making in the Centre and on the top leadership. On the other hand, more importantly, within the central apparatus, the dispersed authority among ministries limited the hierarchical centralization that is essential for coherent policy behaviour. The involvement of the political elites in economic policy making is highly personal, far from clearly defined and institutionalized. Moreover, integration in the international regime has also imposed increasing constraints and channelled more foreign pressures onto the making of China's foreign economic policy and limited the availability of policy instruments to meet policy ends. Overall, in terms of policy making, the capacity of the Chinese state, though still stronger than countries with an advanced market economy and liberal democracy, has been weaker than it used to be in the process of economic reform and internationalization.

Finally, this study confirms constructivists' emphasis of the role of ideas in shaping policy players' preferences. In this case, it is particularly interesting the way international norms and rules affected Chinese bureaucrats, especially the MOFTEC officials who worked on WTO-related issues. Besides the bureaucratic interests that like to see more authority in foreign economic policy making and personal career interests that like to see the successful conclusion of accession talks, the much wider access to the international regime and its rules no doubt created new thinking among these newly emerged technocrats. With this international exposure, they tend to regard it as inevitable that China must integrate with the world and abide by the rules of the international regime.

The road ahead

The dynamics that shaped Beijing's WTO decision making elaborated in this book have several important empirical consequences that will influence its future business after the accession.

So far it appears that the institutional settings that have governed Beijing's internal coordination during the accession negotiations, i.e., various related bureaucratic participants under a provisional coordination

body, are still at work after the accession for future trade negotiations. For instance, in preparing and participating in the new round of global trade talks under the WTO Doha Agenda, a Trade and Investment Negotiation Interministerial Coordination Group was set up in April 2002, which includes MOFTEC, the State Development and Planning Commission (SDPC), Ministry of Agriculture, the State Administration of Taxation, the State Administration of Environmental Protection, the State Administration of Forestry, etc. Another coordination group on trade and competition policy is composed of MOFTEC, the SDPC, the State Economic and Trade Commission, and the State Administration on Industries and Commerce.¹ Meanwhile, the accession also brought about changes to the institutional system. Three divisions/bureaus were established within MOFTEC right after the accession, overseeing the routine contact with the WTO, the implementation of accession obligations, and enforcing trade policy transparency (*Zhongguo jingji shibao* 2003).² The MOFTEC was further transformed into the Ministry of Commerce in March 2003 after merging the previous Ministry of Domestic Trade, a legacy of the planned economy. The merge finally institutionalized the systemic integration of domestic and foreign trade, which will considerably reduce bureaucratic cost and is expected to operate more in line with WTO's code of practice.

As has been argued, the nature of Beijing's WTO policy making is top-down, pushed by the top leadership and drawn up mainly within the central government. However, the top-down nature of the policy process planted seeds for uneasy implementation and political challenges to the party elites in the future. One of the major reasons why China went for the WTO was that it could provide an external anchor to support, sustain and propel the economic reform and development. The results so far have been mixed. On the economic front, the statistics are encouraging: GDP achieved a healthy increase by 8 per cent and 9.1 per cent in 2002 and 2003 respectively; trade expansion (both exports and imports) remained outstanding. Between 2000 and 2002 China's foreign trade rose by an impressive 30 per cent, especially if the overall stagnation of world trade is taken into account. China ranked number three among the world's leading merchandise importers and number four in exporters in 2003 (WTO 2004). However, on the social front, the story may be less than optimistic. The influence of foreign competition after the accession, together with the domestic restructuring of the SOEs, will result in significant unemployment in those uncompetitive industries and rural areas, widening already growing urban-rural and regional inequality. In fact, this negative distributional effect has taken its toll after two years of WTO accession. A recent research by the official Chinese Academy of Social Sciences concludes that China has recorded the biggest income gap between its urban and rural population in the world.³ To address the social dislocation resulting from worsening income inequality is indeed a daunting and formidable task for

the leadership. Even the top leaders who support the WTO membership are well aware of and sensitive to the adverse impact the accession may have on the domestic economic and social system. If the adjustment costs become unbearable or too politically contentious, it would be politically hard for the leadership to keep to their commitments.

The increasing international exchange after the accession could also generate more trade-related disputes with foreign entities. As it turned out, the number of anti-dumping cases against China has risen from less than 4 per cent to 13 per cent from 1981 to 2001 (Gong 2002). In the latter half of 2003, 30 out of 115 anti-dumping cases were filed against China, 22 of which had been implemented, making China the worst hit among its fellow WTO members (Li 2004). The increase of China-specific investigations and trade sanctions, most of which have been launched by the US and EU, could furnish domestic leftists and nationalists the ammunition to attack on the opening up-minded leadership by easily politicizing these events. The perceived 'humiliation' by the Chinese grassroots, explicitly and psychologically linked to China's bitter history with the Western powers in modern times, could generate public pressure on Beijing's stance in handling these issues.

On the other hand, in the Chinese government, some entrenched interests within the central ministries were out-manoeuvred in the critical stage of the policy-making process. Therefore it is anticipated that they will seek to protect their interests by distorting the implementation of Beijing's accession responsibilities. For instance, Wu Jichuan, then Minister of the Information Industry, a protectionist hardliner, declared that the Ministry would shelve the issuance of Internet Service Provider permit to foreign firms, despite the November 1999 bilateral agreement with the US. New regulations were introduced in January 2000 requiring foreign Internet firms to reveal their commercial and technological information to the Chinese government. Washington protested strongly against such a move and threatened to revoke the PNTR bill (Zweig 2001). The bureaucratic battle continues.

Moreover, local governments were mostly excluded from the policy process by a lack of institutional accommodation, and like the central ministries, they too are expected to create policy resistance during the implementation of Beijing's WTO commitments. In fact, this has been a typical way for local governments to preserve their interests since Mao's era (*shang you zhengce, xia you duice*). In the context of administrative decentralization, local officials tend to use state authority to privilege their market activity, which elicits local resistance to WTO implementation. The non-compliance of the local governments may further intensify their tension with the central government and may have important implications on central-local relationships in the near future. Indeed, the compliance issue at the central ministerial and local level poses a major challenge to China's deep integration. As long as Beijing mixes 'socialism with Chinese

characteristics', we can also anticipate 'compliance with Chinese characteristics' (*The Economist* 7 April 2001).

Meanwhile, when foreign exports met Chinese local protectionism, foreign pressures were always exerted directly on the Chinese leadership. For example, US soybean shipments were delayed in Chinese ports in 2001 by new local rules which disadvantaged American exporters. President George W. Bush raised this 'trivial' issue, among the Administration's preponderant concern of anti-terrorist cooperation, during the summit with his Chinese counterpart President Jiang Zemin in November 2001 in Shanghai (*Far Eastern Economic Review* 22 November 2001).

The party leadership manipulated the information flow to the general public and ordinary bureaucrats by presenting largely positive ideas and a rosy picture towards WTO accession through the state-monopolised media. However, once the short-term social costs associated with accession rise, they may severely damage the credibility of the party and government. The social unrest that may be generated from adjustment problems, such as massive unemployment, may exacerbate the already daunting problem of governance of China (Wang, S. 2000; Fewsmith 2001; Pei 2001; Ostry *et al.* 2002). Therefore, the education campaign on the public after Beijing won the WTO membership turned out to be low-key, more cautious with a little sombreness, which was not seen previously.

Meanwhile, in the long term, elements revealed in the policy process have nonetheless demonstrated some positive signs for economic liberalization, bureaucratic professionalization, and political democratization.

China's global involvement has created a variety of economic and political forces in China with an interest in preserving and promoting those relations, including people at the top of the Party and government with ultimate decision-making authority. The fact that the reformists pushed through political and bureaucratic obstacles and led China into the global trade regime demonstrates that liberal economic philosophy has increasingly prevailed at the top of the power ladder. On the other hand, the stunning achievement so far by the opening up policy in turn served an educative function for the generation of political leaders to come, which may well enable China to gradually become more committed to the international economic order. Moreover, the accession will stimulate more foreign investment in China. An increasingly internationalized domestic market and the interaction between foreign interests and the government would see a more relaxed, market-oriented economic management by the Chinese authority.

The Chinese economic officials, especially those from MOFTEC, represent a new generation of bureaucrats who have not only adequate qualifications but also more and more knowledge of the rules of the international regime. Well equipped, these technocrats are capable of making routine economic policies with less distortion from the party's political instruction, and capable of participating in comprehensive and strategic policy making

with less misunderstanding of the foreign economic and political environment. The professionalization of the bureaucracy will largely bring about the modernization of the government and be more capable and accountable in its social governance.

Meanwhile, the lack of social participation in the policy process suggests that there is huge potential for societal forces to play an active role. Two decades of liberal reform have witnessed the differentiation of societal interests, and further reform and opening up, including the WTO accession, may help bring about the formation of a middle class and a civil society that are the backbone of future political liberalization, a key constituent that is expected to be more organized and participatory in a more inclusive political system.⁴

Overall, then, accession to the WTO marked a milestone in China's history of going global. The road to the international trade regime was not smooth, but rather tough, no shortage of glamour, drama and crisis. It was a process full of tension and conflict between a pragmatic leadership and an entrenched bureaucracy and between domestic decision makers and international constraints. The dynamics of China's WTO policy making will largely continue to shape and influence the road ahead. Whether China's deep integration with the international regime is a panacea for China's economic transition and development, or a Pandora's box that will unfold social and political instability, will be a vital test for the capacity and ability of the Chinese state as well as the international system.

Appendix: chronology of China's accession to the WTO

21 May 1948	The Nationalist regime of China became one of the founding members of the General Agreement on Tariffs and Trade (GATT), WTO's predecessor.
6 March 1950	Nationalist regime in Taiwan resigned from GATT while the communist regime in the mainland also pulled China out of GATT.
December 1985	China requested and received permanent observer status with respect to GATT's council and its subordinate bodies.
10 July 1986	China lodged the official application to resume its contracting party status within GATT.
15 September 1986	China sent delegations to GATT's ministerial meeting in Uruguay and became a full participant of the Uruguay Round negotiations.
13 February 1987	China lodged the Memorandum of China's foreign trade regime for review by GATT member nations.
4 March 1987	GATT established the Working Party on China.
22 October 1987	The first meeting of GATT's Working Party on China was held in Geneva.
23 February 1988	The second meeting of GATT's Working Party on China held in Geneva began to review China's foreign trade regime.
June 1989	Beijing suppressed the democratic movement at the Tiananmen Square, killing any hope of joining the global trade body soon. China's accession talks with Western countries were suspended.
12 December 1989	The eighth meeting of GATT's Working Party on China effectively repudiated previous understandings of China's foreign trade regime and started their review from the very beginning.
1 January 1990	Taiwan applied to join GATT.
11 January 1991	Macau became a member of GATT.

- October 1991 Chinese Premier Li Peng wrote to GATT member countries stating that China would stick to its commitment of economic reform and opening up to the outside world.
- October 1992 The fourteenth Congress of the Chinese Communist Party clarified that the goal of its economic reform was to establish a *market economy* ‘with Chinese characteristics’.
- 10 October 1992 China and the United States reached a Memorandum of Understanding on market access, while the latter ‘staunchly supports China’s entry into GATT’.
- 23 October 1992 The eleventh Working Party concluded the foreign trade review. China’s accession went into the substantial and critical phase, the bilateral negotiations with Working Party members on market access.
- 15 April 1994 GATT’s ministerial meeting in Marrakesh, Morocco concluded the Uruguay Round negotiations. China signed the final package, which was one of the prerequisites for China to resume its GATT status.
- August 1994 China offered a one-basket solution with improved concession schedules on agricultural and non-agricultural products and service trade in order to speed up the negotiations.
- 20 December 1994 The nineteenth Working Party meeting failed to reach an agreement. China’s last-minute effort to enter GATT by the end of 1994 was derailed by Western countries led by the United States.
- 1 January 1995 WTO replaces GATT as the governing body of global trade.
- 11 July 1995 China became an observer within the WTO.
- November 1995 WTO established the Working Party on China’s Accession.
- 3 June 1996 The first meeting of the WTO’s Working Party on China’s accession was held in Geneva.
- 6 August 1997 China finalised its bilateral negotiation with New Zealand, which was the first Western country to reach an agreement with China.
- 7 April 1998 China offered a one-basket solution of tariff reduction during the seventh meeting of the Working Party.
- June 1998 Chinese president Jiang Zemin declared the three principles for China’s WTO accession.
- 8 April 1999 Chinese Premier Zhu Rongji presented dramatic concessions during his visit to Washington, but President Bill Clinton walked away from the deal for

- domestic political reasons. Zhu's April offer backfired when it was published on the USTR's website by domestic opponents.
- 8 May 1999 NATO bombed Chinese Embassy in Belgrade. Beijing withdrew from all bilateral negotiations, including WTO talks.
- 9 July 1999 China concluded bilateral negotiations with Japan.
- 9 September 1999 Presidents Jiang and Clinton agreed to resume the accession negotiation during APEC's informal summit.
- 15 November 1999 China reached the landmark agreement with the United States that paved the way for its WTO accession.
- 26 November 1999 China concluded bilateral negotiations with Canada.
- 19 May 2000 China concluded bilateral negotiations with the EU.
- June 2000 The Working Party launched the preparation of legal documents for accession: the Accession Protocol and Working Party Report.
- 4 July 2001 The drafting of the multilateral documents were finalised during the seventeenth meeting of the Working Party in Geneva, which was passed in the next meeting in September.
- 13 September 2001 China finished all the required bilateral negotiations on market access with 37 WTO members after reaching a deal with Mexico.
- 11 November 2001 China signed the membership agreement and became the one hundred and forty-third member of the WTO.

Notes

Introduction

- 1 The notion of 'internationalization' in this book largely borrows the definition given by Keohane and Milner (1996: 4) as 'processes generated by underlying shifts in transaction costs that produce observable flows of goods, services, and capital'. Zweig (2002: 3) also sees internationalization as 'the expanded flows of goods, services, and people across state boundaries, thereby increasing the share of transnational exchanges relative to domestic ones'.
- 2 For the major works on Chinese policy making, see Barnett 1985; Lieberthal and Okensberg 1988; Lampton and Lieberthal 1992; Hamrin and Zhao 1995; Lampton 2001.
- 3 The 'shallow integration' refers to the reduction or elimination of tariffs, quotas and other barriers to trade in goods at the border, such as trade-limiting customs procedures. See Deardorff 2002.
- 4 The 'deep integration' refers to economic integration that goes well beyond removal of formal barriers to trade and includes various ways of reducing the international burden of differing national regulations, such as mutual recognition and changing government regulations and practices, as a result of an international agreement. See Deardorff, A. *Deardorff's Glossary of International Economics*. Online available at: www-personal.umich.edu/~alandear/glossary/ (accessed 3 March 2002).
- 5 The Party ordered all military businesses to cease trading in 1998 in a bid to address the rampant smuggling problem.

1 The iron bloc inside out: theory and methodology

- 1 According to Bell and Carr (2002: 306), state capacity is the degree of state autonomy that is 'to allow the state to stand above the push and pull of wider political conflicts, so that it can push forward its policy agenda'.
- 2 Hua Guofeng lost his battle for supreme power to Deng Xiaoping, while he still retained his membership in CCP's Central Party Committee; the deposed former party Secretary-General Hu Yaobang stayed on in the Politburo until his death in 1986, and his denounced successor, Zhao Ziyang, had a subtle position albeit under heavy house confinement.
- 3 Before the 1998 government restructuring, there were more than 40 ministries, commissions and agencies. More than half of them were directly related to economic and industrial affairs (Wang 1999).
- 4 Zhao (1995) identified two kinds of pluralism: 'individual pluralism', a situation in which individual leaders with personal power, compete for policy preferences and in which no single leader dominates; 'institutional pluralism', a situation in

which leaders and bureaucrats compete with organizational resources provided by their formal offices. While individual pluralism is widely seen as the trend of the Chinese bureaucratic system, it is challenged by Yan (1995). Yan argues that the 'collective leadership' after the death of a strong leader is followed by personal dictatorship after repeated power struggles, which is a basic model for political change in all Communist systems. The individual pluralism, which fits well in the collective leadership, cannot explain the cyclical change at the apex.

2 The road to the WTO

- 1 Speech of Nan, Hanchen, chairman of the China Committee for the Promotion of International Trade at the Asian Economic Seminar held in Pyongyang in June 1964. Pyongyang Radio broadcast, 20 June 1964. Quoted in Mah (1971: 23).
- 2 Mao Zedong's statement quoted in the first Five-Year Plan for Development of the National Economy, 1953–57. Beijing: Renmin chubanshe (People's Publishing House), p. 15.
- 3 Speech at the Second Session of the First National People's Congress, *Renmin Ribao* [People's Daily], 30 July 1955.
- 4 The number of the foreign trade corporations varied before reform from ten to around 16. See Donnithorne (1967).
- 5 Despite the generally minor role of foreign trade in the national economy, it has been a significant factor in specific areas of the economy and at various stages of development. For instance, foreign trade was assigned a critical role in the first five-year plan (1953–57) through the importation of machinery, equipment and material (Ma 1955: 139). As a result, only in 1956 did China earn an export surplus for the first time in its recent history (see Table 2.1).
- 6 Between 1950 and 1972, there was virtually no trade between the United States and China, except trade in minuscule amounts of journals and newspapers after 1953. See Bucknall (1989).
- 7 China signed a general trade contract with the European community in 1978; in August a treaty of peace and friendship was signed with Japan, and in December formal diplomatic relations with the US were announced.
- 8 In 1978, there were nearly 20 million people 'waiting for work' (*dai ye*) in the urban area and about 100 million in the rural population were 'underemployed'. See Talas (1991).
- 9 This section is adapted from an official description on accession procedures at WTO's website: www.wto.org.
- 10 This is the legal clause China refers to in handling Taiwan's accession. As will be discussed further in Chapter 6, Taiwan, over which China claims sovereignty, is allowed to accede under the title of 'individual customs territory', like Hong Kong and Macau.
- 11 The concessions granted to these areas varied somewhat from the original SEZs, and few received the scale of infrastructure investment enjoyed by Shenzhen. However, the underlying principles involved were the same.
- 12 Based on purchasing power parity, the IMF concluded in May 1993 that the Chinese economy was the third largest in the world, following the US and Japan, while the World Bank, using a slightly different measurement approach, saw China as the world's second largest economy in 1990. See *New York Times*, 20 May 1993 and the *Washington Post*, 4 July 1993.
- 13 The domestic legislation referred to here is the Jackson-Vanik Amendment. See Chapter 6 for a further discussion of the Amendment and its implication on China's GATT/WTO accession.
- 14 Statement by Mr Long Yongtu, vice Minister of the MOFTEC and Chinese chief negotiator, 1 November 1996, Geneva, WTO.

3 Contending views on the WTO

- 1 One good example is the prevailing political slogan after Deng's southern tour in 1992: 'to alert the right, but mainly to safeguard against the "left"'
- 2 In terms of the consensus of the necessity of reforming the old planning economy between the reformers and the conservatives, Harding (1987) categorized them as 'radical reformers' and 'moderate reformers' respectively.
- 3 *Renmin ribao* [People's Daily], 31 December 1982, quoted in Kleinberg (1990).
- 4 The United States, however, insisted that even if China became a WTO member, its MFN status had to be scrutinized annually by the US Congress against its domestic legislation (the Jackson–Vanik Amendment). The US Congress continued to include human rights, religious freedom, trade deficits and intellectual property rights in its consideration of the renewal of China's MFN. But after the passage of the act of Permanent Normal Trade Relations, China will get the MFN treatment as soon as it enters into the WTO. See Chapter 6 for a detailed analysis.
- 5 There were severe restrictions on Chinese textile and clothing exports with the MFA to North America and Western Europe; the two largest MFA markets for China once the Hong Kong re-exports are taken into account. See Garnaut and Huang (1995) and Yang (1995a)
- 6 Since the European Community launched the first anti-dumping investigation against China in 1979, 23 countries had filed 327 anti-dumping cases against Chinese export, most of which were China's major export items. Eight of these cases in 1998 involved over US\$100 million, 11 over US\$30 million each and the largest case involved over US\$450 million. See Lai (2001).
- 7 Zhu Rongji, 'Report on the Outline of the Tenth Five-Year Plan', quoted in Fewsmith (2001: 574).
- 8 Formerly the State Planning Commission, the economic headquarters of the central planning system. It has been a major bureaucratic opponent of market-oriented reforms. Its role in WTO policy making will be discussed in Chapter 5.
- 9 Smuggling has been a big problem to the Chinese customs system and state revenue. During Premier Zhu's October visit to Guangzhou in 1998, he ordered the firing of 600 provincial officials involved in smuggling. See 'Difficult Mission', *Time*, 12 April 1999. Zhu also stated that '[B]ecause of the crackdown on smuggling, China's customs revenue last year [1999] increased by 100 per cent over 1998', Full text of Premier Zhu Rongji's press conference, March 2000. Online available at: www.chinaembassy.org.au/eng/11006.html (accessed 6 May 2002).
- 10 The CPI (Corruption Perception Index) annually publicized by Transparency International can serve as a proxy indicator to measure the relative opaqueness of comparative systems. Of the 88 countries surveyed, China's rank has declined from fortieth in 1995 to sixty-third in 2000. See Kim (2002).
- 11 The 'three Nos' policy includes no direct transportation, no direct mail and no direct trade between mainland China and Taiwan.
- 12 According to Banning Garrett's interview with a senior researcher who has close ties to senior Party officials, this assessment was asserted to have been reflected in the communiqué of the Fifth Plenum of the fifteenth Central Committee Meeting in October 2000. See Garrett (2001).
- 13 *Renmin ribao* 9 March 1998, quoted in Fewsmith (1999).
- 14 Several Chinese officials interviewed by the author stressed that Premier Zhu often used this phrase in internal meetings.
- 15 Joint press conference of the President and Premier Zhu Rongji of the People's Republic of China, the White House Office of Press Secretary, 8 April 1999. Online available at: clinton4.nara.gov/WH/New/html/19990408-1109.html (accessed 12 June 2003).

- 16 Liberals, as Gilpin uses the term, are those who are in favour of the *laissez-faire* policy, ever-expanding, specialized production and trade that promote universal welfare. They believe the free flow of trade, labour and investment among firms and households on the principle of comparative advantage.
- 17 'Chinese Premier Fails Farmers', BBC news, 15 March 2002. Online available at: news.bbc.co.uk/1/hi/business/1874766.stm (accessed 3 May 2003).
- 18 The unemployment situation illustrated by the official statistics is not too bad, considering the unemployment rate increased from 2.9 per cent in 1995 to 3.1 per cent in 1999. But even the government admits that such statistics are misleading. One of the reasons is that the definition of 'unemployment' is very narrow, not including millions of *xiagang* (laid-off) workers. For a detailed analysis of the evolution of China's statistics on unemployment, see Johnston and Li 2002.
- 19 'Xiangang' is different from outright unemployment to the extent that *xiagang* workers maintain some sort of employment contract with their enterprises. In theory, they can return to their posts once their enterprises begin to hire again. However, to the extent that, in reality, there is little possibility that they get re-hired, they are unemployed to all intent and purposes.

4 Elite politics and the WTO accession

- 1 For a thorough discussion of political elite generations in China, see Li (2000).
- 2 Formally, Deng was a member of the Standing Committee of the Politburo until 1987 and the chairman of the Central Military Commission until 1989. Informally, as Zhao Ziyang revealed during his talk with Gorbachev in his 1989 visit to China, there was a secret party resolution to refer major issues to Deng. See *Renmin ribao*, 17 May 1989.
- 3 Chen was also the first secretary of the Central Disciplinary Committee of the CCP between 1978 and 1987.
- 4 'President Jiang Zemin', PBS Online Newshour, 30 October 1997.
- 5 Li stepped down from the premiership and replaced Qiao as the chairman of the NPC, a largely symbolic and arguably powerless body in Chinese political system, while his predecessor, Qiao, was stripped of his party position.
- 6 The most important personnel appointments were the installation of Zeng Qinghong, Jiang's closest personal adviser, as the head of the party's Organization Department, and Zhu Rongji, Jiang's erstwhile co-ruler of the Shanghai municipality in the 1980s, as the Premier. Other key figures include Zeng Peiyan, Jiang's closest economic adviser, as Minister of the State Development and Planning Commission, and Chen Zhili, another former Shanghai colleague, as Minister of Education.
- 7 Before Deng's death, Jiang was already head of the leading small groups on Taiwan and on finance and economics (the latter since handed over to Zhu). Since then, Jiang had replaced Li Peng as head of the leading group on foreign policy. The only group that was apparently outside Jiang's control was the group on political and legal affairs headed by Li Peng's protégé, Luo Gan. See Gilley 1999.
- 8 In China's reform politics, the notion of 'spiritual civilization' was always used to implicitly refer to the orthodox interpretation of the socialist ideology; the 'material civilization' to the economic development.
- 9 The NPC has long been seen as a 'rubber stamp' in that it fails to exert its legislative authority at the mercy of the one-party rule. However, there has been a trend to strengthen NPC's authority under the chairmanship of Qiao Shi and Li Peng, who used its constitutional authority to rival Jiang.
- 10 Author's interview, 5 September 2002, Beijing.

- 11 Zhao Suisheng (1995: 242) identified the relationship between the leadership and the creating of government institutions. 'Since most of the younger generation leaders in post-Mao China have been associated with only one type of work in one bureaucratic sector and lack strong personal influence within the power structure, their authority is often confined to their institutional resources. When such a leader comes into office, he usually creates new institutions that may be used to strengthen his authority. For example, Zhao Ziyang created six high-ranking policy research centres immediately under the State Council while he was Premier.' This is exactly the case of Zhu's transformation of the SEC, where he developed his early career from 1979–87.
- 12 Joint press conference of the President and Premier Zhu Rongji of the People's Republic of China, the White House Office of Press Secretary, 8 April 1999. Online available at: clinton4.nara.gov/WH/New/html/19990408-1109.html (accessed 4 June 2003).
- 13 Ibid.
- 14 For instance, in the area of TCK wheat, China agreed to lift the ban on the exports of wheat from seven US states to China. And China also decided to lift the restriction on the export to China of citrus from four US states. Ibid.
- 15 For a detailed collection of criticisms, see Gries 2001.
- 16 Barshefsky confirmed that 'Jiang Zemin and President Clinton had a number of private conversations in advance of my going out to China.' See 'Online Newshour: Trade Dealer', The Newshour with Jim Lehrer, PBS, 18 November 1999.
- 17 Ibid.
- 18 Ibid.
- 19 Ibid.
- 20 Author's interview, 30 August 2002, Beijing.
- 21 'Online Newshour: Trade Dealer', The Newshour with Jim Lehrer, PBS, 18 November 1999.

5 Bureaucratic politics and WTO accession

- 1 For a detailed discussion on the origins, development, functions and politics of these leading groups, see Hamrin 1992.
- 2 Besides the three tiers of authority discussed here, Lieberthal and Oksenberg (1988) and Lieberthal and Lampton (1992) identified various research institutes under the patronage of political elites as another force in the policy-making process. This may have captured part of the essence under Zhao Ziyang's leadership in the 1980s when he established and relied more on 'in-house' policy research centres. However, the 1990s saw these institutes wane under the Jiang-Zhu regime in which policy research centres were set up within and controlled by the bureaucratic system, and political leaders were more inclined to get policy assessment and recommendation from established institutes whose heads are protégés of the elites. For example, Liu Ji, a close friend of Jiang, was appointed Vice President of the Chinese Academy of Social Sciences.
- 3 As a 1953 regulation 'The Decision on the Central Authorities' Leadership over the Work of the Government' states, 'All the major and important general and specific government policies, and all major questions concerning the government's work, must first be submitted to the central authorities for examination and approval. And only after the relevant decisions or approval given by the central authorities, can major and important general and specific government policies begin to be implemented.' Quoted in Shirk (1992: 63). Note that in Chinese political language, the notion of 'central authorities' refers to the Chinese Communist Party and its institutions, not the central government.

- 4 Author's interview, 29 August 2002, Beijing.
- 5 Pearson (2001) recorded that a March 1998 delegation to Geneva included representatives of MOFTEC, the Ministry of Foreign Affairs, the SDPC, the SETC, the Ministry of Justice, the Ministry of Agriculture and the Ministry of Information Industry. The author's interview also confirms that the personnel size of the Chinese negotiating team had been growing continuously to incorporate more bureaucratic and industrial interests into the external negotiations.
- 6 For example, Wu Jichuan, head of the Ministry of Information Industry (MII), used to be the CEO of China Telecom, the country's biggest telecom. In fact, almost all the top executives at major telecom operators are former MII officials.
- 7 The management of the airlines by the Civil Aviation Administration of China (CAAC) is a good example. CAAC ordered that all the foreign procurement of ticket booking facilities by domestic airlines must be through a company subordinate to CAAC, and the profits from this monopoly went to the Administration to improve its bureaucrats' welfare, see He and Yang (1999).
- 8 Author's interview, 5 September 2002, Beijing.
- 9 Ibid.
- 10 'Tanpan tuiwu laobing Wang Lei yi rushi tanpan' [Veteran Negotiator Wang Lei Recalls the Accession Talks]. Online available at: rich.online.sh.cn/rich/gb/content/2001-11/06/content_236377.htm.
- 11 The SOE reform, which would overhaul the very core of the planning system, also encountered tremendous obstacles within the bureaucracy. Once again, the bureaucratic structure partly contributed to the stalemate. Several macro-economic regulation departments, including the SPC, SETC and the State Commission for Restructuring the Economy, were all responsible for reforming the SOEs. Some of their departmental functions overlapped and time was wasted in coordinating different opinions.
- 12 Author's interviews, 3 September and 5 September 2002, Beijing.
- 13 As a matter of fact, liberalist followers are not restricted within institutions exposed more to the international system. They may find cohorts even in the most protectionist ministries. One interviewee from the MII who was involved in the 1999 talks with the US and a close friend of Long claimed himself a liberal, 'the same as Long'. However, he had to talk 'very tough' on the liberalization of the domestic telecommunications industry according to his mandate.
- 14 The author owes this idea to Associate Professor Wang Yong during personal communication in Beijing in September 2002.
- 15 Author's interview, 29 August 2002, Beijing.
- 16 A speech at the Chinese Academy of Social Sciences in 2000.
- 17 *Huanqiu shibao* [The Global Times], 13 November 2001.
- 18 Author's interview, 29 August 2002, Beijing.
- 19 Ibid.
- 20 Ibid.
- 21 Ibid.
- 22 An immediate effect of the restructuring plan was the removal or downgrading of ministerial heads. Seventeen ministry and commission heads took up vice-head positions and 28 vice-heads of the ministry and commission took up vice-head positions in the bureaus. All together, 400 department heads and vice-heads stepped down from their positions in the State Council. See *Hong Kong Daily News*, 7 January 1999, p. A4, and Chan and Drewry (2001).
- 23 This point was also confirmed by author's interview, 29 August 2002, Beijing.
- 24 According to the author's interview, for example, Wu Jichuan, head of the MII, who was deliberately absent from such meetings and publicly challenged

- MOFTEC's coordination role on the opening of China's telecommunications market, never 'missed' a single meeting after 1999, and has been keeping silent on the relevant issues. However, the MII official interviewed admitted that after 1999, much of the Ministry's opinion was conveyed to the top by personal connections between Wu and Zhu, not on coordination meetings.
- 25 For the latest description of the relationship between MOFTEC and the Leading Group, see the website of MOFTEC. Online available at: www.moftec.gov.cn/moftec_cn/moftecjs/bjgjj/gjs.html (accessed 2 July 2001).
- 26 Author's interview, 23 August 2002, Beijing.

6 Foreign pressures on China's WTO accession

- 1 'Rushi zhi ji Tong Zhiguang zhuyi pobing tanpan' [Tong zhiguang Recalls the Break-through Negotiations at the Time of Accession]. Online available at: rich.online.sh.cn/rich/gb/content/2001-11/06/content_232144.htm.
- 2 Author's interview, 29 August 2002, Beijing.
- 3 See also 'Rushi zhi ji Tong Zhiguang zhuyi pobing tanpan' [Tong zhiguang Recalls the Break-through Negotiations at the Time of Accession]. Online available at: rich.online.sh.cn/rich/gb/content/2001-11/06/content_232144.htm (accessed 24 May 2002).
- 4 Author's interview, 3 September 2002, Beijing.
- 5 'American Interests and the US-China Relationship', address by Secretary Christopher to the Asia Society, The Council on Foreign Relations and the National Committee on US-China Relations, New York, 17 May 1996. Online available at: www.asiasociety.org/speeches/christopher.html (accessed 23 July 2002).
- 6 Ibid.
- 7 Woodward 1997.
- 8 Full text of Premier Zhu Rongji's press conference, March 2000. Online available at: www.chinaembassy.org.au/eng/11006.html (accessed 5 January 2002).
- 9 Author's interview, 3 September 2002, Beijing.
- 10 'Online Newshour: Chinese Opinion', The Newshour with Jim Lehrer, PBS, 23 May 2000.
- 11 Author's interview, 29 August 2002, Beijing.
- 12 Author's interview, 3 September 2002, Beijing.
- 13 Of more than 120 contracting parties, about 45 acceded GATT under Clause 5C, Article 26 of the GATT Chart.
- 14 'Tanpan tuiwu laobing Wang Lei yi rushi tanpan' [Veteran Negotiator Wang Lei Recalls the Accession Talks]. Online available at: rich.online.sh.cn/rich/gb/content/2001-11/06/content_236377.htm.
- 15 The conference was sponsored by the Heritage Foundation, and Chen's remarks can be found at www.heritage.org.
- 16 Statistics by MOFTEC.
- 17 Statistics by Taiwan's Ministry of Economic Affairs.
- 18 'Taiwan Should Enter the WTO - Now', Taiwan Studies Institute, 19 January 2001.
- 19 'WTO: Don't put Politics Above Trade', *Economic Daily News*, 4 November 1999.
- 20 'WTO Entry said Possible after March', *Liberty Times*, 2 November 1999. Online available at: www.taiwanheadlines.gov.tw/19991102/19911102p3.htm (accessed 4 May 2003).
- 21 Letter from President Clinton to Senator Jon Kyl on 31 August 2000. Online available at: www.fapa.org/wto/clinton_kyl831.html (accessed 5 May 2003).
- 22 Letter from President Clinton to Senator Trent Lott on 12 September 2000.

Online available at: www.fapa.org/wto/clinton_lott912.html (accessed 5 May 2003).

- 23 WTO's membership fee is calculated according to the external trade volume of a member economy.
- 24 'Bi taiwan zao rushi, zhonggong jiang fu baiyi yuan renminbi daijia' [China Pays 10 Billion Renminbi for Accession ahead of Taiwan], *Lianhe Newspaper*. Online available at: epochtimes.com/gb/1/11/13/n149000.htm.
- 25 These courses even included language training. Shen Jueren, China's first chief negotiator of GATT resumption, recalled that he was sent by the Chinese government to Geneva to learn French in preparation for later works on documentation. See Yu Donghui (2001).

Conclusion

- 1 Author's interview, 29 August 2002, Beijing.
- 2 The three divisions/bureaus are the WTO Division, the Bureau of Fair Trading, and the Bureau of Information and Consultation.
- 3 'Report on Contemporary China's Income Distribution', Institute of Economics, Chinese Social Science Academy, February 2004.
- 4 A recent encouraging example of the organized articulation of societal interests was the leek growers in Anqiu, Shandong Province. Japan announced that it would impose urgent restriction on the import of Chinese leeks for 200 days from 23 April 2001. While Anqiu had a large share in leek exports to Japan, the local growers organized and sent their representatives to MOFTEC in Beijing to 'express their concern'. See China Youth Daily (12 April 2001).

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