

## ABSTRACT

Title of Document: BARGAINING WITH THE RISING POWER:  
AN ANALYTICAL MODEL OF CHINA'S TRADE  
POLICY-MAKING

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In bilateral trade disputes with China, the US has greater aggregate power and bargaining resources, yet it had uneven success in extracting concessions. The dissertation aims to address this question: Why does American pressure encounter Chinese resistance, different in issue-topics and time period? In order to interpret China's trade policy-making, I build an analytical framework, which integrates three streams of scholarship: (1) Bounded rationality models how China, as a bounded rational player, adjusted behaviors based on its perception in the learning process; (2) The garbage can model studies the Chinese government as organized anarchies and its non-standard operation; and (3) The two-level game theory reveals how China strikes the balance between domestic bargaining and international negotiations. With the assistance of this model, I conduct a detailed case study of the Sino-American negotiations for the 1999 Bilateral Agreement on China's Accession to the World Trade Organization (WTO).

My research reveals that China tended to yield to American threats when the Chinese reform-minded top leaders finished power transition, when trade was perceived as a solution to China's economic problems, and when the US Congress and executive branch united for credible threats. American pressure confronted strong Chinese resistance when the Chinese protectionists and nationalists had leverage so that the political cost of compliance was high for pro-trade officials, and when the Chinese perceived the divide in American commercial interests and the realignment in American political arena on China issue. Moreover, American pressure encountered less Chinese resistance in issue-topics, behind which were a politically weak industry and a ministry. By contrast, American pressure encountered strong resistance in issue-topics, behind which were a politically strong industry and agency created by long-term policy preference.

Upon the case study, I argue that the effectiveness of American threats backed by trade sanctions declined. In bargaining with this rising power, the US should first discern how China perceives its self-interests and build strategic linkage of it to trade liberalization, and then employ the combination of persuasion with appeal to self-interests and tying hands by congressional pressure in bilateral trade negotiations.

**BARGAINING WITH THE RISING POWER:  
AN ANALYTICAL MODEL OF CHINA'S TRADE POLICY-MAKING**

By

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# **Dedication**

*To Mom and Dad*

## **Acknowledgements**

This doctoral dissertation may bear my name, but it is the product of many other minds and hearts that have helped me in my curiosity in American trade politics and foreign policy, in my quest to learn about Chinese bureaucratic politics and decision-making, and in my desire to improve understanding of the English language and broaden my horizons.

I am lucky to have Dr. I. M. Destler as my research advisor, who coached me to accumulate knowledge about American trade politics throughout my stay at the University of Maryland School of Public Policy. In this area his knowledge seems to be unbounded. The excellent and attentive instruction, intellectual mentoring, and generous support that I received from him are the cornerstone of this dissertation and the source of my confidence to advance afterwards.

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Finally, I want to return to where I started. This doctoral dissertation may bear my name, but it is these excellent people listed here, who brought this dissertation to the finish line despite this process has seen difficulty and drawback that the author experienced as a life course of growing. The flaws and faults of this dissertation are mine alone.

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## Acronyms and Abbreviations

CAC	Central Advisory Commission
CMC	CPC Central Committee
COFCO	China National Cereals, Oils and Foodstuffs Corporation
CPC	Communist Party of China
Customs	General Administration of Customs
GATT	General Agreement of Trade Tariffs
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
IPR	Intellectual Property Rights
LDC	Less Developed Country
LSG	Leadership Small Group
MAC	Military Affairs Commission
MFA	Ministry of Foreign Affairs
MOFERT	Ministry of Foreign Economic Relations and Trade (previously, Ministry of Economic Relations with Foreign Countries; later, MOFTEC and Ministry of Commerce)
MOFTEC	Ministry of Foreign Economics and Trade Cooperation (previously, MOFERT; later, Commerce)
MOU	Memorandum of Understanding
NEC	National Economic Council
NPC	National People's Congress
NSA	National Security Advisor
OECD	Organization for Economic Cooperation and Development
PSC	Political Bureau Standing Committee
SEC	State Economic Commission (later, SETC)

SETC	State Economic and Trade Commission (previously, SEC)
SOE	State-owned Enterprise
SPC	State Planning Commission (later, National Development Reform Committee)
USTR	The United States Trade Representative
WTO	World Trade Organization

## Chapter 1: Introduction

Critics of US trade policy alleged that foreign producers and investors enjoyed easy access to the relatively open US market, yet American firms were denied equivalent opportunities overseas. When power and peace sidelined prosperity, low politics was perceived as a way for maximizing the utility of high politics. The ultimate goal of postwar American trade policy was not to achieve maximum US economic advantage, but to facilitate geopolitical goals through openness in a global trading network.<sup>1</sup> But starting from the early 1980s, there was mounting concern in large segments of the US business and policy communities that trade negotiations in the past had not resulted in a balanced or fair outcome. This perception of unfairness led to growing political pressure so that in order to liberalize foreign markets, the US increasingly employed the tactics of retaliatory threats backed by trade sanctions and restriction of foreign opportunities in the US market.

Geopolitical talks served as the prologue to contemporary US-China relations. In the time since President Nixon came down Air Force One and shook hands with Chinese Premier Zhou Enlai and, later, President Carter and Deputy Premier Deng Xiaoping signed accords to normalize bilateral relations, geopolitical goals had superseded economic objectives and predominated in the Sino-American relationship. This changed in the 1990s, after the Tiananmen Square events and the

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<sup>1</sup> I. M. Destler, *American Trade Politics*, (Washington D.C.: Institute of International Economics, 2005) p111.

fall of the Soviet Union. Since then, although geopolitics elements never disappear, the Sino-American relationship has been anchored more and more in economic interests.

As globalization has unfolded, the two nations' economic ties have deepened and become more and more strained. From 1985 through 2010, China's GDP grew at an average rate of 9.94 percent.<sup>2</sup> Chinese goods exports to the U.S. rose even faster: from \$3,861.7M in 1985 to \$364,943.8M in 2010, a total exceeded only by the European Union.<sup>3</sup> At the turn of the millennium, as China's GDP maintained steady growth, the US economy enjoyed a robust growth as well, before suffering from the bursting of the dot-com bubble in 2000 and the financial crisis of 2008. Since then, the closer economic ties have amplified trade friction between the U.S. and China.

In interpreting bilateral trade negotiations, the traditional realist theory emphasizes nations' raw power balances and views that bargaining outcomes reflects states' underlying relative power. One of Robert A. Dahl's great contributions was his definition of power – *A* getting *C* to do what *A* wants. Power application occurs when actor *A* does or does not perform some act of exerting pressure, such as threats, inducement, or persuasion, and the recipient *C* does or does not act in response. While acknowledging the distinctions among a state's power, influence, pressure, demand, control, etc., I use these terms interchangeably,

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<sup>2</sup> National Bureau of Statistics of China. *China Statistic Year Book*.  
<http://www.stats.gov.cn/tjsj/ndsj/2009/indexch.htm>

<sup>3</sup> US trade in goods with China: <http://www.census.gov/foreign-trade/balance/c5700.html>. The figures are on a nominal basis, not seasonally adjusted.

as in Robert A. Dahl's *The Concept of Power*,<sup>4</sup> to decode the Chinese decision-making in receiving American power in the Sino-American trade negotiation, and to reflect on US power application.

Although the US has greater aggregate power and bargaining resources in bilateral trade disputes, it had uneven success in extracting concessions from its trading partners through the use of coercive strategies. Comparing with Japan, China had higher dependence on the US market for its exports, and its raw power should have put it in a more disadvantaged position vis-à-vis the US. However, American threatening of trade sanctions worked less well with China. The degree to which these two target countries yield to American demands varied in ways that cannot be completely explained by their difference in raw power. When we look at the disparity in bargaining power only on the Sino-American negotiation table, American sanction threats against China worked more effectively in the first half of 1990s, and their effectiveness declined in the second half. Raw power fails to fully explain the outcome of trade negotiations.

Political scientists have searched for explanation. Some have looked to a country's dependence on the US export market to interpret their resistance to American threats, but the research pointed out that countries like Japan, whose exports are less dependent on the American market, turned out to be less resistant to American threats. By contrast, countries such as China, which are heavily

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<sup>4</sup> Robert A. Dahl, *The Concept of Power*, *Behavior Science*, 2:3 (July, 1957): 201-04.



dependent on the US market for their exports, have shown more resistance to American sanction threats.<sup>5</sup>

Others have tried to explain it with the structure of trade. If two countries produce a similar set of commodities, and either can easily replace imported commodities with similar domestic products, these two countries have a competitive trade structure. Thereby, it is more likely that countries such as the US and Japan, the US and the EU, incur trade friction. By contrast, when two countries specialize in different commodities in which they have strong comparative advantage, they have a complementary trade relationship. Thereby, it is less likely that they incur trade friction between the US and China.<sup>6</sup>

The structure of trade still cannot fully explain the resistance in trade, though it presents some explanatory power. While the structure of trade between the US and China appeared consistent through the 1990s, China was less resistant to American demands in early 1990s and more resistant later. To follow the logic of structure of trade, China had low productivity in machine-making and agricultural production in 1990s and should have yielded to American pressures on both issue-topic equally easily. Nevertheless, China demonstrated much stronger resistance on automobiles than agriculture.

For American trade dispute diplomacy, China has become one of the most challenging states. The recent history of U.S. – China trade negotiations has involved

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<sup>5</sup> See Thomas O. Bayand and Kimberly Ann Elliot, *Reciprocity and Retaliation in U.S. Trade Policy*, (Washington D.C.: Institute for International Economics), pp355-67.

<sup>6</sup> Ka Zeng, *Trade Threats, Trade Wars: Bargaining, Retaliation, and American Coercive Diplomacy* (Ann Arbor: The University of Michigan Press), 2004.

the application of strong American pressure in the form of criticism and threats against China, in an effort to bring about policy change in a range of areas. However, the inconsistent results of these trade talks give rise to questions about the efficacy of American pressure on China. In early 1990s, Washington's attempts to threaten China with trade sanctions for unilateral concessions had gain some success, but this strategy had by and large failed later. They either gained nominal success with lack of implementation afterwards, or induced counter-retaliation, rather than concessions, until American negotiators achieved the final success in 1999. This dissertation aims to address this question: *Why does American pressure encounter Chinese resistance, different in issue-topics and time period?*

To Americans, China's policymaking is a holistic black box, and so is Chinese decision-making in trade policy. Prior to the Sino-American agreement on China's accession to the WTO of 1999, the US encountered considerable difficulties in its effort to open up the Chinese market. The bilateral trade negotiation for this agreement occurred when China's economy became a large export-driven economic entity and astounded the international community with its high growth rate. What paralleled the bilateral talks was that China steered away from the era of political monopoly, when icons such as Mao and Deng were able to exercise singular authority, into an epoch of more collective decision-making within the central government. This bilateral negotiation serves as grist for a more general investigation to study China's trade policy-making and to understand China's resistance to American demands.

To study governmental behaviors, Dr. Graham T. Allison successfully built a set of conceptual models – a combination of the Rational Policy Model, the Organizational Process Model, and the Bureaucratic Politics Model – and applied it to the Cuban Missile Crisis. These have become perhaps the most classic decision-making models in the study of public policy and provide the fundamental assumptions and categories that policy analysts employ in thinking about governmental behaviors. Nevertheless, the constraints of the set of models limit its explanatory power.

The model shows explanatory power in the Cuban Missile Crisis. Where “situations cannot be construed as standard, ... [O]rganizational search for alternative courses of action is problem-oriented.”<sup>7</sup> When a non-standard situation does not occur in the context of imminent crisis, decision-making may not follow Allison’s models because problems and solutions may have equal status.<sup>8</sup> Rationality, as an assumption, appears not only in the conventional descriptive model of rational choice, but implicitly in his other two models. In variants of the rational policy model, a unified government actor faces external as well as internal constraints when it conducts a power calculation. Organizational outputs, as the outcome from organizational process model, function as one of the elements that structure the situation for power calculation in the rational policy model. Assumptions of rationality and non-rationality coexist in models of the international

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<sup>7</sup> Allison, “Conceptual Models and the Cuban Missile Crisis,” *American Political Science Review*, Vol 63, Issue 03 (September 1969): 701.

<sup>8</sup> John W. Kingdon, *Agendas, Alternatives, and Public Policies*. (Boston and Toronto: Little, Brown and Company, 1984): 89-94. Michael D. Cohen, James G. March, Johan P. Olsen, “A Garbage Can Model of Organizational Choice,” *Administrative Science Quarterly*, Vol. 17, No. 1 (March, 1972), pp. 1-25.

system.<sup>9</sup> Domestic causes and international effects lay out only one-sided analysis, we should also study international causes and domestic effects.<sup>10</sup>

To study the Chinese decision-making in trade policy and analyze its response to American pressure, I build an analytical framework based on the structure of Dr. Graham T. Allison's models and incorporate advances in relevant disciplines in order to achieve a synergistic effect on their explanatory power in analyzing governmental behaviors. I extend the application of the models from interpretations of national security crises to an analysis of an enduring economic relationship and multiple-round negotiations. When I apply it to bilateral negotiation for the 1999 agreement, I also look at factors beyond raw power, dependence on the American export market, and the structure of trade in order to study the variations in the effectiveness of American pressure tactics.

I must acknowledge that the use of a detailed case study has its limitations. There is no such thing as a typical case. This makes it difficult to draw general conclusions that may be relevant to a broader class of trade negotiations and disputes between the US and other countries. Although the sample is small, the multiple rounds of threats, counter-retaliation, concessions, and relevant domestic political dynamics in China facilitate my findings in some common themes in the framework and help understand a developing country's decision making. I also need to acknowledge the existence of implicit threats sent by the USTR (for example, Ambassador Barshefsky's taxi tactics). They apparently have some deterrent effect

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<sup>9</sup> Sidney Verba, "Assumptions of Rationality and Non-Rationality in Models of the International System," *World Politics*, Vol. 14, No. 1, The International System: Theoretical Essays (October, 1961): 93-117.

<sup>10</sup> Putnam, *Diplomacy and Domestic Politics: The Logic of Two-level Games*, 427-33.

on the bilateral negotiating table, but here I focus on the major strategy adopted on the table.

With a name list made at the time of document review, my interviews started with Chinese scholars who either actively studied the WTO regulations or worked as consultant with trade agencies, mainly those at University of International Business and Economics' WTO Center in Beijing. By snowball sampling, I have talked to many Chinese participants in the negotiation and benefited greatly from talking to those retiree officials who worked with Ministry of Foreign Economics and Trade Cooperation (MOFTEC), General Administration of Customs, and State Economics and Trade Commission (SETC) in 1990s and work at the WTO Center, Boao Forum for Asia, or in private practice at present. During my two field trips to China, I had 23 Chinese interviewees, conducted more than one interview with some of them, participated in trade policy seminars upon invitation for group discussion, and engaged in very inspiring discussions about China's decision structure with researchers and local observers who are not listed as my interviewees because their main specialties are not trade and the discussions were carried out in an informal way. To get a balanced viewpoint, I also conducted 10 interviews in the US, mainly in Washington D.C., including high officials at the USTR, such as Ambassador Charlene Barshefsky, the National Security Council, Department of Agriculture, etc. and head persons with trade associations.

The weakness of my interviews was that with limited time and funding to spend for my field trips, I could not cover as many Chinese interviewees holding

different political ideologies and different positions as I wished. After the WTO entry, the Chinese economy experienced phenomenal growth. This makes people, who worked with industrial ministries and questioned about the WTO accession, feel reluctant to receive an interview. I selected the automobile case for further discussion because it has become an open debate recently in Chinese media that major auto companies have not achieved real advancement in core technology after the WTO accession. People are freer to talk about the decision-making in this issue-topic at the WTO negotiation.

The fact that my research is on historical rather than current negotiations made some officials less reticent in discussing them, but not all. Most gave straightforward answers and made good comments, but a few interviewees took this chance to denounce a foreign government or put forward their own political cause. In the process of analyzing interview data, I used data of this kind to support or refute other observation (for example, Zhu had a weakened political base in the State Council), rather than taking them at face value.

Based on data collected from document review and interviews, I apply the analytical framework to the case of China's trade policy-making in the process of Sino-American negotiation for China's WTO entry. Here I proceed to discuss the plan of this dissertation. The discussion in *Chapter II* begins with a review of major models for Chinese politics and a look at the study of China's foreign trade policy-making as paddling in two rivers, Chinese politics under Sinology and the study of international relations. I agree with Dr. Harry Harding's calling for a single,

composite model for the Chinese politics and also concur with Dr. Alastair Iain Johnston's opinion that Chinese foreign policy should be integrated into the study of international relations. Given that Dr. Graham Allison's models have been widely used to analyze American government's foreign policy-making, I employ their structure, incorporate advancement in relevant disciplines, and build an analytical framework to analyze the Chinese governmental behavior. This analytical framework, as a combination of Bounded Rationality, Garbage Can Model, and Two-level Game Theory, lays the foundation for the following chapters.

*Chapter III* divides the bilateral negotiation of more than 15 years into three stages, from beginning to 1989, from 1990 to 1994, and from 1995 to 1999, and gives a chronological analysis of each. Against the backdrop of the changing international stage, the US changed its demands in the Sino-American trade negotiation. In response, China acted as a bounded rational player with limited information and understanding, conducted calculation of how to respond to the American power, and made decisions whether to yield to American pressure as a matter of expediency, counter-retaliate American threats, or make real concessions. In this chapter, China is treated as a unitary actor; American politics, American commercial interests and other international players are all treated as exogenous factors.

The impact of decision structure on China's decision making in its WTO accession has not been studied yet. *Chapter IV* starts with description of the Chinese government system and interprets the sources of authority to make trade policy and

decisions on trade negotiations. This chapter features detailed presentation of institutions, processes, and stages of the domestic negotiations for WTO entry. My original discovery is the three-tier decision structure, which helps not just understand how the Chinese government addressed the WTO accession, but also how it operates more generally. I also draw on this to describe the leadership small group (LSG), which is mysterious to Western scholars. Since regulations to write about it were loosened in recent years, a few relevant reports about it have been released. By examining LSG and its operation, I intend to unveil this format of collective leadership and explain its role in China's decision structure, for the WTO accession and in a more general sense.

While presenting the decision structure, I show the unequal bargaining power between ministries and commissions and power balance between the top leadership and bureaucrats, and list established rules of domestic bargaining relevant to the WTO case. After laying sufficient foundation of Chinese government institutions and processes, I employ Garbage Can Model, as a substitute for organizational process model, to study the Chinese trade policy-making as outputs of the institutional functioning.

With the lens of two-level game theory, *Chapter V* reviews the impact of the Chinese succession politics on its decisions about economic reform and open-door policy, as part of which the WTO accession was regarded. It looks at the bureaucratic politics and the contest between factions on the Chinese domestic bargaining table. After the Chinese president consolidated power as first among his



equals in the collective leadership, and the Chinese premier switched his interest on to the WTO case, the bilateral negotiation strode to success. Although what happened on the international negotiating table did not affect the reshuffling at the top leadership in China, those Chinese officials, the USTR's counterparts, were empowered and weakened by the international negotiation when they turned around and bargained with their domestic colleagues.

*Chapter VI* summarizes the findings with these three conceptual lenses and compares the US power application and the Chinese reaction in different stages of bilateral negotiation. In compiling the occurrences from three difference cuts about the Chinese decision-making on its GATT/WTO accession, this chapter presents explanation for Chinese counter-retaliation or concession in receiving the American power. Reflecting on the American power application, it argues that retaliatory threats had achievements as well as limitations, and that the third stage of bilateral negotiation witnessed the decline of their effectiveness. I argue that American trade negotiators succeeded in sealing the deal when they persuaded the Chinese leadership by appealing to its self-interest and tied their own hands by congressional pressure.

Hence, I summarize the conclusions and recommendation that in bargaining with China, a rising power, the US should continue to pursue aggressive unilateralism within the WTO's purview, which will empower the Chinese trade negotiators on the domestic bargaining table because they can argue for enforcement of international rules. The US should also consider the combination of

persuasion with appeal to self-interests and tying hands by congressional pressure because the effectiveness of retaliatory threats with trade sanctions has declined. To discern how China perceives its self-interests and build strategic linkage of it to trade liberalization, the analytical framework should facilitate our understanding of China as a bounded rational player, provide clear analysis of influential bureaucrats and organizations in the decision structure in favor of change and their policy preferences, and apprehend causes and consequences of these impediments in the Chinese bureaucracy.

## **Chapter 2: The Making of Chinese Foreign Trade Policy: Chinese WTO Bid**

Although the difference in raw power has put China into a more disadvantaged position relative to the US, Chinese exports heavily relied on the US market, China's resistance to American pressure in trade diplomacy appeared to be inconsistent while the structure of trade between these two countries maintained the same through the 1990s. In order to apprehend why American pressure encounters Chinese resistance, which was inconsistent across time periods and different in issue-topics, this thesis looks at the Chinese decision-making in foreign trade policy in response to American demands.

This chapter begins with a review about models developed in the study of Chinese politics, and goes on to discuss that the study of China's foreign trade policy-making is interdisciplinary research relevant to the Chinese politics under Sinology and the study of international relations. Echoing Dr. Harry Harding's call for one composite model for the Chinese politics and Dr. Alastair Iain Johnston's comment that Chinese foreign policy should be integrated into the study of international relations, I build an analytical framework with three primary cuts to interpret the Chinese policy-making in foreign trade.

This analytical framework, built on the structure of Dr. Graham Allison's models, has incorporated advancement in relevant disciplines. I substitute the classic combination of Rationality Model, Organizational Process Model, and Bureaucratic Politics Model with a new set composed of Bounded Rationality,

Garbage Can Model, and Two-level Game Theory. This new combination of these conceptual models provides the structural foundation for the dissertation as well as three primary cuts to analyze China's foreign trade policy-making during the Sino-American trade negotiations.

## **Models for Chinese Politics**

For decades, American scholars have been trying to open the black box of Chinese decision-making and to attain sufficient understanding of the Chinese Communist political process. Generations of research on China have proffered various models, all of which facilitate our understanding on the Chinese decision-making in different policy arena and in different times. Models vary from some that attribute the Chinese politics to decisions of a changing Mao Zedong;<sup>11</sup> to others that look into either norms and rules, based on Chinese Communist doctrines,<sup>12</sup> or tensions and struggles between two groups of politicians holding Communist political philosophy at the two ends of Chinese political spectrum,<sup>13</sup> such as conservatives vs. radicals in 1960s and reformers vs. conservatives in 1980s and correspondingly their policy preferences; and to others that emphasize either

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<sup>11</sup> Michel Oksenberg, "Policy-Making Under Mao, 1949-68: An Overview," in John M.H. Lindbeck (ed.), *China: Management of a Revolutionary Society* (Seattle: University of Washington Press, 1971), pp. 79-115; and Frederick C. Teiwes, "Chinese Politics, 1949-1965: A Changing Mao," *Current Scene*, XII:1 (January 1974), pp. 1-15; and *Current Scene*, XII:2 (February 1974), pp. 1-18.

<sup>12</sup> John W. Lewis, *Leadership in Communist China* (Ithaca: Cornell University Press, 1963); and Frederick C. Teiwes, "The 'Rules of Game' in Chinese Politics," *Problems of Communism*, XXVIII: 5-6 (September-December 1979), pp. 67-76.

<sup>13</sup> Michel Oksenberg and Steven Goldstein, "The Chinese Political Spectrum," *Problems of Communism*, XXIII:2 (March-April 1974), pp. 1-13

competition among different generations of Chinese Communist leaders,<sup>14</sup> or and conflicts between different patronage networks.<sup>15</sup>

In his *Competing Models of The Chinese Communist Policy Process*, Dr. Harry Harding sorted out all these models. He selected three influential categories for evaluation: tendency models, bureaucratic models, and factional models. After examining these three major models and comparing them in pairs, he argued, "It is unwise to attempt to choose one model at the expense of all others," and concluded that in many ways, "the models are complementary, rather than competitive or mutually exclusive."<sup>16</sup> Chinese politics, like politics in many nations of the world, do not display full range of characteristics that one would predict if any one of these models was the only force at work in shaping the politics of China. To Dr. Harding's credit, he is very correct by suggesting that students of Chinese politics view these models as depictions of different aspects of the same phenomena, which can be synthesized.

Actually, these models share the general propensities of Chinese bureaucratic politics, if we could look at the influence of the Party and its factions on the state affairs as another factor affecting bureaucratic decision-making. Tendency models employ a single underlying political philosophical dispute with a high level of abstraction to define the groups of decisional participants and reflect the political

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<sup>14</sup> Michael Yahuda, "Political Generations in China," *The China Quarterly*, Vol. 80 (December, 1979), pp. 793-805.

<sup>15</sup> Andrew Nathan, "A Factional Model for Chinese Politics," *The China Quarterly*, Vol. 53 (January-March 1973), pp. 34-66.

<sup>16</sup> Harry Harding, "Competing Models of The Chinese Communist Policy Process," *Issues and Studies*, February 1984.

conflicts between competing political philosophies and between competing politicians. In various periods of time, the Chinese Communists developed the pattern to interpret political struggles with two competing schools of thought, such as proletarian or revolutionary vs. bourgeois during the Cultural Revolution in the 1960s and 1970s and reformers vs. conservatives after China implemented its economic openness policy in the 1980s. In fact, when a political message that falls into the common pattern of a two-line struggle, is sent out by Chinese propaganda, it is usually used as a tool for competing leaders to mobilize mass support among the general public and as a mechanism to test their subordinates' loyalty and force them to choose sides.<sup>17</sup>

Models of this category help distinguish opinion clusters and policy preferences, yet their explanatory power lies in their close association with the two-line struggle pattern, which are *per se* conflicts and coalition within bureaucratic politics. Only when internal negotiation and coordination come to an impasse would a bureaucratic problem ascend to a party issue.<sup>18</sup> An internal bargaining deadlock in bureaucracy would evolve into political philosophical dispute between two groups of politicians inside the Party. At this time, loyalty to some patronage networks would be used to achieve political outcome and to form coalition for policy preference.

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<sup>17</sup> Tang Tsou, "Prologomena to the Study of Informal Groups in CCP Politics," *The China Quarterly*, Vol. 65 (March 1976), pp. 98-114.

<sup>18</sup> This comment was inspired by discussion with Dr. Xu Xianglin, professor at Peking University School of Government.

For centuries, Chinese politics has been bureaucratic in nature. The politics of Chinese Communist Party and its party faction has become another feature since last century. Andrew Nathan began employing patronage networks within the Chinese Communist leadership to describe the Chinese politics.<sup>19</sup> In factional models, policy provides the rhetorical vocabulary with which leaders mobilize legitimacy for their factions, and with which followers signal their support for one of the contending factions at higher level.

The factional models are appealing because they fit well with *guanxi* (connection). *Guanxi* has been connected to anecdotes and stories about nepotism and family feuds back to the birth of CPC, so it is a word that sounds mysterious and powerful to Westerners. The interpretation of Chinese Communist politics as being personalistic is always valid, as is true for parties and politics in other countries. However, as the CPC has been ruling for decades, its institutionalization has been playing more and more important role in government decision-making. Loyalties to patronage networks inside the Party are tapped only after bureaucratic coordination proves to be futile<sup>20</sup> or when a major issue about power balance and succession is under negotiation.

Both bureaucratic models and structural models point students of Chinese politics to organizations and institutions where policy is made; financial resources are competed for; authorities are allocated and balanced; and power is shared and

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<sup>19</sup> Andrew Nathan, "A Factional Model for Chinese Politics," 34-66.

<sup>20</sup> I'll use another chapter to explain the structural design of CPC's bureaucracy. It will explain how structurally Party influences bureaucracy.

negotiated for. In a major bargaining and decision-making arena, such as the central work conference, bureaucratic agencies take different position or form coalitions on major policy issues through their representatives to the conference, such as ministers.

In the Chinese bureaucratic system, a leader's opinions on major issues may be shaped by the particular perspectives and priorities of his agency where he currently sits on his own "baggage" that he brings to the post. He juggles these two, which may not stand in line with each other all the time, when he climbs up the hierarchy ladder. At the same time, this leader competes for greater prestige, and financial resources for his agency and higher position and power for himself in the Party. He also shoulders the responsibility to express, to some degree, the interests of various social constituencies – for instance, in 1990s, Ministry of Machine-Building to automobile companies and their employees – outside the bureaucracy, who are under the supervision of his agency or whose cooperation or compliance is important to the successful performance of his agency.

The division and relationship between the Party and the state is a special feature of this single-party state. Since mid-1980s, especially at and after the 13<sup>th</sup> National Congress of the Chinese Communist Party, it has been widely recognized that there should be a division of labor between the Party and the government in governing the nation. The influence of party over the state affairs has been gradually institutionalized in bureaucratic politics, as explained in Chapter IV. To analyze the Chinese policy-making, I would propose that the key is the general



propensities of Chinese bureaucratic politics, which has a close association with the structure of government, and that we should look at the influence of the Party and its factions on the state affairs as a special factor affecting bureaucratic decision-making.

I agree with Dr. Harding that each of these models describes some features of the Chinese politics and has explanatory power for some decision-making or at some times, and that they are not mutually exclusive, and can be complementary to each other. Actually, these models look more like factors, which explain part of the Chinese Communist bureaucratic politics, rather than a function or model. After commenting on the development of a large number of models, “which purported to provide generalized descriptions and explanations of the Chinese Communist political process”, Dr. Harding correctly proposed the reduction of the number of models to “more manageable proportions.”<sup>21</sup> He also called on for a single composite model for the Chinese politics. Searching for an effective and parsimonious model, I turn to the scholarship of international relations.

## **Chinese Foreign Policy and International Relations**

Writing a thesis about China’s foreign trade policy-making is like paddling in two rivers; one is called study of Chinese politics under Sinology, and the other study of international relations. For years, Chinese foreign policy making has been

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<sup>21</sup> Harry Harding, “Competing Models of The Chinese Communist Policy Process.”

isolated from the study of international relations because it is perceived as adjunct to Chinese studies, an area studies. On one hand, some scholars endeavor to discover variables, which may feature the Chinese history, culture, identity, ideology, etc. to shed light on its difference from the West; on the other hand, they reject application of concepts, models, and methods, the conventional wisdom in the field of international relations, to study Chinese foreign policy.

Although variables, which are or can be traced to history, ideology, culture and so on, have relative explanatory power, they should be downplayed in understanding Chinese foreign policy making. Michael Ng-Quinn looked at variables of this kind as secondary for understanding the formation of alliance between countries against a dominant power.<sup>22</sup> John Gittings believed that short-term economic or security interests could trump ideology.<sup>23</sup> When the Soviet troops along the Sino-Soviet border became a growing security threat and the dispute escalated to military clashes in Damansky Island in 1969, China's top leadership was more and more interested in resuming the economic and cultural ties with the US, not only for China to acquire advanced American equipment, as well as similar technology from American allies in Western Europe and Japan, but also to form a united front against the Soviet expansion. The ensuing rapprochement between the US and China surprised the world. In this case, ideological divergence appears to be easily overcome for Chinese decision makers in the face of imminent economic and

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<sup>22</sup> Michael Ng-Quinn, "International Systemic Constraints on Chinese Foreign Policy," in *China and the World: Chinese Foreign Policy Faces The New Millennium*, ed. Samuel S. Kim, (Boulder: Westview Press, 1984) p. 95-103.

<sup>23</sup> John Gittings, "The Great Power Triangle and Chinese Foreign Policy," *The China Quarterly*, Vol. 39 (September 1969): pp. 42-43.

security interest. In Chinese foreign policy making, variables of this category have secondary explanatory power and should be downplayed.

It is the conventional wisdom that the Chinese politics study is a subfield of Sinology, which belongs to area studies. Scholars, like Alastair Iain Johnston, argue against the divorce of the Chinese foreign policy from the rest of international relations and for a reunion between these two.<sup>24</sup> He asserted that Chinese foreign policy could benefit from incorporating more of the concepts, empirical indicators, and methods used in international relations, and in turn, it would contribute to the development of international relations studies. “If one looks back at the field through the lenses of IR theory today, it becomes clear that there has been a theoretical richness.”<sup>25</sup>

Chinese foreign policy should be more integrated into the international relations discipline, not only because this country comes back to the international stage as a rising, major power, but mainly because Chinese decision-makers bear similarities to their counterparts of other countries in various kinds of foreign policy making. Policy trade-offs are an example. In front of competing “national interests,” regime security as an alternative, and other interests such as economic development, national status or image as another option, the latter trumps the former at times. From 1985 to 1987, Deng Xiaoping carried out the disarmament for economic development. In 1998, Jiang Zemin and Zhu Rongji completely banned military-

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<sup>24</sup> Alastair Iain Johnston, “Trends in Theory and Method in the Study of Chinese Foreign Policy,” Paper presented at the conference on China Studies on the occasion of the 50<sup>th</sup> Anniversary of the Fairbank Center for East Asian Research (December 2005).

<sup>25</sup> *Ibid.*

owned enterprises and issued the order that the military and the public security organs, etc. should no longer engage in any business activities. Although it is believed that the Communist leadership prioritizes regime security over economic growth (because the reverse would produce internal social effect and threaten the regime), these trade-offs happened when they endeavored to integrate China into the global economy. In terms of this question of policy trade-offs, Chinese decision makers are not different from leaders in many countries.

Therefore, the conventional wisdom – the Chinese foreign policy is considered as part of Sinology, and the theories and models of IR are rejected to apply to the Chinese politics – might need to be reconsidered. Graham Allison’s analytic paradigm, for example, was developed from and applied to the Kennedy Administration’s decision-making in the Cuba Missile Crisis. It is a bundle of models: the Rational Policy Model, the Organizational Process Model, and the Bureaucratic Politics Model. Allison’s model was rejected by J.D. Armstrong in studying the Chinese government decision-making because it did not talk about a crucial variable, ideology.<sup>26</sup> At least, the first two models, rational policy model and organizational process model, cannot distinguish between a foreign policy influenced by ideology and one not influenced by ideology.

The theories and models in international relations develop from cases on the foreign policy of the US or European states, and most of this literature focuses on the West. As matter of fact, each of western countries has its own special features.

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<sup>26</sup> James David Armstrong, *Revolutionary Diplomacy: Chinese Foreign Policy and the United Front Doctrine*. (Berkeley: University of California Press, 1977), 7-8.

These special features did not restrain model construction or broader generalization, and neither should the special features of China.

As argued *supra*, Chinese decision makers are not that different from their equals in other countries in foreign policy, and the conventional wisdom in this discipline can be applied when we acquire more and more understanding about the Chinese government. When I argue that the foreign policy making in China share similarity to other countries, that is not to say that we should ignore the differences, its ideology, history, culture, and so on. Variables of this kind, such as ideology, have explanatory power in Chinese foreign policy making, but it is problematic to attach too much weight to these variables.

The objective of this chapter is to identify variables that may affect decision-making in China, in order to facilitate the dissertation's discussion about the application of American power to China's trade policy. When I argue for convergence between the Chinese foreign policy and the study of international relations, I would like to apply one of the most classic models for government foreign policy making to the Chinese decision, by experiment. At the same time, I would also make modification to enhance its explanatory power.

### **To Shoot a Moving Target on Two Rivers**

The objective of this chapter is to identify variables that may affect decision-making in China and to facilitate the dissertation discussion about the application of

American power to the Chinese trade policy. As an interdisciplinary study, the Chinese foreign policy can be conceived as part of Chinese politics under Sinology and, at the same time, as part of the study of international relations. The changes in Chinese economy and politics, especially the dynamic relationship between the state and the party, give the students of Chinese foreign policy a moving target on these two rivers. In front of competing models for the Chinese politics, Frederick Teiwes suggested a sequential approach,<sup>27</sup> which is selecting appropriate models according to the periods under study. However, we can see some variables, for example the factionalism within the bureaucracy and the Party system, appear over time in all the periods. In this chapter, I attempt to implement a scheme of transdisciplinarity, applying the classic model in international relations to the study of Chinese foreign policy making, which has been regarded as a branch of Sinology.

As Andrew Nathan said, "Models are pure, but systems are mixed."<sup>28</sup> Given the remarkable changes in China in the twentieth century, no single model has sufficed for the task of revealing both general and specific propensities of Chinese decision-making. After proposing reducing the number of models, Dr. Harding suggested a single composite model which should reflect the general propositions: Chinese leaders are motivated by a combination of power considerations and policy concerns; Chinese state and Party have substantial autonomy from Chinese society; Chinese leaders may form enduring coalitions with each other on the basis of a shared commitment to basic political values and socio-economic programs, or

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<sup>27</sup> Frederick C. Teiwes, "The 'Rules of Game' in Chinese Politics," pp. 67-76.

<sup>28</sup> Andrew Nathan, "A Factional Model for Chinese Politics," pp. 34-66

tendencies, or short-term alliances for the pursuit of particular goals; their bases of power are both formal and informal; and they are cross-pressured by competing demands from different elements in their power bases – bureaucratic interests are particularly important in consideration of routine policy matters; factional considerations, in times of consideration of personnel matters; and societal interests, at times of intense leadership conflict.<sup>29</sup>

When we look at Dr. Harding’s list about general propositions of a single composite model, many of these general propensities are not special characteristics of this one-party government. All the features, such as the Chinese culture, political tradition, the history of society and state, and the Communist regime, make this country appear mysterious. As a matter of fact, the relationship between the state and the party is its own specific propensities. Nevertheless, the CPC has configured itself from an opposition party for revolution to a ruling party that manages state affairs, and also pulls efforts to separate party affairs from government operation, to some extent. Ruling of more than half century has shaped its governmental operation, which shares some general propensities with other governments under different regimes.<sup>30</sup>

Government leaders sit on top of a constellation of loosely allied organizations; they cut up problems and parcel them out to various organizations; organizations have established programs and repertoire and develop relatively stable propensities concerning priorities and perceptions about issues; issues

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<sup>29</sup> Harry Harding, “Competing Models of The Chinese Communist Policy Process.”

<sup>30</sup> This paragraph was inspired by my discussion with Dr. Xu Xianglin in Beijing and that with Amb. Susan Schwab in Washington D.C.

gradually move up from the bottom of the hierarchy when agreement between agencies cannot be reached. When more than one organization is involved in policy-making, policy is not just organizational output, but also outcome of bureaucratic politics. When a policy is competing for priority in the agenda, both bureaucratic politics and the viability of ruling party emerge in the picture.

Searching for a model with these propositions to aid the study of Chinese foreign policy, I walk across the river of Sinology, and get my feet wet in the river of international relations. Graham Allison's analytic paradigm is perhaps the most important model in policy studies; it explicitly displays what have been implicitly employed when conducting policy analysis on governmental behavior. The Allison paradigm is a combination of the Rational Policy Model, the Organizational Process Model, and the Bureaucratic Politics Model. One of the great contributions is its clear-cut offering of these three angles to look into the black box of government decision-making.

The rational policy model shows how the purposive acts of a unified national government are reasonable as value-maximizing choices, given the strategic problems that it faces. The organizational process model proceeds to open the black box and look within the unitary actor. It proposes that a nation's behavior is the output of organizational repertoires and routines, featuring quasi-independence, and that a nation's standard operating procedures facilitate and constrain decision-making. The bureaucratic politics model reveals the role of sub-games within



governments in policy outcomes. Internal bargains include compromise, coalition, competition, and confusion among government officials.

The Allison paradigm was considered inappropriate for the Chinese politics because it did not address ideology. However, after reviewing the models of Chinese politics and discussing the relationship between Chinese foreign policy and international relations, I believe that the Allison model can be applied to the Chinese decision-making in foreign policy. As discussed *supra*, disputes between competing political philosophies usually come after an internal bargaining deadlock in bureaucracy; ideological disputes are often used to test subordinates' loyalty and force them to choose sides. In Chinese politics, ideology conflict is part of bureaucratic politics, as well as the competition between factions of the Party. Variables, such as ideology, culture, should be secondary in interpreting Chinese foreign policy. An effective model should grasp the general propensities of the Chinese policy-making, which it shares with other ruling governments.

I agree with Dr. Harding's proposal that the need is to reduce the number of models to "more manageable proportions."<sup>31</sup> This piece of writing has no intention to add another model to the legion of models on Chinese politics. To analyze the making of Chinese foreign Trade policy, I would like to employ Graham Allison's analytic paradigm, which is actually a bundle of models – the Rational Policy Model, the Organizational Process Model, and the Bureaucratic Politics Model. I would rely on the structure of Dr. Allison's policy analysis models and modify it by addressing

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<sup>31</sup> Harry Harding, "Competing Models of The Chinese Communist Policy Process."

general and special properties of Chinese policy-making. In doing so, I salute Dr. Allison for his classic works on government decision making, Dr. Harding who suggested that these variables of Chinese politics – which are not competitive or mutually exclusive – can be synthesized into one composite model, and Dr. Johnston who argued that Chinese foreign policy should be a subfield of the study of International relations.

Staying within Dr. Allison's structure of models, my theoretic framework lies at the intersection of three streams of scholarship. First, it discusses the explanatory power of Rational Choice theory on decision-making in trade negotiations between the U.S. and China and introduces Bounded Rationality, which compensates for the limitations of pure Rationality. Second, it discusses the institutional approach, based on a comparative study of the Organizational Process Model and the Garbage Can Model, in terms of their application to U.S. – China negotiations. Finally, it discusses the bureaucratic school's Politics Model, including the Two-level Game Theory Model, and attempts to go beyond static models and consider dynamic models.

The advancement in relevant research after Allison's interdisciplinary offering of his policy analysis models permits a fuller perspective to study decision making in foreign policy. Building this theoretic framework on the structure of Dr. Graham T. Allison's models, I would like to revise the model by incorporating advances in relevant disciplines, achieve a synergistic effect on their explanatory power, and see the successful application of a model in international relations to the

studies of Chinese politics. By constructing this framework with an eye on U.S. – China trade bargaining, I intend to extend the application of the models from interpretations of national security crises to an analysis of an enduring economic relationship and multiple-round negotiations.

### **Rationality vs. Bounded Rationality**

With the pure rationality model, the research on China issues may fall into the pitfalls of ignoring the distinction between the question of how China is to behave rationally given its limitations, and the question of the rationality of China's action from the American perspective. Since the latter is not the purpose of this paper, the idiosyncrasies of the player should be attended to. To study how China acts rationally given its limitations, I argue for the replacement of pure rational model with bounded rationality.

Rationality, as Allison claimed, has been implied in most policy analysis works,<sup>32</sup> and as Schelling argued, is the assumption of the foundation of a theory of strategy.<sup>33</sup> To capture the characteristics of rationality in public policy analysis, Allison exhibited a set of assumptions for his rational policy model: (1) what must be explained is an action; (2) the actor is the national government; (3) the action is chosen as a calculated response to a strategic problem; and (4) the interpretation consists of what goal the government was pursuing and how this action was a

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<sup>32</sup> Allison, *Conceptual Models and the Cuban Missile Crisis*, 689.

<sup>33</sup> Schelling, *The Strategy of Conflict*, 4.

reasonable choice.<sup>34</sup> Therefore, this model features a unified national government's reasoning and action, as a value-maximizing mechanism, given the nation's constraints, strategic problems, and objectives.

The classic rational model corresponds to the traditional economic theory to explain an "economic man," and takes some characteristics of the actor for granted: (1) the actor's knowledge of relevant situations, if not absolutely complete, is at least clear and voluminous; (2) the actor has a well-organized and stable system of preferences; (3) the actor is capable of mapping policy alternatives to possible outcomes and refining the mapping process continuously by information gathering; (4) the actor is able to attach a definite and scalar pay-off function to each possible outcome; and (5) the actor has sufficient skill in computation for him to achieve the highest attainable point.<sup>35</sup>

Herbert A. Simon recognized that the actual process could be quite different from what the rules describe. He even pointed out, for example, that the unconscious is a better decision maker than the conscious.<sup>36</sup> In his behavior model of rational choice, he proposed that one should approach the problem by inquiring into the properties of the choosing organism. China, as a far-east country, has not been widely studied in the past, unlike Russia, the analyses of whose strategic moves were based on knowledge accumulated for centuries and multiple rounds of interactions. As a new economic entity, China has just entered into the global

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<sup>34</sup> Allison, "Conceptual Models and the Cuban Missile Crisis," 691-95.

<sup>35</sup> Simon, "A Behavior Model of Rational Choice," 100-101.

<sup>36</sup> Simon, "A Behavior Model of Rational Choice," 104.

trading net and set out to transform itself into a market economy. One of Deng's famous sayings – “crossing river by touching stones” – exemplifies its transitional feature. Both China's general and special properties should be studied in understanding its behaviors.

Problems would arise, were the pure rational model to be applied to the study of China's decision making on trade policy, for the following reasons: (1) China's knowledge of globalization and market economics is progressing; (2) its preference system has been changing rapidly and tremendously, ever since it came out of the nightmare of the Cultural Revolution; (3) in lacking knowledge of cost calculation, its pay-off function has not been completely ordered, and it has also been switching periodically, due to the changing weights of factors in comparing policy alternatives; and (4) its computation skills are improving, as well as its capability to gather information for mapping policy alternatives to outcomes. Hence, we cannot take the properties of this choosing organism for granted, nor can we apply the global kinds of rationality in the classic model without revision to address the actor's traits.

The selection of a test is critical to decoding a nation's actions. According to Allison, the rational policy model's explanatory power stems from optimality. “If a nation performed a particular action, that nation must have had ends towards which the action constituted an optimal means.”<sup>37</sup> However, optimality may not be the highest attainable point from a player's perspective. That is to say, a player, instead

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<sup>37</sup> Allison, “Conceptual Models and the Cuban Missile Crisis,” 694.

of seeking for a 'best' move or maximizing the pay-off, only looks for a 'good' move or requires that the pay-off exceed a given amount.<sup>38</sup>

An optimal choice is just one of the feasible options; and a feasible option satisfies certain linear inequalities that are given at the outset (even when the counterpart at the negotiation table does not understand it). Once an offer meets the requirement, the actor would accept the first "satisfactory" offer tendered, and would not wait for an alternative with a higher pay-off. Although value may not be maximized, the satisficing test represents a reasonable and sufficient approach for rational decision-making. In researching China's trade policy making, we need to consider the asymmetric interdependence in the bilateral relationship and the capacity of U.S. negotiators to derive the leverage from America's enormous economic power. Therefore, it appears more appropriate to apply the satisfactory test than the optimal test in analyzing the Chinese response to American pressure.

There are a few issues upon which Allison's classic concepts of rationality either do not touch or break down. The classical theory requires a complete ordering of pay-off function, but a number of values do not have a common denominator. It does not exhibit an approach to study the incomparability of apples and oranges.<sup>39</sup> Particularly in this research, a search for substitute goods will help us learn China's substitute moves – demands or compromises – in order to understand why it accommodates U.S. demands or resists the pressures on certain issue or at certain times.

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<sup>38</sup> Simon, "A Behavior Model of Rational Choice," 106-108.

<sup>39</sup> Simon, "A Behavior Model of Rational Choice," 108-110.

The aspiration level, a term from psychological theory that defines the boundary of the acceptance price, may change over time. In searching for alternatives, if it is easy to discover satisfactory alternatives, one's aspiration level rises; if it is difficult to spot satisfactory alternatives, one's aspiration level falls. The aspiration level of time  $t$  is affected by the aspiration level of time  $t-1$ .<sup>40</sup> Over the years of negotiation, China's aspiration level has not been constant and has been adjusted correspondingly. Sino-American bargaining has adopted a dynamic pattern. In a lengthy WTO protocol negotiation, the adjustment of China's aspiration level is a dynamic process.

Allison visualized a nation's action as "a steady-state choice among alternative outcomes rather than a large number of partial choices in a dynamic stream."<sup>41</sup> In the research on the Cuban Missile Crisis, which demanded an expeditious decision in thirteen days,<sup>42</sup> his static selection is completely justified because thirteen days is a spot on the time axle. Nevertheless, a static model may not suit the studies in enduring bilateral relations. China's characteristics, as a negotiator or player on the international stage, have been changing: its computation skills are improving; its pay-off function is changing; and its aspiration level is subject to a dynamic adjustment process within the satisfactory test.

To study the interaction and friction between the U.S. and China in trade policy, we have to distinguish trade policy making from a rapid decision-making in

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<sup>40</sup> Simon, "A Behavior Model of Rational Choice," 110-13.

<sup>41</sup> Allison, "Conceptual Models and the Cuban Missile Crisis," 694.

<sup>42</sup> Robert F. Kennedy and Arthur Schlesinger Jr., *Thirteen Days: A Memoir of the Cuban Missile Crisis*. (New York: W. W. Norton & Company, 1999)

times of crisis, and must study the idiosyncrasies of the players. If we accept global rationality, a question would naturally arise whether we should treat organizational features and domestic politics as other models or as a set of constraints within the rational model. To conduct research of this kind, I would substitute the policy model of global rationality with a bounded rationality, because the latter is compatible with the player's characteristics in this case. I also suggest replacing the optimality test with the satisfactory yardstick.

### **Organizational Process as a Garbage Can**

The study at the organizational level helps look at the gears and levers inside the nation by looking at a nation's decision making as the output of organizational behavior and researching its patterns and tendencies. Allison's second model, organizational process model took the lead in analyzing organizations' standard operating procedures and stable propensities, in order to open the black box of government decision making. Within the unified government exists a considerable gap between what leaders choose and what organizations implement. Organizations, each with a fixed set of standard operating procedures, programs, repertoire, act in quasi-independence. As part of government decision-making, organizations have their own pre-established routines to follow, parochial interest to guard, and perceptions to process.



Government behavior is considered as an output of organizations, the repertoires, programs, and routines of which constrain as well as facilitate decision-making. The standard notions of how decisions ought to be made at the organizational level are the follows: (1) a government perceives problems through organization sensors; <sup>43</sup> (2) alternatives are examined and estimated as organizations process information; (3) a government comes to a decision as these organizations enact routines. The classical model displays its substantial explanatory power in a problem-driven case where a set of stable constraints defines acceptable performance. At times of emergency, such as the Cuban Missile Crisis, organizations swirl to respond to a critical situation and tackle the crisis. Organizations immediately clarify preferences and goals, mobilize resources in an expeditious manner, and assure participant involvement at a substantial level.

However, this model shows its limitation when applying to other cases. Organizational outputs structure the situations, to which the state players or organizations themselves have to respond. In words, organization procedures, *per se*, are constraints on rational decision-making. As Herbert A. Simon said, "Some of the constraints that must be taken as givens in an optimization problem may be physiological and psychological limitations of the organism itself." Elements of organizational structure and the changes need to be addressed. Furthermore, this model conspicuously renders a problem-oriented style of search, which limits its explanatory power in those cases without such a characteristic. It is built on assumptions, such as the existence of clear goals, well-defined technology, and

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<sup>43</sup> Allison, "Conceptual Models and the Cuban Missile Crisis," 698-99.

substantial participant involvement. The set of constraints on organizations is relatively stable. In cases of enduring negotiations, where situations are characterized by problematic preferences, unclear technology, fluid participation,<sup>44</sup> and even changing constraints, the power of the organizational process model is reduced.

The garbage can model exhibits its general relevance to explain and predict variations in the decision-making behavior of organizations. This model views a choice opportunity as a can, into which various kinds of garbage (problems, solutions, etc.) are dumped by participants. "The mix of garbage in a single can depends on the mix of cans available, on the labels attached to the alternative cans, on what garbage is currently being produced and on the speed with which garbage is collected and removed from the scene."<sup>45</sup> Different from the classical organizational process model, which assumes that solutions are generated in response to a problem, the garbage can model provides another angle to open and study the black-box: decision makers and problems tend to track each other through choices and to move together from choice to choice.

Distinguished from the conventional notions that stress an organization's standard operating procedures, this model perceives government institutions as organized anarchies. They lack consistent and shared goals; their members learn its processes from past experience, and they operate based on trial-and-error or on pragmatic invention born of necessity. Participation varies not only in terms of

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<sup>44</sup> Cohen et. al, "A Garbage Can Model of Organizational Choice," 1-2.

<sup>45</sup> Cohen et. al, "A Garbage Can Model of Organizational Choice," 1-3.

participants' time and effort, but also in terms of their involvement and the boundaries of the organization.<sup>46</sup> Therefore, an organization is considered as collections of choices looking for problems, issues and feelings looking for decision situations, solutions looking for issues, and decision makers looking for work.<sup>47</sup>

According to Cohen, March, and Olsen, a decision is the outcome of coupling several independent streams – problems, solutions, participants, and choice opportunities – and depends on a relatively complicated intermeshing of these elements. Elements of organizational structure influence the outcome of a garbage can decision process by affecting the time pattern of the arrival of problems, choices, and solution; by determining the allocation of energy by potential participants; and by establishing linkages among the various streams. The garbage can model shows the access structure by mapping problems onto choices, and reveals decision structure by mapping choices onto decision makers.

Inspired by Cohen-March-Olsen's garbage can model, John W. Kingdon has brought this idea to the arena of public policy analysis. In his book, *Agendas, Alternatives, and Public Policies*, he introduces the garbage can model, but emphasizes "organized" rather than "anarchic" in order to explain the Federal government's policy making and national agenda setting. According to his garbage can model, decision-making does not go through a prescribed routine; instead, solutions and problems have equal status. Three major process streams – problem

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<sup>46</sup> Cohen et. al, "A Garbage Can Model of Organizational Choice," 1-2.

<sup>47</sup> Cohen et. al, "A Garbage Can Model of Organizational Choice," 1-3. Kingdon, *Agendas, Alternatives, and Public Policies*, 89-91.

recognition, formation and refinement of policy proposals, and political streams – run through the organizations, each of which has a life of its own. The coupling of these streams at critical junctures produces agenda change.<sup>48</sup>

The significance of the garbage can model, Cohen-March-Olsen's or Kingdon's, is its equal treatment of problems and solutions, its emphasis on the influence of organization structure on the outcome of decision process, and its inclusion of changing situations. While the organizational process model's strength stems from standard operating procedures, the garbage can model draws our attention beyond the organizational procedures to the ways in which a problem can be attached to a choice and why the solution comes into being at one time, not another time. It demonstrates strong explanatory power on strategic effects of timing when problems and solutions interact with each other, and provides interesting insights towards questions, such as why the garbage cans operate and why the mix of cans may result in different organizational behaviors on different issues at the same time. With the aid of analysis of the characteristics of organizational structures, the garbage can model assists in predicting variations in decision making at the organizational level.

The Sino-American WTO protocol negotiation, which is under discussion, spanned more than a decade. In this duration, China began to engage with the global economy and various reform measures, which was a process of gradually breaking up its past standard operating procedures and committing itself to

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<sup>48</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, 92-94.

globalization. The gears and levers within the government collaborated and conflicted, producing solutions and problems that were mixed together. For China, the bilateral bargaining was a process of clarifying goals. The technology was not well defined at the beginning, and participation was fluid in the duration. To analyze how China conducted decision-making in the enduring trade negotiations between the U.S. and China, we need to understand that China was in the process of steering away from past standard operations. Therefore, I propose to substitute Garbage Can Model for Allison's Organizational Process Model.

### **Two-level Games in Bureaucratic Politics**

Against the convention that most foreign policy literature avoided bureaucratic politics, Allison presented his mechanism of choice: the bureaucratic politics model. Through the lens of bureaucratic politics, students observe government officials who hold overlapping interests, different intentions and perceptions, considerable discretion, and see government behavior as the outcome of internal bargaining, compromise, coalition, and competition. In policy-making, the staffs frame the problems, identify alternatives and push proposals, in order to catch the Chief's attention; the Chief focuses on the hottest intra-national issues and coalition building with relevant powers; and the president has limited time assigned to foreign policy issues and deals first with what comes next.

The focus of Allison's third model is the internal politics of a government – that is, pulling and hauling among many individual players positioned hierarchically within the government. This model sees government behavior not as a solution to a problem, but as results from compromises, coalition, competition, and even confusion among players. When separate players and various groups pull and haul toward various directions, it may yield a result of the triumph of one group over others or a result different from which everybody intends. Therefore, the power and skills of players are important drivers to move the chess pieces.

Foreign policy is conceived as a political outcome of collegial bargaining. Each foreign policy player has different perceptions and priorities, which originate from where he sits and the “baggage” which he brings to the post. According to Allison, fundamental disagreement among players in foreign policy evolves not only from the nature of the problems of foreign affairs, but also from players' shared power, distinct objectives, parochial priorities, and different perceptions and conceptions of the national interest. The broad range of foreign policy problems requires decentralization of decisions, which guarantees that each player has considerable discretion.<sup>49</sup>

Robert Putnam went further to explain the state of the art in foreign policy. His famous two-level game theory<sup>50</sup> has its intellectual roots in linkage politics.<sup>51</sup> By

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<sup>49</sup> Allison, “Conceptual Models and the Cuban Missile Crisis,” 707- 08.

<sup>50</sup> Putnam, “Diplomacy and Domestic Politics: The Logic of Two-Level Games,” 427-460.

<sup>51</sup> James N. Rosenau “correlates domestic and international conflict behavior.” Please see James N. Rosenau, “Toward the Study of National-International Linkages,” in his book, *Linkage Politics: Essays on the Convergence of National and International Systems* (New York: Free Press, 1969). Please also see James N. Rosenau, “Theorizing

conducting a case study of the Bonn Summit of 1978, Putnam sees that diplomacy and domestic politics are entangled: The co-existence of second image<sup>52</sup> and second image reversed<sup>53</sup> ensures that domestic politics and international affairs interact with each other simultaneously.

In trade negotiation, a move on the domestic negotiation table triggers realignments on the international bargaining table, and *vice versa*. Due to factional conflicts in industrial and political arenas, domestic interests are usually heterogeneous. Negotiators may find their silent allies at their counterpart's domestic table. When transnational alignment comes into being, domestic division may improve international cooperation and the terms of agreement.

According to Putnam's definition, "win-set" is the set of all possible agreements at the international level, for the given domestic constituency. At the international level, a smaller win-set can be a great bargaining advantage for the negotiator. A country with great "state autonomy" and "state strength" has a larger win-set, while a state with relatively weaker party discipline and separation of power has a smaller win-set. In the Sino-American relations, China is a country with strong party discipline, and its unitary bureaucratic system permits a larger win-set for its negotiators. In contrast, the check and balance and separation of power within American government provide a smaller win-set for the U.S.

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Across Systems: Linkage Politics Revisited," in Jonathan Wilkenfeld, ed., *Conflict Behavior and Linkage Politics*, (New York: David McKay, 1973), p.49.

<sup>52</sup> Regarding the domestic causes and international effects, please see Kenneth N. Waltz, *Man, the State, and War: A Theoretical Analysis*. (NY: Columbia University Press, 1959)

<sup>53</sup> Regarding the international causes and domestic effects, please see Peter Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics," *International Organization*, Vol. 32, Issue 4 (Autumn 1978), pp. 881-912.

Being aware of this potential bargaining chip, negotiators can enhance their bargaining power at the international table. Negotiators make constructive compromise<sup>54</sup> with colleagues and counterparts at the domestic table, so that they tie their own hands by reducing the size of their win-set,<sup>55</sup> at the international table. Putnam's model displays a dynamic link between domestic politics and international bargaining and contributes to the bureaucratic politics school a template to study the international negotiation. With the help of Putnam's two-level game theory, we can look closely at the application of American pressure and the Chinese response at international negotiation, and analyze the conditions for Chinese decision on their acceptance and resistance to American power, which is also the conditions for effective and ineffective power application on the US side.

## **Conclusion**

Being a rising power on the international stage, China should be regarded as a bounded rational player due to its various limitations. As the first cut, the bounded rational model will facilitate our understanding about the constraints when China conducted its calculation and responded to American pressure. The impact of decision structure on China's decision-making in bilateral negotiation has not been researched yet. Garbage Can Model provides the second cut to analyze this domestic bargaining and coordination structure and its dynamics. With the aid of

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<sup>54</sup> Bruce W. Jentleson, *American Foreign Policy: The Dynamics of Choice in the 21<sup>st</sup> Century* (New York and London: W. W. Norton & Company, 2007), pp. 27, 154, 285.

<sup>55</sup> Leonard J. Schoppa, *Bargaining with Japan: What American Pressure Can and Cannot Do* (New York: Columbia University Press, 1997), pp. 43-45.



this model, the coupling of independent streams - problems, policy streams and political streams - inside the structure presents explanation of the deal conclusion in 1999. The third cut, two-level game theory provides an angle to examine the domestic cause on the international table and also international cause on domestic bargaining table. With the assistance of it, the study of bureaucratic politics goes beyond a steady state to a dynamic one. Following the analytic framework, the rest of the dissertation conducts a thorough analysis of China's decision-making in liberalizing its foreign trade policy and responding to American demands during the bilateral trade negotiations.

### **Chapter 3: The First Cut of China's GATT/WTO Bid: Bounded Rationality**

China's road to its GATT/WTO membership lasted more than 15 years. China gained observer status at the GATT in 1982 and launched its formal application for the GATT full membership in 1986. Its endeavor to join the GATT and become a founding member of the WTO failed at the end of 1994. Nevertheless, the negotiations resumed. The United States and China successfully concluded their bilateral negotiations in November 1999 and signed the cornerstone document, paving the way for China's WTO entry in December 2001.

In this lengthy bilateral negotiation, one Republican administration and one Democratic administration were involved on the US side. On the Chinese side, two generations of leadership (one may argue three generations, with the senior one at the back) gauged the pros and cons of acceding this international organization. The US, the power wielder, changed its demands at negotiation against the backdrop of the changing international stage; China, the power recipient, experienced dramatic changes in its economy and domestic politics, which affected its calculation and decision-making. To discuss the bounded rationality of China's foreign trade policy-making and the power application in the Sino-American bilateral talks, I divide the negotiation into three stages, the first one from beginning to 1989, the second one from 1990 to 1994, and the last stage from 1995 to 1999.

## **Stage I: From Beginning to Summer 1989**

No accurate record was found as to when China began its GATT speculation. Some say that China started to speculate about its membership with GATT after it replaced the Republic of China in the United Nations and took over the China membership and the permanent seat of the UN Security Council. Others recall that China contemplated its GATT bid after it regained the seat at the World Bank and the International Monetary Fund in 1980. Still others remember that officials in the central government were commissioned to research on GATT and to analyze on the pros and cons regarding China's endeavor for its GATT membership around 1978 and 1979.

China's GATT application originated from the reorientation of the Chinese foreign trade. On the international stage, when the Cold War was extended from Europe to Asia, the US embargoed all trade with China and persistently worked to exclude it from the UN. China joined the Soviet bloc and was increasingly integrated into political, economic interactions centered on Moscow and the Communist bloc. Throughout the 1950s, China's trade had been predominant with the Soviet Union and the communist countries of Eastern Europe. Starting in 1960s, Sino-Soviet relations turned sour, and the disagreements and disputes with the Soviet finally escalated to military clashes in Damansky Island. In the years when economic affairs were subordinated to security issues, Chinese trade with the Soviet Union dropped sharply. At the same time, its trade with Western countries began to grow and later expanded significantly.

The reorientation of Chinese foreign trade came after the major adjustment of Chinese foreign policy. At the time of Sino-Soviet confrontations, aid and technology transfer from the Soviet came to an end. When China fully paid off its debt to the Soviet Union by 1966, Sino-Soviet trade virtually ceased. China needed to look to other sources for foreign technology necessary for economic development and modernization. Some Chinese officials responsible for foreign affairs began to contemplate a major adjustment of the country's foreign policy. In "the week that changed the world,"<sup>56</sup> leaders of China and the United States found that the ideological differences proved to have little relevance. With a shared position on the international stage of the Cold War, with political and economic drives on both sides of the Pacific, the two governments engaged in a lengthy discussion of China's application for membership in the GATT, which would have entitled China to participate in multilateral negotiations on trade liberalization issues.

It was in China's interest to resume economic and cultural ties with the US. At the time, China was still a small economy relative to the US, but in the "strategic triangle,"<sup>57</sup> China was geopolitically important to US foreign policy. A rapprochement between the US and China would form a united front against the Soviet expansion. An improved relationship with the US would make it possible for China to acquire advanced American equipment, as well as similar technology from American allies in Western Europe and Japan. Sino-American trade rose from \$7.7

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<sup>56</sup> Richard M. Nixon, *The Memoirs of Richard Nixon* (New York: Simon and Schuster, 1978), p. 580

<sup>57</sup> Harry Harding, *The Greater China*, (London: University of London 1993).

billion in 1985 to \$13.5 billion in 1988,<sup>58</sup> and the US became China's third largest trade partner. The establishment of diplomatic relations in 1979 brought rapid progress in economic ties with the US. In this period, China had brisk economic growth and also moved closer toward the global trading net.

However, engagement in the global trading net meant differently to China in the 1980s, compared to the 1970s. In 1970s, China's foreign trade was "import-driven". When China had just launched its economic reform, the first step was to draw up a list of imports regarded as necessary for the economic development. Then exports would be projected sufficient to cover the costs of imports. When it came to the 1980s, the expansion of exports gained greater emphasis, and the focus of foreign trade planning shifted from import to export. The first step became establishing an export target, and then this would be used to determine the affordable level of imports. At this time, China did not access the global trading net only for technology imports. The Chinese exports also needed to access international market more than before. In the 1980s, about 85% of China's exports were to the contracting parties of GATT and more than 90% of its imports were from these countries.<sup>59</sup> Participation in the GATT would give China certain privileges in international trade.

As a government emerging from isolation, Beijing had keenly searched for recognition not only by the developing world but also from developed countries.

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<sup>58</sup> Please see data on Census Bureau website. <http://www.census.gov/foreign-trade/balance/c5700.html#1988>

<sup>59</sup> Please see International Monetary Fund (IMF), *Direction of Trade Statistics Yearbook, 1987* (Washington, D.C.: IMF, 1987), p.p. 136-37.

Acknowledgement within international society served this policy orientation. Its participation with major international organizations, such as the UN, World Bank and IMF, was a continuous endeavor toward this policy objective. Even when the US tried to exclude it from the UN, Communist China perceived the UN as a fruit of the multilateralism of the World War II, and requested its seat at the UN immediately after it won the civil war over the Nationalist Party (Kuomintang, KMT). Different from the UN, China perceived that the GATT, an international organization featuring free market and trade liberalization, as a “rich men’s club” and a tool by which the developed world exploited the developing world. Allegedly, China rejected the American suggestion at the time to join the GATT and considered it as a Cold War alliance.<sup>60</sup>

After China had ended Cultural Revolution and reinvigorated the economy, it has tremendously changed its perception of international economic organizations, in particular, the three keystone international economic organizations (KIEOs). China began to speculate on why Poland, Hungary, and Romania, three Communist countries, joined the GATT in 1960s and whether the GATT should be considered as a concomitant of the Cold War confrontation.<sup>61</sup> Under the encouragement and help of the US, China showed interests in KIEOs.

China cautiously chose its pace to integrate into the world economic system. The World Bank and IMF played crucial roles in providing financial and technical

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<sup>60</sup> My interview with the Chinese interviewee No 14.

<sup>61</sup> Lv Xiaojie, Han Liyu, Huang Dongli, Shi Xiaoli, and Yang Guohua, *Rushi Shinian Fazhi Zhongguo* (Beijing: People’s Publishing House, 2011), p178.

assistance and gave China access to advice and funds, while the GATT formulated and supervised rules of international trade and would have China expose its trade regime to international scrutiny and surveillance. China's full participation in GATT would have deeper impact than that with other KIEOs. China embarked on its entry into the World Bank and IMF first, which went smoothly in 1980. After these two steps, GATT was the last step left before China would complete its entry into the KIEO and become fully accepted as part of the international economy.

In the early 1980s, when it was clear that GATT would launch another round of multilateral trade negotiations, China determined that this was a good timing to seek entry.<sup>62</sup> The US wanted another round of multilateral trade negotiations, and the consensus gradually formed among contracting parties. According to the precedent of Tokyo Round, the new round of negotiations was expected to last about five years. With the expectation that the imminence of a new round of negotiations would force the pace of decision on China's application, China requested and gained permanent observer status in December 1984 and believed that this status would facilitate the application. The speculation was China could either rush into GATT like some developing countries or participate this new round of multilateral negotiations as permanent observer and "graduate" when this round was concluded.

Then the question that came to the Chinese decision makers was how to join the GATT. The first choice to make was to apply for full membership or partial

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<sup>62</sup> David Dodwell, "Chinese to Apply for Membership of GATT," *Financial Times*, (January 13, 1986), p.1.

membership. Full participation in GATT would give China certain privileges in international trade, yet China would have to liberate its trade regime and open its market to GATT member countries in turn. It would also have its trade regime under international scrutiny. Alternatively, China could work on partial membership first and then attain full membership, following the precedent of Japan. However, it took 10 years for Japan to turn from a partial member to a full member, and the GATT Article XXXV, non-application term<sup>63</sup> applied to Japan in this duration.<sup>64</sup>

Between the two options, China chose to apply for full membership. Among the reasons were the following: First, it would provide Chinese exports (e.g. cotton and textiles) greater defenses against protectionism in developed countries, for example GATT dispute settlement mechanisms; Second, full membership would allow China to receive unconditional most-favored-nation (MFN) status and eliminate the uncertainty of its possible removal by annual presidential certification or congressional review;<sup>65</sup> Third, the Chinese full participation with GATT would help free trade politicians in developed countries in their domestic political battles against protectionists; and Fourth, the fulfillment of international obligations would reinforce the economic reform and reassure those domestic politicians who appeared to be hesitant about the reform.

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<sup>63</sup> The GATT Article 35. Non-application of the Agreement Between Particular Contracting Parties. A contracting party may withhold application of its schedule of tariff concessions, or the entire agreement, from another contracting party with which it has not entered into tariff negotiations.

<sup>64</sup> Wang, Lei, *Guan Mao Zong Xie Ding Gui Ze yu Zhongguo Di Yue Guo Diwei*. (Beijing: Zhongguo Jingji Publishing House) 1995.

<sup>65</sup> USA, Public Law 93-618, Section 402.



The second issue was on what basis China should accede the GATT. Tariff reduction or import quota commitment? China turned to other Soviet allies, Romania, Poland, and Hungary, for experience.<sup>66</sup> The basic thrust of GATT was to reduce tariffs, which would decrease the price of imports and increase trade. The leverage of price would not function in nonmarket economies to increase the demand for foreign goods. The commitment for import increase at a certain rate was a substitute arrangement in return for tariff concessions made by GATT member countries, which were market economies. Among these Soviet allies, Romania and Poland committed to increasing imports from GATT members at a certain annual rate and agreed to a review process on a yearly basis.<sup>67</sup> Yet, Hungary was different. Hungary successfully convinced the GATT member countries that it had made sufficient progress to decentralize its economy and should accede to the GATT on the basis of tariff reductions. Although many GATT members felt, in retrospect, that Hungary was a precedent that should not be repeated, China made the argument for tariff reductions as the central aspect of its obligations to the GATT accession.<sup>68</sup>

After comparing Hungary's experience with other Communist countries', China ruled out the option of import commitment. An arrangement of this kind would make the GATT application easier, but it would not be in accordance with the

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<sup>66</sup> Lv, Han, Huang, Shi, and Yang, *Rushi Shinian Fazhi Zhongguo*, p176.

<sup>67</sup> GATT document L/2851. See also Christina L. Davis and Meredith Wilf "Joining the Club: Accession to the GATT/WTO," (paper presented at Princeton University International Relations Colloquium and APSA 2011): 22-25. <[http://www.princeton.edu/~cldavis/files/joiningtheclub\\_DavisWilf.pdf](http://www.princeton.edu/~cldavis/files/joiningtheclub_DavisWilf.pdf)>

<sup>68</sup> Harold K. Jacobson and Michel Oksenberg, *China's Participation in the IMF, the World Bank, and GATT* (Ann Arbor: University of Michigan Press, 1990) p. 90.

thrust of Chinese reform. The thrust of Chinese economic reform was to free prices and let them adjust the demand and supply. Such an arrangement of increasing the level of imports would be written in a state plan and not help set the price freeer.<sup>69</sup> China was also afraid that acceptance of a discriminatory arrangement would prevent it from benefiting from the international division of labor and hurt its exports in the industries where it had comparative advantage.<sup>70</sup> Besides, holding Hungary as a precedent, China spotted a favorite, friendly international political environment in 1980s and wanted to obtain full participation with the commitment of tariff concessions.

The third issue was whether this was regarded as resumption or restoration of China's GATT membership. At the time the GATT was established in May 1948, China was under the Nationalist Party (Kuomintang, KMT) and became a founding member of GATT. After the Communist Party of China (CPC) won the bitter civil war, the Chiang Kai-shek government retreated to Taiwan. In March 1950, the Taiwan authorities, following consultations with the United States, announced its withdrawal from the GATT, citing its inability to actively fulfill its GATT treaty obligations to regulate and exercise control over Mainland China's borders and trade. When the Communist China tried to enter into the GATT, it claimed that Taiwan's withdrawal from the GATT was null and void.

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<sup>69</sup> Lv, Han, Huang, Shi, and Yang, *Rushi Shinian Fazhi Zhongguo*, p176.

<sup>70</sup> Chung-chou Li, "Resumption of China's GATT Membership," *Journal of World Trade Law* Vol. 21, Issue 4, (1987), pp. 25-48. Please note page 37. My interview with the Chinese interviewee No. 1 confirms it.

In the 1980s, upon the suggestion of His Excellency Shi Jiuyong,<sup>71</sup> China argued that this was *resumption*, instead of *restoration*, of its contracting membership. The Chinese negotiators believed the word of *restoration* implied that China's membership stopped, and this would be an act of bringing it back to the original position. The word of *resumption* implied that China's membership was suspended for some reason, and this would be an act of starting it again.<sup>72</sup> They believed that the choice between *restoration* and *resumption* issue was entangled with Taiwan issue, and argued that *resumption* should apply to China and China should resume the membership as an original contracting party.

The fourth issue was about China's developing country status, which would not only accord China preferential treatment without triggering discriminatory clause, but also mitigate some difficulty for China caused by full GATT participation. Under the GATT Article XVIII, Article XXVIII, and Part IV, Less-Developed-Country (LDC) contracting parties may take governmental action to promote economic development that would be prohibited to other contracting members, and they may obtain certain trade concessions, such as those gained through the Generalized System of Preferences (GSP) granted by industrialized countries, without the necessity of giving reciprocal concessions.<sup>73</sup>

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<sup>71</sup> Shi Jiuyong, Judge (1994-2000), Vice-President (2001-2003), and President (2003-2006) of the International Court of Justice.

<sup>72</sup> Lv, Han, Huang, Shi, and Yang, *Rushi Shinian Fazhi Zhongguo*, p177. My interview with the Chinese interviewee No. 1 also confirmed it.

<sup>73</sup> Under GSP programs imports from developing countries received preferential tariffs that were lower than those on the imports of the same goods from developed countries. Most developed countries adopted GSP programs.

Under those articles, LDC contracting parties can avoid many GATT obligations. LDC countries were allowed to protect “infant industries”, not to reduce tariffs needed for economic development and revenue purposes, to impose import restrictions for balance of payment reasons with little international scrutiny, and so on. While full participation in GATT would have China submit its trade regime under continuing international scrutiny, make tariff concessions, and reduce protectionism barriers, developing country status would mitigate these difficulties. In mid-1980, China found that Mexico declared LDC status when it joined the GATT and established LDC status as one of the three principles in its GATT application.<sup>74</sup>

Upon all the speculation and calculation, China established three principles for itself on the GATT application: tariff reduction as the basis of its accession, resumption of the original membership, and developing country status. China’s original position had five issues: First, China’s application should not be regarded as a new application, but a resumption of its membership; Second, tariff concessions should provide the basis for the negotiations; Third, China should be considered as a developing country; Fourth, China should receive unconditional MFN treatment from the US; Finally, China should be accorded GSP treatment.

In stage I, China reached out to the GATT with cautiousness. China’s understanding of organizational procedures in the international organizations remained limited, and its officials recognized that.<sup>75</sup> China had the right judgment

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<sup>74</sup> Wang Shichun (then an official at Ministry of Foreign Trade, the predecessor of MOFTEC, later head of Department of Fair Trade for Import and Export, Ministry of Commerce) was dispatched to Hungary, Romania, Poland, and Mexico.

<sup>75</sup> Jacobson and Oksenberg, *China’s Participation in the IMF, the World Bank, and GATT*, p. 104.

that most Western countries, especially the US, were interested in bringing China into full participation in the GATT. Interestingly, the OECD members – not the US – emphasized that the negotiations for China’s entry into GATT should be approached on a commercial basis, rather than a political basis. However, China’s insistence on the *resumption* of its original GATT contracting party status invoked controversy, which proved to be meaningless later. In order to get the *resumption* as a legal formality, China agreed that it would not inherit any rights or obligations from China’s original contracting party status.

At the beginning, the bilateral talks were characterized as “a close working relationship.” China solicited and gained help from the US and Australia. To prepare a memorandum describing its foreign trade regime in February, 1987, China even sent at least one draft memorandum to US diplomats in Beijing and sought their comments. The US wielded its influence at international level so that the contracting parties of the GATT crafted a decision, which virtually permitted China to participate and provided grounds for denying the Soviet Union and Bulgaria.<sup>76</sup> The negotiation with the US started before the working party held its first meeting and went toward framing negotiating issues by mid-1987. The two sides had to slow down and wait for the talks with other countries to catch up. In 1988, the US gave China its request list of one piece of paper, which was structured

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<sup>76</sup> The contracting parties decided that countries that had given formal notification “at a regular meeting of the Council of Representatives, of their intention to negotiate the terms of their membership as a contracting party.” See GATT Newsletter; *Focus*, No. 41 (October, 1986). Page 5. See detailed explanation of this decision in *China’s Participation in the IMF, the World Bank, and GATT*. p 94.

based on the Hungary's protocol agreement.<sup>77</sup> In this stage, China did not feel much pressure from the US and expected a speedy accession with confidence.

## **Stage II: From Summer 1989 to 1994**

When China submitted its GATT application in July 1986, the expected application time was about five years or at least by the conclusion of the Uruguay Round. However, when China dashed to embrace the international economic system, the road to GATT proved to be rugged, bumpy, and longer than expected. In this duration, the bilateral talks went into deadlock twice. First, the negotiations were virtually suspended after the Tiananmen Square incident in 1989; second, the Chinese attempt to negotiate into GATT before the formation of WTO failed. The fundamental change of the landscape of international relations affected the Sino-American trade talks. On the negotiation table, China was adjusting itself and trying to understand its advantages and disadvantages in relation to the US in the global trading net.

From precedents of Eastern European countries with communist governments, the Chinese expectation was set high. Poland applied in 1959 and joined GATT in 1967; Yugoslavia submitted application in 1965 and entered into GATT in 1966; Romania applied in 1968 and gained accession in 1971; Hungary's application started in 1969, and it joined in 1973. China learned that Hungary made

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<sup>77</sup> My interview with the Chinese interviewee No. 22.

an exception by acceding to GATT on the basis of making tariff reductions; Yugoslavia negotiated MFN tariff rates to complete its accession protocol in July 1966. Although Poland's non-market trading practices were incompatible with tariff negotiations and it was not willing to change the policies,<sup>78</sup> Poland agreed to increase its imports from GATT members by no less than 7 percent per year for the period 1968 through 1971 and undergo an annual review process.<sup>79</sup> Finally, Poland won approval for its accession without any formal tariff negotiations under an 8-page agreement.<sup>80</sup> Based on these precedents, China set its estimation about its own accession.

As a matter of fact, after its submission in 1986, China's application moved quickly and smoothly, which made the Chinese optimistic. In February 1987, China submitted a 300-page memorandum on its domestic economy and foreign trade system. Three months later in May 1987, the GATT council established the Working Party on China's status to examine China's trade regime. In February 1988, the first session of the working party was held; contracting parties<sup>81</sup> presented written and oral questions, such as *What is planned commerce economy? What is the system of factory manager responsibility under Party committee?* The Chinese negotiating team prepared answers for circulation among contracting parties before the next session. Then the Chinese requested one more session, and major trade powers,

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<sup>78</sup> Kazmierz Grzybowski, "Socialist Countries in GATT," *The American Journal of Comparative Law*, Vol. 28, No. 4 (Autumn 1980), p. 547.

<sup>79</sup> GATT document L/2851.

<sup>80</sup> GATT document L/2736.

<sup>81</sup> The major members (US, EU, Japan) were the top three trade partners of China. Also see Jacobson and Oksenberg, *China's Participation in the IMF, the World Bank, and GATT*, p98-99.

including the US, welcomed China's move to GATT.<sup>82</sup> In 1988, three more sessions were held, and in the first half of 1989, two more sessions.

At the multilateral talks, Chinese negotiators were thrilled by the curiosity of contracting parties, the number of questions,<sup>83</sup> and most importantly, the friendliness of inquirers.<sup>84</sup> Among the bilateral negotiations, China's talks with the US moved especially fast. USTR Clayton Yeutter said his country was "interested in having this major partner."<sup>85</sup> Douglas Newkirk, the first Assistant USTR for GATT affairs, came to some mutual understanding with the Chinese chief negotiator, Vice Minister Shen Jueren,<sup>86</sup> about the bilateral agreement, which touched only upon the tariffs of a few commodities, other than services. In May 1989, the American negotiators and Chinese negotiators informally exchanged the draft protocol of the bilateral agreement in Xiamen, a coastal city in South China.<sup>87</sup>

In hindsight, China was optimistic, maybe too optimistic until the summer 1989. The Tiananmen Square incident on June 4, 1989 was stunning to international society and also fundamentally changed the pace and landscape of China's GATT application. In April 1989 the seventh session, the working party had finished the review about China's trade regime, but the scheduled meeting to be held in June 1989 was cancelled. The next two sessions (the eighth and ninth) of the

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<sup>82</sup> "China Seeks GATT Tie," *The New York Times*, April 28, 1988.

<http://www.nytimes.com/1988/04/28/business/china-seeks-gatt-tie.html>

<sup>83</sup> In this duration, China was asked to respond to more than 3,000 questions, setting a record number.

<sup>84</sup> My interview with the Chinese interviewee No 1.

<sup>85</sup> Robert Thomson, "China hints at tariff cuts to ease GATT entry," *Financial Times*, (July 10, 1986), p.7.

<sup>86</sup> It occurred around the end of 1988 or the beginning of 1989. Please see Lv, Han, Huang, Shi, and Yang, *Rushi Shinian Fazhi Zhongguo*, p182.

<sup>87</sup> *Ibid.*



working party lacked agendas in the real sense. Actually, the working party went back to review China's trade regime. The major western contracting parties, including the US, changed their attitude towards China's GATT membership. China's GATT application went into deadlock.

Summer 1989 became a tipping point for China's GATT/WTO accession. It put to the test not only China's GATT negotiations, but also the Sino-American relationship and the Chinese determination on economic reform. The years 1985-91 witnessed the collapse of the Soviet Union, democratization of some Eastern European countries, and the end of the Cold War. With the fundamental change of the bipolar system, the strategic triangle could no longer function as the cornerstone of the ties between the US and China. As Soviet-U.S. relations improved, China lost its previous status as a counterweight to Soviet expansion. China's GATT accession did not look strategically attractive to American foreign policy any more. The advantages for its GATT application China enjoyed in the 1980s disappeared in the 1990s.

The renewal of China's MFN status had never been a problem in the 1980s, but it was not routine any more after Tiananmen Square. Unfortunately, China's MFN status happened to be scheduled to expire on June 3, 1989, the day right before the Tiananmen Square incident. Right after the incident, several members of Congress pressed for an immediate removal of China's MFN status. Although the Bush administration worked hard to defeat these bills, the renewal of China's MFN status became a yearly controversy in the US-China trade relations through 1990s.

The congressional efforts escalated. The size of the majority in Congress in favor of revocation of China's MFN status or attachment of tough conditions aroused concerns in China. Chinese officials began to signal<sup>88</sup> that they would never accept any conditions on their MFN status, suggesting that they were preparing for serious challenges to that status.

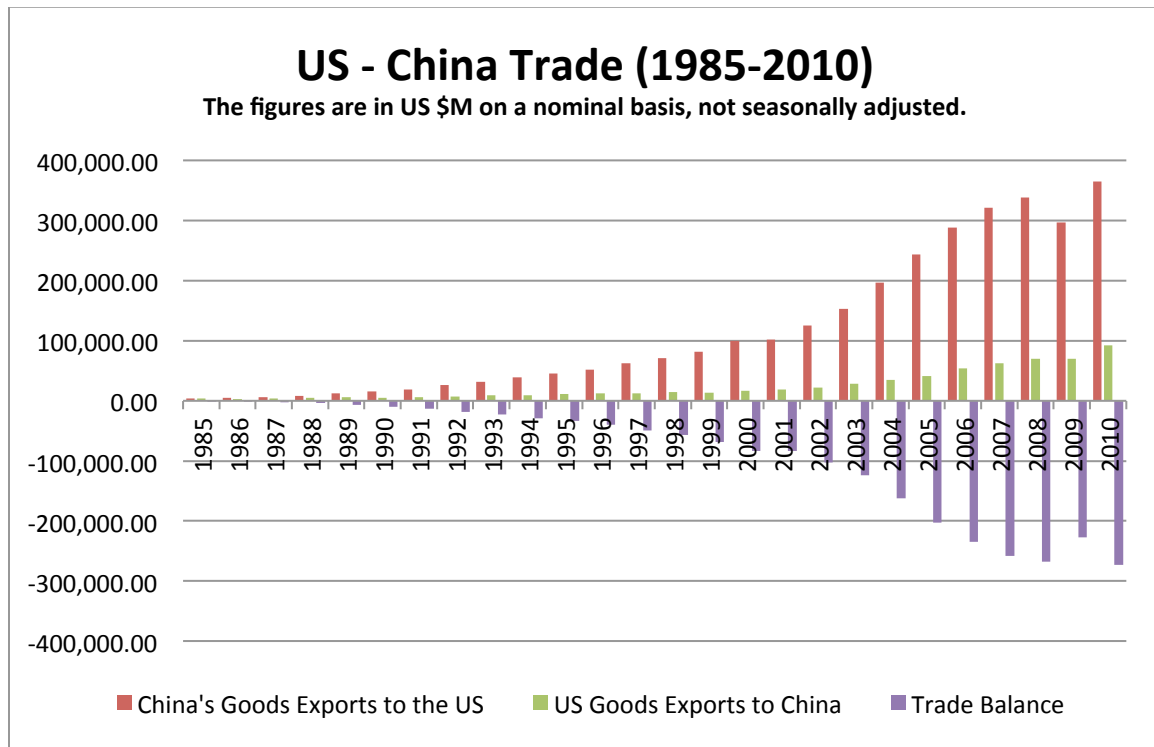
China disliked the uncertainty of renewal of its MFN status and listed it as one of the original five points put forward to its GATT negotiations with the US. According to the GATT, all contracting parties should be accorded unconditional most-favored-nation (MFN) treatment. The US would not be able to accord China full GATT privileges with the Jackson-Vanik Amendment, [19 U.S.C. 2432(a)]. The US negotiators felt that if the protocol contained serious commitments from China, the US administration would be in a strong position to persuade Congress to modify its domestic legislation so that China could be granted unconditional MFN. This important tacit understanding faltered in the aftermath of Tiananmen Square.

Starting from late 1980s, China began to have trade conflicts with its trading partners, especially the US. In the 1970s and early 1980s, China needed American imports (i.e. technology imports) for its industrial modernization program after the Sino-Soviet relationship went sour. The Chinese set imports target according to foreign reserves it could accumulate from its exports. As a small economy, it did not have many trade conflicts. However, the trade frictions between the US and China loomed since China adopted the export-driven development policy in its economic

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<sup>88</sup> *South China Morning Post*, April 6, 1991, p. 6, in FBIS, China, April 8, 1991, pp. 7-8.

reform. The Chinese exports exploded and needed to access American market. From 1985 to 1989, American trade deficits against China soared from \$6 million to \$6,234.3 million. In the first half of 1990s, this number almost tripled, rising from \$10,431 million in 1990 to \$29,505.1 million in 1994. (See the following chart)<sup>89</sup>



Against the backdrop of the rapidly growing trade deficits with China, US national economic interests were no longer willing to pay the price for American geopolitical strategy. The consensus among the congressional leaders about the importance of China to US foreign policy had faded away; American government did not want to tolerate trade policies for the sake of foreign policy objectives. Many American companies, which were injured by the cheap Chinese exports, supported a tough position of the US government. In the USTR's annual report of 1991, it noted

<sup>89</sup> Data source: <http://www.census.gov/foreign-trade/balance/c5700.html>

that Beijing's administrative decisions created the trade imbalance.<sup>90</sup> To tackle the Chinese market barrier, Washington pressured Beijing to reduce tariff rates, relax import quota restraints, dismantle technical barriers to trade (i.e. intellectual property infringement), and improve the transparency of its trade regulation.

The two rounds of bilateral trade talks proved to be unproductive in June and August 1991. The trade imbalance between the US and China continued to widen. Facing contentious trade relationship with the US, China attempted to break existing coalition with the US and build new coalitions with other contracting parties. Long Yongtu said, we thought that GATT negotiation was multilateral. If the US did not talk to us, we could go to other contracting parties, for example the EU, Japan, or especially our friends in the third world.<sup>91</sup> This time, however, China's endeavor to employ its experience of restoring its seat with the UN did not work at the GATT. When the Sino-American negotiation was in deadlock, no other countries would like to talk with China.<sup>92</sup> A Japanese representative told the Chinese in private that Japan had to follow the US on this kind of important international issues for historical and political reasons.<sup>93</sup> China realized that the US possessed the leading power and a strong coalition at the GATT and that China's accession negotiation could not bypass the US.

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<sup>90</sup> The USTR's annual report noted the Chinese government raised tariffs, tightened controls over import licenses, and extended financial credits to export sectors. The prison labor in Chinese exports, from tea to textile, created a powerful political linkage between China's trade surplus and its violations of human rights. Office of the USTR, 1991 National Trade Estimate Report on Foreign Trade Barriers (GPO, 1991), pp. 43-52.

<sup>91</sup> Long Yongtu, "Woguo Fuguan Tanpan de Zuixin Qingkuang he Qiantu Zhanwang." [Updates and Outlook for the Negotiations for China's GATT Membership Resumption]. (Speech delivered at the Conference of Central Party School, Beijing, China, October 5, 1993, from *Selection of Central Party School Speeches*, 1994).

<sup>92</sup> My interview with the Chinese interviewee No. 1.

<sup>93</sup> Long Yongtu, "Woguo Fuguan Tanpan de Zuixin Qingkuang he Qiantu Zhanwang." [Updates and Outlook for the Negotiations for China's GATT Membership Resumption].

While Beijing was in this deadlock, Taiwan picked the timing to submit its GATT application in January 1990. As a very firmly set foreign policy goal, Beijing tried to block any of Taiwan's attempts toward being recognized by the international community; it opposed Taiwan's move immediately. The Bush administration changed the tone from that it favored the simultaneous accession of China and Taiwan to the GATT to that it was prepared to see Taiwan enter the GATT first. Beijing understood that it did not have upper hand with its own GATT application in deadlock, and that it had to employ some diplomatic flexibility. To achieve its position on Taiwan, Beijing had to negotiate with the US and rely on American mediation.

In the letter from Premier Li Peng to Sir Arthur Dunkel, the Director-General of GATT, and leaders of all contracting parties, Beijing modified its positions. First, PRC is the only legitimate government of China and Taiwan is part of China; second, Taiwan could join the GATT as a separate customs territory only after PRC joins GATT; and third, Taiwan's application must be consulted and agreed by the PRC government. With American involvement, Taiwan agreed to consider it. It took eight months for the statement to come into being. Later, this statement was announced by the GATT council chairman on September 29, 1992.

China began to take a cooperative stance at its negotiations with the US. Three Sino-American bilateral talks moved ahead, prisoner labor, intellectual property rights, and market access. Some imports from China into the US market were produced in prison-run factories. The US had determined that forced prison

labor is not an acceptable means of producing products on the international market, beginning with the Tariff Act of 1930 Section 307. Although China obviously had disagreement with the US, the two countries signed a “Memorandum of Understanding” in 1992 and a “Statement of Cooperation” in 1994.” In these documents, China agreed not to export goods made by prison labor to the US; the US could post a US Customs official in the American Embassy in Beijing; and this official may request to inspect facilities believed to be involved in prison labor.

Special section 301 of 1988 Omnibus Trade Act requires the USTR to investigate countries that fail to provide adequate and effective protection of US intellectual property rights. In April 1991, China was listed as one of the “priority foreign countries” under Special 301, which were chosen for the “number and pervasiveness” of the “acts, policies or practices” impeding US exports. In May, the USTR launched an investigation against China, and in November, the USTR threatened to impose \$1.5 billion trade sanctions should China fail to meet the US demand on January 16, 1992. Last-minute negotiations yielded the Chinese commitments: China agreed to join the Berne Copyright Convention and the Geneva Phonograms Convention and promised to strengthen its patent, copyright and trade secret laws and improve protection of US intellectual property. It required China to amend its copyright law so that computer software would be treated as literary work and subject to copyright protection with a term of 50 years.<sup>94</sup>

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<sup>94</sup> Nicholas Lardy, *China in the World Economy* (Washington, DC: Institute for International Economics, 1994), p. 80.

After Japan and Taiwan, China became the country running the third-largest trade surplus against the US. Senior administration officials began to signal “their desires to get tougher with China on the trade relationship.”<sup>95</sup> In August 1991, China pledged to begin reducing tariffs and curtailing licensing requirements for imports. Later, USTR Carla Hills called the Chinese efforts “unsatisfactory,” threatening with a Section 301 petition for “unjustifiable and unreasonable” trade practice, which impedes American exports.<sup>96</sup> On August 21, 1992, USTR announced a list of \$3.9 billion Chinese exports to the US that would be subjected to prohibitive tariffs if China failed to reach an agreement with the US by October 10, 1992.

Again, a last-minute deal was reached. The terms of this agreement were far-reaching. China agreed to lower tariffs on a series of commodities, gradually remove import quota permits, and increase the transparency of trade regulations. In exchange for so many compromises, the Chinese chief negotiator Tong Zhiguang insisted to insert one sentence – “The U.S. Government will staunchly support China’s achievement of contracting party status to the GATT.”<sup>97</sup> Amb. Sun Zhenyu, China’s Ambassador to the WTO commented, “China made a lot of concessions in this deal just in order to ink this in the agreement.”<sup>98</sup> China had understood the asymmetric interdependence with the US in the global trading net. By getting

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<sup>95</sup> John Burgess, “Bush Administration Includes China in List of Trade-restriction Offenders,” *Washington Post*, (March 30, 1991), p. A14.

<sup>96</sup> US Warns China with Trade Investigation. (Oct 16, 1991)  
<http://www.csmonitor.com/1991/1016/16041.html> See also *Inside Trade*.

<sup>97</sup> See Article VIII.2, Memorandum of Understanding Between The Government of The United States of America and The Government of The People’s Republic of China Concerning Market Access.

<sup>98</sup> My interview with the Chinese interviewee No. 9.

American support, the ticket back to the GATT negotiating table, it finally broke the deadlock.

China would very much like dealing with an American president who had biked on the streets in Beijing, rather than another president who called the Chinese leaders “butchers of Beijing” during his campaign. Rather than waiting to negotiate with Clinton, Beijing would feel more comfortable to strike deals with President H. W. Bush. This partially contributed to Beijing’s motivation to make significant concessions in various areas in the year of 1992, especially late in that year<sup>99</sup>, and to prepare for the change of presidency by putting American support in ink.

After the GATT council’s announcement about Taiwan in September 1992 and the bilateral agreement on market access in October 1992, China’s GATT negotiation sped up. In 1992, Deng Xiaoping’s tour to South China and the Fourteenth Sessions of the Chinese Communist Party Congress reestablished the economic reform policies and announced the goal to build a “socialist market economy.” In 1993, China took measures to open up its trade regime, including lowering import tariffs for 2,898 products. The Chinese negotiators were no longer burdened by contracting parties’ questions and their own answers about “planned commerce economy.” China’s political breakthrough and its successful conclusion of the series of negotiations with the US regained the momentum for its GATT accession.

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<sup>99</sup> John Kohut, “China prepares for Clinton,” *South China Morning Post*, (October 25, 1992), p11.



The multilateral talks moved after the Sino-American negotiations concluded successfully. In the fifteenth session in September 1993, the memorandum of China's economic and trade system was finally approved by the working party. China finished a questioning stage. From October 1992 and October 1993, five sessions of the working party were held. When China submitted its GATT application in 1986, the original estimation was that it could enter into GATT quickly like other developing countries or participate in the Uruguay Round as permanent observer and "graduate" when this round ended. After tremendous changes in the landscape of international relationships, apparently China could not join GATT as former Soviet satellite countries had. Since the Uruguay Round still kept going, the Chinese re-estimated that they would ride the new momentum and become a member by the end of this round.

Although China pushed efforts to enter into the stage of substantial negotiation about tariff and non-tariff reduction, the bilateral talks with the US did not move as smoothly as before 1989. In the 1990s, China's MFN status became an annual controversy in American foreign policy. As president candidate, Clinton criticized China's human rights; as president in office, he had to look tough, at least early in his term. In May 1993, Clinton linked the annual approval of China's MFN status to its the progress on human rights.<sup>100</sup> He extended China's waiver and MFN status for another year, but in Executive Order 12850, he set specific additional conditions for the mid-1994 extension of the waiver and China's MFN status.

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<sup>100</sup> See The White House Office of the Press Secretary, "Statement by the President on Most Favored Nation Status for China," (May 28, 1993). < <http://clinton6.nara.gov/1993/05/1993-05-28-presidents-statement-on-mfn-for-china.html>>

Clinton was criticized on his inconsistent China policy by human rights activists. On the Hill, Republicans, joined by some liberal Democrats, launched a bashing-China campaign, mainly focusing on four issues: Taiwan, Tibet, the Chinese exports of military technology, and human rights.<sup>101</sup> With other priority agenda items at hand, Clinton could not afford to look “soft” on China.

Across the political spectrum, a strong coalition, the so-called “New China Lobby,” was gradually formed to defend the MFN status for China. In early 1990s, the US business community began to perceive China as a rapidly growing large economy, which would have large potential for American exports and investment. Business people were in fear of big losses if they were shut out of the Chinese market. The lobby was composed of American business organizations, such as US China Business Council (USCBC) and Business Roundtable, the AmCham of Commerce in Hong Kong, which spoke for a normal relationship with China. Compared to the GATT application, the renewal of MFN status was an urgent, immediate issue, approaching every year to put the Sino-American relationship to a test. Political capital, which could have been focused on China’s GATT accession, had been necessarily diverted and spent on the battles for China’s MFN status as counterbalance on the Hill and in the administration.

When China received a “Discussion Document on the Drafting of China’s GATT Accession” through the American Embassy on June 21, 1993 and an invitation for high-level Chinese delegation to Washington, China interpreted this gesture as a

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<sup>101</sup> The campaign was led by Sen. Jesse Helms, the chairman of the Foreign Relations Committee and Sen. Frank Murkowski, the chairman of the Subcommittee on East Asian and Pacific Affairs.

sign that the American wanted to conclude negotiations on the draft protocol agreement. On July 22, 1993 right before the seventh round of bilateral talks, the Chinese chief negotiator, Gu Yongjiang told reporters that this round should focus on resolving the differences and result in a draft protocol agreement.<sup>102</sup> Later, this was proved to be over-optimistic. In her opening remark, the new AUSTR Dorothy Dwoskin said that she needed “a familiarization process” and wanted to “go through every aspect of the framework” that the two negotiating teams “had established.”<sup>103</sup> This signal implied a fundamental change of American negotiation position and estimation of timing, which disappointed the Chinese.

The US insisted that the original five demands should be put into the protocol agreement: First, a single and consistent national trade policy; Second, full transparency of trade regulations; Third, elimination all practices that were inconsistent with GATT, including non-tariff barriers; Fourth, a commitment to price-based market economy; Fifth, safeguard mechanisms to guard contracting parties from market disruptions. Additionally, the Americans wanted to talk about service sectors, such as banking, insurance, telecommunication, etc. so that it would reflect the new issue-topics under discussion for the agreement on the Uruguay

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<sup>102</sup> P.T. Bangsbe, “China Amends Proposal, Expects Accord on GATT Entry,” *Journal of Commerce*, (July 27, 1993), p. 3A. Also in Long Yongtu’s speech, “Woguo Fuguan Tanpan de Zuixin Qingkuang he Qiantu Zhanwang.”

<sup>103</sup> The opening remark of Dwoskin was, “I am new to US-China bilateral negotiation and I need a familiarization process. I will go through every aspect of the framework we had established and do my home work.” See Yang Jufang, “Shiwu Nian de Rushi Zhilu,” p. 1.

Round. China rejected the fourth and fifth demands and accused the US of setting a moving target during the negotiation.<sup>104</sup>

China had never expected that its developing country status would be an issue of its GATT accession. The IMF's publication in 1993 showed that China was the third largest economy of the world, if measured by purchasing price parity (PPP), and was projected to become the largest economy in the twenty-first century. In the eighteenth session of the working party, the US requested that China could join GATT as a developed country. China was surprised.<sup>105</sup> The US also presented a new non-paper as a guideline for the reforms China must take in order to enter GATT. China responded that it was neither able, nor willing, to work on this basis and pointed out ten areas that it was not prepared to discuss.<sup>106</sup>

The draft document for protocol agreement was "very rudimentary".<sup>107</sup> When the China case moved to the new Clinton administration USTR office, an accession based on "viable commercial terms" began to be emphasized in the bilateral negotiations. In 1980s, OECD secretariat prepared a study about China's potential GATT accession. In this study, OECD member countries declared that they wanted China in GATT. However, considering China's potential economic importance, they wanted a commercial basis for China's entry, rather than political

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<sup>104</sup> John Zarocostas, "No movement seen in negotiations over China's bid to rejoin GATT," *Journal of Commerce*, (March 16, 1993), p. 3A.

<sup>105</sup> See a news reporter's interview with Long Yongtu.

<http://chat.eastday.com/epublish/gb/paper22/1/class002200032/hwz535051.htm>

<sup>106</sup> Sheel Kohli, "Beijing Attacks US Stance on GATT Re-entry," *South China Morning Post*, (July 29, 1994), p. 1. Those ten issue-areas included safeguard, agriculture, government procurement on civil aircraft, export duties, intellectual property protection, etc.

<sup>107</sup> My second interview with the American interviewee No. 10, in 2013.

terms. When the Western European countries stressed in 1980s that they were not willing to see political considerations dominant in the negotiations for China's accession as they had been for Eastern European countries, the US had the strategic geopolitical landscape in mind. With the fundamental change of international politics and new administration coming into office, the new USTR sided with the OECD countries and did not want commercial interests to be slighted. To the Chinese, negotiations with the US became difficult, starting from USTR Mickey Kantor, as a former Chinese negotiator recorded.<sup>108</sup>

However, China had set the GATT accession on its policy agenda. Beijing was afraid that it would be locked out from rule-making if it could not join the GATT before the end of the Uruguay Round and became a WTO founding member. Beijing was "frantic" about this idea.<sup>109</sup> Under the time pressure, China moved to make concessions. In the first half of 1994, it released a series of measures to reform its trade regime, to show its sincerity and determination.<sup>110</sup> In August, it submitted a new concession package, including a pledge to reduce all agricultural and industrial tariffs and to revoke 90% of non-tariff measures. This package had a preliminary list on market access for service sectors. On November 28, 1994, China announced its decision to set December 31, 1994 as its deadline to negotiate a final protocol. At the same time, Long Yongtu, the Chinese chief negotiator told the GATT members,

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<sup>108</sup> My interviews with the Chinese interviewees, No. 1 and No. 22, respectively.

<sup>109</sup> My first interview with the American interviewee No. 10, in 2008.

<sup>110</sup> These measures implemented in 1994 included the followings: (1) China abandoned the import permit and quota management for 283 products, repealed 253 international regulations published by MOFTEC, and abolished 93 foreign trade management regulations; (2) China enacted *Measures of Quota Biddings for Export Commodities*, released *Decisions on Further Deepening Foreign Economic and Trade System Reform*, and enacted *Foreign Trade Law*; and (3) China abolished non-tariff measures over 208 products.

“Unless a substantive agreement is reached by the end of the year, China is not going to offer further concession and is not seeking to restart talks.”<sup>111</sup> China was playing the game with high-risk strategy, which proved to be fruitless in the hindsight.

In the multilateral negotiations, China made another attempt at a breakthrough with other countries. It felt that the US did not give credit enough to its reform measures and concessions, so China moved to break up the existing coalition around the US and build a new one around itself. Again, it was told, “The US has been entrusted with negotiating China’s protocol. There is absolutely no way Beijing can get round that fact.”<sup>112</sup> The Chinese attempt to break the American’s coalition failed, again. Meanwhile, the US, the EU, and Japan met to discuss China’s GATT accession and successfully built a coalition for “a united Western position,” which was “expected to enhance the chances of nudging Beijing to make more radical trade-related domestic economic reforms and bigger market-opening concessions.”<sup>113</sup>

Holding the leading position in the international trade system, the US successfully formed a coalition with other developed countries, linked the progress of multilateral negotiations for China’s GATT accession to the Sino-American bilateral bargaining,<sup>114</sup> and achieved an advantageous position at the bilateral

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<sup>111</sup> Guy De Jonquieres and Frances Williams, “High-risk Strategy in Global Game: Talks on China’s Application to Rejoin GATT Are Nearing a Climax,” *Financial Times*, (December 19, 1994), p. 17.

<sup>112</sup> Geoffrey Crothall, “China Hints at Bypassing US in GATT Talks,” *South China Morning Post*, (March 3, 1994), p. 1.

<sup>113</sup> John Zarocostas, “US, EU, Japan discuss China GATT Bid Approach,” *Journal of Commerce*, (June 20, 1994), p. 3A.

<sup>114</sup> “Kantor Warns China Over Possible Retaliation in IPR Dispute” *Inside US Trade’s World Trade Online*. December 9, 1994.

negotiation table. “The bilateral and multilateral talks are obviously intertwined,” USTR Kantor said, “We made that very clear [to the Chinese].” For example, Kantor also made clear that the bilateral IPR talks were linked to the multilateral discussions on China’s WTO entry. Its willingness to make concession to the US on the bilateral table became an indication of its willingness to meet the requirements of the multilateral table.

Although China was clear that it could not join the GATT as other Eastern European countries did, it still held the expectation to join the GATT at the end of Uruguay Round and become a founding member of WTO. In order to make it happen, China sped up with more measures to open up its trade regime in 1994. Furthermore, it started to negotiate against its own deadline. Its last offer was virtually take-it-or-leave-it. Its failure indicated a serious miscalculation, which could have been avoided with rational analysis. Unfortunately, this final offer still fell short of its counterpart’s expectation, especially in agriculture, services, etc.

At the international level, the risky strategy proved to be unsuccessful. At the end of November, a US official said that “it is impossible to finish the negotiations in the next two weeks even if all the outstanding issues were settled immediately. There is no protocol text and no working party report, which takes considerable time to work out. The chairman of the China working party has made it clear he will not convene the group until there is a momentum in the bilateral negotiations.”<sup>115</sup> At the domestic level, it aroused wide criticism, which implied that more

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<sup>115</sup> See “China Begins New WTO Entry Talks with Few Hints of Concessions,” Inside U.S. Trade’s World Trade Online. December 2, 1994.

bureaucratic organizations in China were involved in the GATT talks than before. The trade talks were no longer limited to a small group of decision makers at the very top.

As a bounded rational player, it took some time for China to understand the effect of the end of Cold War on the trade talks, including the price it now must pay to participate in globalization. With the new pay-off function, its estimation – to “graduate” at the end of the Uruguay Round – did not change, though. Its aspiration level for the participation with the GATT was never constant in stages one and two. When American brought it to the table in 1980s, China was very cautious. It conducted careful studies on other East European countries. Yet, at the end of 1994, it employed a risky strategy by virtually asking its counterparts to either take its offer or leave it and by pledging not seeking to restart talks. In the 1990s, the incremental increase of trade surplus against the US and the ensuing trade frictions became the new trade pattern between the two countries. The change of China’s domestic politics finally allowed the Chinese negotiators to talk about its “market economy”, however, the changes in the American domestic situation and in international relations disadvantaged China’s GATT application. From its two failed attempts of breaking the existing coalition, China learned that the bilateral negotiation with the US would be the cornerstone of the accession.

### **Stage III: From 1995 to 1999**



In the second stage, China struggled out of one deadlock, which came into being after the Tiananmen Square incident, and walked into another deadlock when it failed to join the GATT the end of 1994. In the third stage, China reflected on its previous eagerness, which weakened its bargaining position in the second stage and readjusted its negotiation strategies. Through the American business community that had interest in China, China gained more leverage in the third stage than the second, by possessing credible threats. When the economic struggle and the impasse of SOE reform festered, some in the top leadership believed that entry into the WTO would benefit the Chinese economy. In the late 1990s, when the politics and economic needs in the two countries pointed to the same direction, China grabbed the opportunity.

For the WTO application and the bilateral talks with the US, the Chinese president Jiang Zemin laid out a 16-word set of principles in a politburo meeting: *Bu Ji Bu Zao, Shun Qi Zi Ran, Yin Shi Li Dao, Shui Dao Qu Cheng* (Being patient, no rush; let the negotiation take its course; adapt to the circumstance, adroitly modify the situation; a canal is formed when water flows). China started to take lessons and to harden its position. As the first move, it linked bilateral trade relations with the US to its multilateral process, by suspending the 1992 market access agreement and claiming that the US did not keep the promise to “staunchly support” China. When Clinton Administration threatened to impose over \$1 billion in trade sanction, China threatened to counter-retaliate against a number of US exporters and US companies,

which applied to establishing holding companies in China.<sup>116</sup> It also said that China would only take up the issue [of market access in the IPR] “when negotiations resume on China’s accession to the WTO.”<sup>117</sup>

From the 1994 MFN case, China learned that the so-called New China Lobby could apply pressure over the government. The trick was to let American business groups worry about their interests in China, and they will move. American multinational companies, especially in labor-intensive industries, were attracted to China’s vast reservoir of cheap manpower as well as its big domestic markets. Initiated by shoemakers, the New China Lobby collected a variety of business communities.<sup>118</sup> On March 14, 1994, they held a closed meeting with Secretary Warren Christopher in China. At a March 15, 1994 Council on Foreign Relations-sponsored forum in Washington, they criticized linking human rights with trade issues. According to Christopher, President Clinton was aware of and influenced by business community’s concerns.<sup>119</sup> Christopher even warned that Clinton would be blamed for “losing China.”<sup>120</sup> In May 1994, Clinton delinked China’s MFN status from human rights. From this experience in 1994, China understood that it could nudge American exporters who were seeking to export to China and multinational companies, which were applying to establish subsidiaries in China. When China selectively picked the targets, its threats became effective.

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<sup>116</sup> See “US-China IPR Talks Likely to Resume in Effort to Stave Off Sanctions,” Inside U.S. Trade’s World Trade Online. January 6, 1995.

<sup>117</sup> See “China Refuses to Discuss Key US Demands in IPR Negotiations,” Inside U.S. Trade’s World Trade Online. January 27, 1995.

<sup>118</sup> My interview with the American interviewee No. 6.

<sup>119</sup> Warren Christopher, *In the Stream of History, Shaping Foreign Policy for a New Era* (Stanford: Stanford University Press, 1998), page 438.

<sup>120</sup> *Ibid*, p 153, 438.

To the Chinese threats, the American response was tactical. Although the USTR still emphasized on “commercially reasonable and acceptable” term, as usual, it affirmed that China “by and large has complied with the 1992 market access agreement.” It also pointed out that China “has not complied with some important aspects.”<sup>121</sup> An overall formal finding of non-compliance would have placed the USTR under the pressure to act against China according to the provisions of Section 301. At the conference before departure for Beijing, USTR Kantor fell short of saying that China was not complying with the 1992 market access agreement.<sup>122</sup> When China attempted to link bilateral agreement on market access to its WTO accession, Kantor tried to delink the bilateral progress from China’s multilateral talks. He differentiated his bilateral efforts to open the Chinese market from negotiations to have China join the WTO. “The US is not saying that clearing up the bilateral market access issues is a condition for China to enter into the WTO.”<sup>123</sup>

From March 9 to 13, 1995, Kantor and Wu Yi reached The US-China Eight-Point Agreement, which put an end to the enmity between the two nations over China’s GATT/WTO entry. In this succinct accord, China agreed to “lift the suspension of the 1992 market access agreement;”<sup>124</sup> the US agreed to “address realistically the issue of China’s developing country status” and restated its support for China’s WTO application. The US agreed to grant China “special developing

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<sup>121</sup> See Barshefsky’s remark, “Barshefsky Says China Undecided on Continuing WTO Talks,” Inside U.S. Trade’s World Trade Online. March 3, 1995.

<sup>122</sup> See “Kantor Announces Increased Bilateral Efforts to Open Chinese Market,” Inside U.S. Trade’s World Trade Online. March 10, 1995.

<sup>123</sup> *Ibid.*

<sup>124</sup> See “U.S.-China Eight-Point Agreement,” Inside U.S. Trade’s World Trade Online. March 17, 1995.

country status.” China would be able to phase out trade barriers over a number of years, according to issue-by-issue timetables required of more advanced countries. China was not completely satisfied, but felt it was better than the developed country status. Apparently, this was not a “best” move or “maximizing the pay-off function,” but it was “satisfactory,” which Chinese leaders opted to take. Both parties also agreed that bilateral talks “will begin immediately upon resumption of WTO discussions in Geneva.”<sup>125</sup>

After the negotiations on developing country status, China stepped up to harden its position. Later that month in a meeting, Chinese officials contradicted Kantor’s public statement that China would return to negotiations in Geneva in mid-April and to resume the talks after signing the Eight-Point Agreement.<sup>126</sup> On April 11, 1995, Wu Yi sent a confidential letter to Kantor, pressing “for assurances that the US will extend unconditional MFN status...once it joins the WTO.” Comparing to its position in the first and second stage when China wanted to join GATT first and organize a working party to review the issue later, it was playing a tougher hand now. A Chinese official said a week later, “China would not begin talks with the US until the issue of non-application raised in Wu Yi’s letter is settled.”<sup>127</sup> This move increased the uncertainty in the bilateral bargaining.

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<sup>125</sup> *Ibid.*

<sup>126</sup> Tony Walker, “Beijing Denies Kantor Claim on WTO Talks,” *Financial Times*, (March 17, 1995), p. 5. See “China Blocks Effort to Resume WTO Accession Talks This Month,” *Inside U.S. Trade’s World Trade Online*. April 7, 1995. Also see “China Backtracks on March Commitment to Implement 1992 MOU,” *Inside U.S. Trade’s World Trade Online*. April 14, 1995.

<sup>127</sup> See “China Seeks Full MFN from US as a Condition for New WTO Talks.” *Inside U.S. Trade’s World Trade Online*. April 21, 1995.

At the time of negotiation stalemate, the EU and Japan leaned toward a softer line than stage one and two. In March 9, 1995 congressional testimony, Kantor emphasized that the US demands on a “commercial basis” are backed by “almost all, not all” US trading partners. He said that the EU is resolute in its support, but he didn’t mention Japan. At the G-7 summit of June 1996, Japanese Prime Minister Ryutaro Hashimoto pressed other leaders to admit China into the WTO.<sup>128</sup> The Ministry of International Trade and Industry (MITI) published a report in 1997 and made an argument that small countries in Asia and elsewhere could achieve bargaining power with China on trade issues only through the WTO once China was admitted.<sup>129</sup>

The EU’s support for the US position gradually changed. When China refused bilateral negotiations with the US, China welcomed the “very informal” meetings, one in May and the other in July, organized by chairman of the WTO working party in 1995.<sup>130</sup> When the US was speculating whether and how to endorse Renato Ruggiero as the new WTO director general, the split between the EU and the US loomed. An EU official “accused the US of resorting to ‘rough tactics’ in an attempt to get out of a tricky dilemma over whether and how to support Ruggiero.”<sup>131</sup> In April 1995, EU trade commissioner Leon Brittan was invited to Beijing. He “called on all parties involved in the talks on China’s accession to the World Trade

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<sup>128</sup> Hijiri Inose, “Hashimoto Sets Japan’s Agenda for This Week’s G-7 Summit. He’ll Push African Aid, China WTO Membership,” *The Nikkei Weekly*, June 24, 1996.

<sup>129</sup> Anthony Rowley, “Japan Urges Quick WTO Entry for China,” (Singapore) *Business Times*, March 31, 1997.

<sup>130</sup> See “China Blocks Effort to Resume WTO Accession Talks This Month,” *Inside U.S. Trade’s World Trade Online*. April 7, 1995. Also see “China Backtracks on March Commitment to Implement 1992 MOU,” *Inside U.S. Trade’s World Trade Online*. April 14, 1995.

<sup>131</sup> See “Ruggiero Offers ‘Assurances’ on Priorities as New WTO Director General,” *Inside U.S. Trade’s World Trade Online*. March 24, 1995.

Organization to take fresh positions” and “urged flexibility” to break the deadlock.<sup>132</sup> In November 1996, he expressed his impatience with the US insistence that China join the WTO as a developed rather than a developing country. “The prime target for Sino-European cooperation must be the early conclusion of long-overdue negotiations for Chinese membership.”<sup>133</sup> A rift among Quad Economies on China’s WTO accession formed.

To make the next move, American negotiators had to weigh between the split among Quad countries, the pressure from the industries, and the sway from Congress. The swing of the EU and Japan was noticed by the US. Deputy USTR Charlene Barshefsky told congressional staff that China’s “stonewalling” is “increasing the danger that the EU and Japan will back away from their current demands that China join on a commercially sound basis.”<sup>134</sup> The US Chamber of Commerce urged the USTR to stand firm, especially on developing country status and market access for foreign firms.<sup>135</sup> On the Hill, Senator Hank Brown (R-CO), a member of Senate Foreign Relations Committee, was writing a resolution, which “would express the sense of the Congress that Taiwan’s application for membership in the WTO should not be linked to China’s WTO application.”<sup>136</sup>

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<sup>132</sup> See “Brittan Calls on All Sides to Make Fresh Start on China WTO Entry,” Inside U.S. Trade’s World Trade Online. April 21, 1995.

<sup>133</sup> Joe Studwell, “EU, US Split on China’s WTO Bid, EU Negotiator Presses for Entry at Talks,” Journal of Commerce, (November 18, 1996), p. 1A.

<sup>134</sup> See “Barshefsky Says China’s Stall on WTO May Weaken Japan, EU Stance,” Inside U.S. Trade’s World Trade Online. November 3, 1995.

<sup>135</sup> See “Chamber Calls for Further Concession from China on WTO Accession,” Inside U.S. Trade’s World Trade Online. November 10, 1995.

<sup>136</sup> See “Hank Brown Preparing Amendment on Taiwanese WTO Accession,” Inside U.S. Trade’s World Trade Online. November 10, 1995.

The split within the US government on Taiwan's accession to the WTO became visible. Undersecretary of State Joan Spero publicly maintained that there was no linkage between the accession of China and Taiwan. Barshefsky admitted in Beijing that there is an informal agreement among WTO members that China and Taiwan will have to join at the same time.<sup>137</sup> Deputy Treasury Secretary Lawrence Summers said in a meeting of the American Chamber of Commerce that Taiwan had made progress in its accession negotiations.<sup>138</sup> Due to the freedom in news reports and transparency of information in the US, American negotiators' counterparts would be able to observe the splits, calculate American negotiator's domestic bargaining position, and find which industries could be its foes or friends.

The USTR gradually switched to a "softer" strategy. After Barshefsky told congressional staffers that China had threatened to block business deals of US companies who advocated a tough stance by the US on China's WTO accession, Kantor denied it one week later.<sup>139</sup> Later, Barshefsky said China has done a good job of implementing the 1992 market access agreement before she highlighted US concerns.<sup>140</sup> She began to emphasize the "mutual goals" and American "facilitation" to the Chinese. "China must decide how it wants to move ahead in its bid to join the WTO before the US can decide how to best facilitate China's accession." "If it is prepared to move forward, then we can turn to the next step of determining how

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<sup>137</sup> *Ibid.*

<sup>138</sup> P.T. Bansberg, "Taiwan Gets a Boost, Then Chiding US Official Pushes for WTO Membership," *Journal of Commerce*, (September 18, 1996), p. 3A.

<sup>139</sup> See "US Will Assess Compliance with China IPR Deal Early Next Year," *Inside U.S. Trade's World Trade Online*. November 10, 1995.

<sup>140</sup> See "Barshefsky Calls on China to Take Next Step on WTO Accession," *Inside U.S. Trade's World Trade Online*. November 17, 1995.

best to achieve our mutual goals.” She delivered a “road map” to Wu Yi to outline the basic issues to be resolved before China can join the WTO on a commercially acceptable basis.<sup>141</sup> She also told Zhu Rongji how important the foreign competition would be to revive the Chinese SOEs.<sup>142</sup>

Almost at the same time, China showed interest in Sir Leon Brittan’s proposal of the “transition period.” Earlier, Sir Leon Brittan suggested the Quad economies to grant China “provisional membership” in the WTO, but Kantor rejected the idea and said China would not support it.<sup>143</sup> Brittan made another proposal to Wu Yi that China accept “in principle” all obligations of the WTO, but they be implemented over a negotiated period of time. If China agreed to a more flexible formula for WTO admission proposed by the EU, Brittan assured that he would “take the matter up with extreme urgency” to the US.<sup>144</sup> The compromise of phase-in method would protect those areas over which China had great concerns with a transitional period and, meanwhile, China still had to make concessions on the rest.

Later at the November 1995 summit of the Asia-Pacific Economic Cooperation Forum in Osaka, Japan, where leaders delivered proposals for trade liberalization, China’s offer, tabled by the Chinese President Jiang Zemin, was “probably the most substantial” one. According to the announcement, in 1996 the simple average tariff will be reduced by at least 30% as a result of cuts on over

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<sup>141</sup> *Ibid.* Also see my interview with the American interviewee No. 10 in 2008.

<sup>142</sup> My interview with with the American interviewee No. 10 in 2008.

<sup>143</sup> See “US Will Assess Compliance with China IRP Deal Early Next Year,” Inside U.S. Trade’s World Trade Online. November 10, 1995.

<sup>144</sup> See “Barshefsky Says China’s Stall on WTO May Weaken Japan, EU Stance,” Inside U.S. Trade’s World Trade Online. November 3, 1995. Also see Joe Studwell, “EU, US Split on China’s WTO Bid, EU Negotiator Presses for Entry at Talks,” Journal of Commerce, (November 18, 1996), p. 1A.



4,000 line items. In addition, China pledged to eliminate quotas and licensing requirements on 170 tariff lines, or more than 30% of commodities now subject to those restrictions.<sup>145</sup> Without any foreign pressure, China initiated this trade liberalizing measure. The move indicated that the Chinese leadership realized that trade liberalization was in the interest of China<sup>146</sup> and intended to build an image of a more open member of the international community.

In the two years when bilateral negotiation was in stalemate, China engaged in multiple-track diplomacy in order to influence American decision-making. As discussed earlier, China had learned from the MFN case of the growing importance of the Chinese market to US business interests and understood how to motivate those interests to influence policy making in the Administration and Congress. The occasional visits of Chinese officials to the US regularly had big buying missions. Those purchases, including US grains, aircrafts, automobiles, etc. not only gained considerable positive publicity, but also targeted the potential political support on the Hill China needed to win.<sup>147</sup> China also sponsored expense-paid trips to China by congressional members and staff. It appeared that such efforts influenced US legislators in positive ways insofar as China was concerned. In January 1997, a bill was even introduced to repeal the Jackson-Vanik Amendment by House International Relations Asia and Pacific Subcommittee Chairman Doug Bereuter (R-NE).

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<sup>145</sup> See "Kantor Says Details Still Missing on Chinese Liberalization Offer," Inside U.S. Trade's World Trade Online. November 24, 1995.

<sup>146</sup> My interview with the Chinese interviewee No. 12.

<sup>147</sup> Susan S. Xu, "China's Foreign Lobbying: Reflection on China's Foreign Investment Policy." Paper presented at International Studies Association Annual Conference, San Francisco, CA, April, 2013.

On the US side, Clinton's trade agenda was in stalemate, too, when he was caught in between his labor and environmental constituency and the pro-business Republican votes he needed. Clinton's framework talk with Japanese Premier Hosokawa failed in 1994, and later, the dispute almost led to a trade war.<sup>148</sup> Despite Clinton's impressive work on NAFTA in 1993 and solid reelection in 1996, he could not get enough support for fast track in 1997 due to lack of personal credit on both sides of the House. The WTO Ministerial Conference, held in Seattle in December 1998, became an impasse.<sup>149</sup> Clinton declared labor issues to be an American priority, which provoked broad concern. The failure in Seattle was another "major blow to Clinton's trade leadership."<sup>150</sup>

Clinton administration proved to be effective in completing the trade work of its predecessors, yet it was still searching for its own initiative and its own trade legacy. When it came to Clinton's second term, his trade presidency needed him to switch his attention. Both Russia's and China's WTO accessions moved slowly. When Clinton administration took initiatives, Russia seemed not very interested.<sup>151</sup> Allegedly, Clinton got hold of Jiang at an APEC meeting and suggested to make progress on the bilateral talks for China's WTO accession.<sup>152</sup> China grabbed the opportunity immediately. The Chinese quick response to Clinton's initiative had its economic causes.

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<sup>148</sup> For details, see Schoppa, *Bargaining With Japan: What American Pressure Can and Cannot Do*. Chapter 9.

<sup>149</sup> John S. Odell, "The Seattle Impasse and Its Implications for the WTO," Paper presented at the Convention of the International Studies Association, Chicago, February 2001.

<sup>150</sup> I. M. Destler, *American Trade Politics*, p271-73.

<sup>151</sup> My interview with the American interviewee No. 9.

<sup>152</sup> My interview with the Chinese interviewee No. 12

In the second half of the 1990s, the Chinese economy was not doing well. Foreign direct investment was the drive of China's GDP growth; now it was declining in terms of amount and number. The Asian financial crisis occurred in 1997, and China's exports growth deteriorated. State-owned enterprises (SOE) were struggling with restructuring and privatization. With lack of flexibility and profitability, most of SOEs had poor performance and incurred non-performing loans (NPLs). At the downside of the economy, they could not get new loans. This was prevalent in textile industry as well as many other sectors. In the four quarters of 1999, the fixed assets investment growth rate dropped all the way, from 23.8%, to 16.2%, to 8.5%, and then to 6%.

When China's economic reform reached this bottleneck, the government's policy tools did not function well. The political reconfirmation for the economic reform and open-door policy in early 1990s had revived the economy. In 1992, the growth rate reached 14.2%; in 1993, 13.5%. When inflation mounted to 14.7% in 1993, the Chinese government implemented contractionary monetary policy to suppress inflation. The GDP growth rate fell all the way from 10.5% in 1995 to 9.3% in 1997, and to 7.1% in 1999. Inflation fell significantly in 1996; retail prices began to drop in 1997. At this time, the government tried to stimulate the economy with expansionary monetary policy, but it appeared to be ineffective. China had got out of inflation, but it quickly encountered deflation. The Chinese government gave the priority of economic policy to getting a GDP growth rate at 7% or higher because it was confronted with not only the economic problems, but also unemployment.

The social issue was threatening China's development and stability in the late 1990s. Income inequality, mainly the rural-urban divide and regional disparities, had widened and would deteriorate if the growth rate dropped, and job creation slowed down. The rural population, 45% of the labor force nationwide, contributed just 11.9% of the GDP. Unemployment and underemployment were substantial in rural areas. In the cities, the supply of rural labor in the industrial sectors was already elastic. Moreover, the cities had their own problems. In the wave of SOE privatization, 20 to 30 million blue-collar workers were laid off. Many of them were not absorbed into the private sector, and their pensions were paid in the way of "pay-as-you-go". Laid-off city workers, coupled with the oversupply of rural labor, were a potential cause of social unrest. In the past, it was rapid growth that offered the Chinese leaders leeway to sort out the inequality problems. When the GDP growth rate slid downward late 1990s, the stability of the society and even the political leadership was endangered.

At this time, a move to the WTO looked beneficial. Macroeconomic research showed that the economic boost caused by a WTO entry would assure a high GDP growth rate for at least a couple of years after the accession. Some in the top leadership believed that the WTO entry would benefit the Chinese economy as a whole more than the harm it could bring to some industries. Allegedly, there was no complex, comprehensive quantitative research to support this argument.<sup>153</sup> At the time of SOE reform, China was in dire need of an active private sector, which would absorb oversupply of the labor. Foreign investment, if allowed to access cheap

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<sup>153</sup> My interview with the Chinese interviewee No. 3.

Chinese labor and raw material, could be an important contribution to job market. On the flip side of the coin, it may compete with and even choke local business. It was the forceful argument of the opponents and lasted even after China entered into the WTO. Besides, China believed that another round of multilateral trade negotiation would begin soon. If it could not join the WTO before the new round, it was afraid that its interests, as a developing country, would not be considered.

On the two sides of the Pacific, the political and economic needs of the two countries pointed to the same direction in the late 1990s. In October 1997 during Jiang's state visit to the US, the two countries agreed that "China's full participation in the multilateral trading system is in their mutual interest." The two parties agreed to intensify bilateral negotiations on market access so that "China can accede to the WTO on a commercially meaningful basis at the earliest possible date."<sup>154</sup> The Chinese still emphasized "full participation"; the Americans stressed on "a commercially meaningful basis." Nevertheless, from then onward, bilateral talks intensified. Jiang's visit was certainly a very big buying mission. The trade delegation signed contracts of \$4.26 billion with the US companies. In March 1998, China submitted a list of nearly 6000 products for tariff reduction.

Although China wanted to take the opportunity of Clinton's visit to China in June 1998 to conclude the talks, Washington rejected this idea due to domestic politics. Clinton promised to personally get involved in the bilateral negotiations. At this time, Clinton was being investigated for a political sex scandal with Monica

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<sup>154</sup> See "Joint US-China Statement," Inside U.S. Trade's World Trade Online. October 30, 1997

Lewinsky, which led to an impeachment trial later. Allegedly, Clinton wrote a letter to Jiang Zemin on November 6, 1998, stating the hope that the WTO issue could be resolved in the first quarter of 1999. On February 8, 1999, Clinton sent a second letter, expressing his hope that the bilateral negotiations should be concluded during Premier Zhu's visit. On February 12, a third letter was about the draft package.<sup>155</sup>

China took all the signals seriously. In response to the positive signals, China held meetings at State Council level and then Politburo level in February 1999, in order to keep all relevant bureaucratic leaders in tune with the top. On February 23, 1999, Clinton sent a large delegation to Beijing and held intensive negotiations. The two parties reached consensus on many issues, including tariffs on industrial goods and agricultural goods, and non-tariff measures, and began to seek the right moment to sign the deal. In March 1999, as the North Atlantic Treaty Organization (NATO) launched bombing in Serbia, there was hesitation in the Chinese leadership on whether Zhu's visit to the US in April should be kept during the tension over Kosovo and whether the bilateral talks for the WTO entry should continue.

Premier Zhu was hesitant about the trip; he was speculating whether he would be able to bring home a deal from his visit to the US. On one hand, China got more positive signals from the US. On March 29, 1999, Secretary of Commerce William Daley told the media in Beijing International Hotel that Clinton came to China in June 1998 against 150 congress members' opinion, and "it was a successful

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<sup>155</sup> Joseph Fewsmith, "China and the WTO: The Politics Behind the Agreement," *The National Bureau of Asian Research Analysis*, Vol. 10, No. 5, (December 1999), p23-39.

mission.” “So you just have to make the right decisions and move forward.”<sup>156</sup> Dr. Kenneth Lieberthal, Senior Director for Asia at the NSC and USTR Barshefsky persuaded their counterpart, Long Yongtu, that Zhu should keep his visit in April.

On the other hand, the Chinese were confused by the opposite message. Setting aside Kosovo, the Sino-American relationship had a lot of tension in 1999, including the spying issue, the Cox report, human rights, and so on. From the media reports, the Chinese learned of the American domestic debate about the trade deal, and they knew that “in the White House, some are getting cold feet,” and that “some wonder whether the Congress will torpedo the deal.”<sup>157</sup> Eventually, with the support of Jiang Zemin, Zhu decided to visit the US, in the hope that a deal will be reached.<sup>158</sup> When Zhu was traveling across the Pacific, Clinton gave an optimistic speech at United States Institute of Peace.<sup>159</sup> Dr. Lieberthal wired the transcript of the speech to Zhu when he was on the plane. Zhu was satisfied.<sup>160</sup>

Although the internal coordination may be painstaking, the Chinese tended to stay on the same pitch while negotiating with foreigners. At least, the internal divides were not very visible. The freedom of information in the US makes the different opinions within the American government visible to the general public, as well as their negotiation counterpart overseas. The visibility may have impact on

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<sup>156</sup> See “Daley Press Briefing at Beijing International Hotel,” Inside U.S. Trade’s World Trade Online, April 1, 1999.

<sup>157</sup> David E. Sanger, “White House Offers China Plan” The New York Times, March 28. Section 4; Page 2; Column 4

<sup>158</sup> See “China Hopes for a Deal on WTO during Zhu’s Visit,” Inside U.S. Trade’s World Trade Online, April 6, 1999.

<sup>159</sup> William Clinton, “Remarks to the United States Institute of Peace,” April 7, 1999.  
<<http://www.gpo.gov/fdsys/pkg/PPP-1999-book1/pdf/PPP-1999-book1-doc-pg506.pdf>>

<sup>160</sup> My interviews with the American interviewee No. 3, in 2008 and 2013.

the bilateral negotiations. It could effectively transfer pressure onto their counterpart and increase American negotiators' leverage; alternatively, it could also send confusing signals, dampen the counterpart's enthusiasm and willingness, and even delay a deal. The USTR's effective usage of congressional pressure is the former, though what happened after Zhu came to Washington is the latter. Senate Majority Leader Trent Lott (R-MS) charged that the Clinton Administration was pressing for the China WTO deal because it was desperate to announce a success. It would sign "any agreement" during the Chinese premier's visit.<sup>161</sup> Confronted with domestic pressure, Clinton's advisors divided on whether to sign the deal when Zhu was in Washington.

On one side, NSC head Samuel Berger, State Secretary Madeline Albright and USTR Charlene Barshefsky favored the deal. On the other side, Treasury Secretary Robert Rubin, NEC Gene Sperling, and others worried about labor unions, the congressional ratification, and the impact of China issue on the 2000 election. They speculated that since Clinton's presidency had just been weakened in 1998, a deal with China for the time being would damage not only Clinton's presidency, but also the Democratic Party.<sup>162</sup> Rubin has Clinton's respect, and thus powerful influence. Clinton decided to back out of the deal at the last minute, and explained to Zhu that Congress would vote against the deal. Zhu had no better option but to agree to conclude the deal a little bit later. The Clinton administration estimated to wait for two weeks or so to sign the deal. In order to save face, they got a side deal, the

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<sup>161</sup> See "Senator Trent Lott Says China WTO Entry Is Wrong," Inside U.S. Trade's World Trade Online, April 8, 1999.

<sup>162</sup> My interview with an American senior official, anonymous upon request.



Agricultural Cooperation Agreement, for Zhu to sign, and also invited Zhu for a state dinner.<sup>163</sup>

On April 8, 1999, without Chinese permission, a joint statement was released on the USTR website, revealing all concessions China had made. The reactions in the two countries were different. Textile people in Hong Kong read it and sent their anger to Beijing, which got hold of the Chinese delegates in the US. In Washington, the Chinese furiously complained to the Americans.<sup>164</sup> The US admitted that the release was a mistake and agreed to issue a new joint statement, which manifested its “support of the common goal of admission of the PRC to the WTO on strong commercial terms in 1999.”<sup>165</sup> At the White House briefing on the next Monday, the US business community gave Barshefsky a standing ovation and criticized Clinton for losing the opportunity to wrap up a very good deal.<sup>166</sup> Clinton called Zhu when Zhu was in Canada and offered to send Barshefsky up there to finish the deal. Zhu refused and asked the US to send a delegation to Beijing. Later, China claimed that the released document was simply the American demands.<sup>167</sup>

On May 7, the unexpected NATO bombing of the Chinese Embassy in Belgrade occurred. In China, the ensuing nationalistic protests against the US spread widely, which made it impossible to sign the deal soon. When Clinton called Jiang to explain the bombing was accidental, he suggested at a couple of times

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<sup>163</sup> My interview with the American interviewee, No. 3.

<sup>164</sup> My interview with the American interviewee, No. 3.

<sup>165</sup> See “US-China Joint Statement on Status of WTO Negotiations,” Inside U.S. Trade’s World Trade Online, April 8, 1999.

<sup>166</sup> My interview with the American interviewee, No. 6.

<sup>167</sup> See Shi Guangsheng’s review about WTO negotiations, <  
<http://cpc.people.com.cn/GB/218984/222139/14777410.html>>

resuming the bilateral talks for China's WTO entry. Jiang refused. Clinton granted China MFN status on June 3, earlier than the previous years. In July, David Andrews, the legal advisor of the US State Department, announced the decision to make "humanitarian payments" of \$4.5 million to the bombing victims and their families.<sup>168</sup>

At risk were not only the bilateral trade relationship, but also the broader Sino-American relationship. To restore the relationship, Clinton sent three top aides, Larry Summers, Kenneth Lieberthal, and Bob Novick, to China. They flew from the US to China, from Beijing to Lanzhou, and finally got hold of Zhu for a meeting<sup>169</sup> when Zhu was engaging in the project of West China Development. Apparently, Zhu Rongji was unhappy about Clinton's judgment in April, but was convinced that it was a mistake, instead of a setup.<sup>170</sup> With Clinton's permission, they agreed to three of Zhu's requests. Later, Zhu said he talked with Summers about the foreign ownership ratio in telecommunication and insurance,<sup>171</sup> among others. After the confidential Lanzhou Meeting, China agreed to resume the talks at the APEC summit in Auckland, New Zealand, on the condition of permanent MFN.<sup>172</sup> Clinton

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<sup>168</sup> See "U.S. to Pay \$4.5 Million for Bombing of Chinese Embassy in Yugoslavia," LA Times, July 31, 1999. <<http://articles.latimes.com/1999/jul/31/news/mn-61319>>

<sup>169</sup> My interview with the American interviewee, No. 3. This has been confirmed by one of my interviews with the Chinese interviewee, No. 10.

<sup>170</sup> See Zhu Rongji, *Zhu Rongji On The Record*, (Beijing: People's Publishing House), Vol 3.

<sup>171</sup> See Zhu Rongji, *Zhu Rongji On The Record*, (Beijing: People's Publishing House), Vol 3

<sup>172</sup> See Shi Guangsheng's review about WTO negotiations, <<http://cpc.people.com.cn/GB/218984/222139/14777410.html>>

manifested that he was committed to get it passed by the Congress.<sup>173</sup> In fact, the major concession the US made was about China's MFN status.

On November 10, 1999, the bilateral negotiations finally resumed. Charlene Barshefsky and Gene Sperling went to Beijing together. Seeing Sperling in the delegation, the Chinese got the signal that the hesitation in the Clinton Administration had been cleared up.<sup>174</sup> The last six days of negotiation were described by the media as "dramatic". At negotiation deadlocks, Barshefsky "did not want the US to look weak."<sup>175</sup> The US delegation threatened to leave a couple of times and even checked out of the hotel. The Chinese negotiators called it "Barshefsky's taxi strategy."<sup>176</sup> To break through the deadlock, Zhu personally participated the negotiations. To his counterparts across the table and perhaps more importantly to his colleagues at the same side of the table, he carefully mentioned that Jiang urged him twice to come to the negotiation location.

The last seven issues included the foreign ownership ratio in the telecommunication industry, banking, insurance, automobiles, anti-dumping, safeguard, and audiovisual industry. Allegedly, Zhu expressed his gratefulness to the American for lifting quotas on Chinese textile imports and not insisting on 51% foreign ownership in telecom and insurance. From Zhu's trip to the US in April, China had gained sufficient confidence on the congressional support for the deal.

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<sup>173</sup> See "Clinton Vows to Flight for China Permanent MFN," Inside U.S. Trade's World Trade Online, November 4, 1999.

<sup>174</sup> My interview with the Chinese interviewee, No. 12.

<sup>175</sup> My interview with the American interviewee, No. 10, in 2013.

<sup>176</sup> My interview with the Chinese interviewee, No. 12.

Zhu went on to emphasize his difficulty in domestic politics after the April deal fell apart and the Chinese concession on agriculture. Barshefsky stressed on the American compromise on audiovisual and threw out a new issue, fertilizer, by stressing that the chemical industry had as big political influence as agriculture. With sufficient information about the reaction of the US business community to the April document, China was able to sit tight this time. Barshefsky and Sperling stepped out of the meeting and called Clinton. Their phone call dragged the president out of shower and got them the permission to solve the fertilizer issue at another occasion.<sup>177</sup> The fifteen-year long bilateral trade negotiation finally came to the end. The two countries signed the deal on November 15, 1999.

## **Conclusion**

In hindsight, questions were asked about this lengthy, conspicuous bilateral negotiation, such as *Did China not play well? Was American power application effective?* As a bounded rational player, China played well and could play better in the third stage. China made many concessions in order to grab opportunities to conclude the deal, including those before Clinton's visit in 1998 and before Zhu's visit in 1999. The concessions in March 1999 were even a surprise to the American negotiator. With a better judgment of American politics, China could observe the

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<sup>177</sup> Barshefsky and Sperling went to a lady's room and called Clinton from there about the fertilizer issue. It was an emergency, and they could not find a better spot for a secure conversation. She said, there was one lady in the bathroom at that time. She felt so sorry for this lady. After they made sure this lady left and there was no one in the bathroom, their called Clinton and got him out of shower. My two interviews with the American interviewee, No. 10, in 2008 and 2013.

weakness of the Clinton Administration in 1998 and predict the impossibility of a deal in that year. Besides, the reaction of American business community in April 1999 proved that both governments' calculations were wrong. Ideally, they understood the strength of American business support for the deal Zhu brought to Washington, they could have concluded a deal then.

In the third stage, the Chinese understanding of the bilateral negotiations and domestic politics and pressure in the US was tremendously enhanced. Seeing the American business community that had interest in China as its natural ally, China used it as a counterbalance to those opponents in the US. Threats against those American interests in China significantly increased China's leverage in international bargaining in the third stage compared to the second stage. Beyond the executive branch, China began to interact with various dimensions of American politics. In the third stage, the Chinese engagement in multiple-track diplomacy and the sway of Europe and Japan also weighed in.

Considering that information about conflicting opinions within the American government is available in the media, this visibility can strengthen American negotiators' position or weaken American threats. For most time of the bilateral negotiation, American negotiators used congressional pressure to increase American leverage and effectively pressed China at the international negotiation. When Kantor succeeded Ron Brown as Secretary of Commerce, Barshefsky assumed the USTR position in 1997. She was regarded as less partisan, which made her

communication with Republican easier.<sup>178</sup> She spent a tremendous amount of time talking with people on the Hill and was aware of the votes she needed to work for.<sup>179</sup> China, without abundant knowledge about the US Congress, was susceptible to the congressional pressure that American negotiator transferred. However, when the Chinese had sufficient information about congressional support at the very end of the negotiation, China was able to reject American pressure. The American threats at this time turned to be not credible.

In contrast to threats, appeal to self-interest was very effective to bounded rational players, such as China. In the late 1990s, the Chinese motivation to make concessions at the international negotiation table and enter into the WTO was mainly driven by its economic development, especially that in the SOE reform. Barshefsky's persuasion that foreign competition would stimulate SOE's performance<sup>180</sup> was very appealing to Zhu and confirmed some top leaders belief that entry into the WTO would benefit the Chinese economy. When most of the SOEs were in the mud of non-performing loans in late 1990s, it was widely believed that inefficient management caused their poor performance. Foreign companies had advanced knowledge and experience in management, which the Chinese companies did not. After China implemented the open-door policy, the liberal-minded Chinese aspired to learn from foreigners and foreign companies. "If you don't open the door to the foreign companies, how would you learn from them?"<sup>181</sup>

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<sup>178</sup> Destler, *American Trade Politics*, p 236-37.

<sup>179</sup> My interview with the American interviewee, No. 10, in 2013.

<sup>180</sup> My interview with the American interviewee, No. 10, in 2008.

<sup>181</sup> My interview with the American interviewee, No. 10, in 2008.

American negotiators persuasion that focused on the Chinese own interest proved to be powerful to China, which was keenly trying to learn from the west.

## **Chapter 4: The Second Cut of China's GATT/WTO Bid: The Decision Structure and Garbage Can Model**

As Graham Allison puts it, “a government consists of a conglomerate of semi-feudal, loosely allied organizations, each with a substantial life of its own.”<sup>182</sup> Organizations have their own fixed sets of standard operating procedures, parochial interests and pre-established routines. To further look into government decision-making, we acknowledge that organizations act in quasi-independence and consider government behavior as an output of organizations. As the second cut of Dr. Allison's classic decision-making model, the organizational process model looks into organizations' standard operations, programs, and repertoires, as well as their own perceptions and parochial interests.

While the classic model shows significant explanatory power in problem-driven cases, it exhibits its limitation when it applies to other cases. In problem-driven cases, a set of stable constraints defines acceptable performance, such as the existence of clear goals, well-defined technology, and substantial participant involvement. However, when cases that evolve over a number of years are characterized by problematic preferences, unclear technology, fluid participation, and even changing constraints, the model's explanatory power is reduced. Internal constraints on decision-making, such as organizational structure and its changes, need to be addressed. Therefore in Chapter II, I proposed to replace the organizational process model with the garbage can model, which displays general

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<sup>182</sup> Allison, *Conceptual Models and the Cuban Missile Crisis*, p698.



relevance to interpret the organizational behaviors in the government decision-making.

To lay a good foundation to understand the decision structure and organizational factors in China's decision on GATT/WTO accession, this chapter starts with the structure of Chinese government. Up to now, top-notch American scholars such as Kenneth Lieberthal, Michel Oksenberg, and David Lampton have done excellent works on this subject, yet I decide to adopt a Chinese scholar, Zhu Guanglei's research on this structure. With this structure to study the Party/government relationship and functions in decision-making, I tend to agree with Dr. Susan Shirk and other scholars' adoption of the language of Western institutional economics – the principal and the agent.<sup>183</sup> I admire the thorough research of Dr. Margaret Pearson in *The Case of China's Accession in GATT/WTO*,<sup>184</sup> and agree with her conclusion, "Opposition within China was not won over, ... but rather run over." Different from her findings about the organizational structure, I discovered the three-tier structure for decision-making on the GATT/WTO accession; based on my interview data from two trips to Beijing, China, I discovered that there was no WTO Leadership Small Group. This chapter, featuring institutions and processes in China's policy-making on GATT/WTO accession, discusses decision structure, unequal powers of ministries, internal balance, and established rules for

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<sup>183</sup> Susan L. Shirk, *The Political Logic of Economic Reform in China*, (University of California Press) p. 55.

<sup>184</sup> Margaret M. Pearson, "The Case of China's Accession in GATT/WTO," in *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000*, ed. David M. Lampton (Stanford: Stanford University Press, 2001).

bargaining and decision, which makes it a perfect case to support Dr. Shirk's theory about decision-making in the Chinese government, delegation by consensus.<sup>185</sup>

Beyond the organizational process, the garbage can model perceives the Chinese government's decision making from a broader perspective, captures the dynamic evolution of problems and proposals and the change in decision structure, and interpret well about the timing of the agreement. In *Agendas, Alternatives, and Public Policies*, Dr. John W. Kingdon's revised the Cohen-March-Olsen's garbage can model of organizational choice and proposed that for an issue to get on the political agenda, three streams must come together. These three streams are problems, policies, and politics. At the time of the appearance of compelling problems or happenings in the political stream, opportunities emerge for pushing for policy proposals or conceptions of problems. That is to say, a policy window opens.<sup>186</sup>

The problems capture the attention of decision makers when some more or less systematic indicator shows that there is a problem. The change of this indicator is considered to be a change in the state of a system and can have exaggerated effects on policy agendas. A countable problem is powerful, and a failure to meet goals set by administrators usually brings problems to their attention. Proposals that survive in the policy community are compatible with the values of the specialists. It takes a long period of softening up for the policy community to be receptive to a new idea. A proposal that meets some criteria and becomes capable of being implemented moves into a short list produced by the policy stream. The

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<sup>185</sup> Susan L. Shirk, *The Political Logic of Economic Reform in China*, p. 116.

<sup>186</sup> John W. Kingdon, *Agendas, Alternatives, and Public Policies*, p. 20-21.

political stream flows along independently of the problems and policy streams. The balance of organized forces has powerful effects on agendas. Events in any one of the three streams occur independently of two other streams. At some critical junctures, these three separate streams – problems, policies as the solutions, and political forces – joined together. When the three streams are coupled together, significant movement is much more likely.<sup>187</sup>

Under the garbage can model, decision makers and problems tend to track each other through choices and to move together from choice to choice. It facilitates our understanding how a problem was attached to a choice in the bureaucracy, and why the solution comes into a being at one time, not another time. In the enduring bilateral negotiation on China's GATT/WTO accession, China went through a process of clarifying goals, in which the technology was not well defined, participation was fluid, fundamental restructuring occurred in the bureaucracy. Therefore, the organizational process model loses its explanation power. Instead, I apply the garbage can model to the Chinese' decision making during the Sino-American negotiation, in order to study the organizational factors, especially their changes, not the routines, which influenced the Chinese foreign economic policy making in 1990s.

### **The Structure of Chinese Government: “6+1+2 System”**

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<sup>187</sup> John W. Kingdon, *Agendas, Alternatives, and Public Policies*, p 95-170.

To understand American trade politics, we need to look at the US Congress's constitutional authority to "regulate commerce with foreign nations," its delegation of power to the President of the United States, and the creation of the United State Trade Representative (USTR) under and representing the President in negotiations with Congress as well as foreign nations. In American trade politics, both the authority to bargain at the international and domestic tables and the power of check and balance lie in this structure of power sharing and delegation. Similarly to some extent, understanding the structure of Chinese government is very essential to build understanding of Chinese foreign trade policy, as a kickoff of this dissertation's organizational analysis on Chinese trade decision-making.

Scholars have examined the structure of authority within the Chinese government, and have used words such as centralized, hierarchical and fragmented, to describe the power allocation within the institution. To understand the bargaining process by which Chinese trade policies were made requires mapping the bureaucratic terrain. It may touch upon a series of issues, such as the structure of the Chinese government, the commissions and departments within the State Council, the relationship between the Communist Party of China (CPC) and the state and between local government and central government, and the delegation and accountability, etc.

Modern Chinese politics has four primary components: the party, executive, military, and court. On these four factors, the power structure features the so-called "6+1+2" system. The "1" means the President of PRC, and this office was abolished

under the Constitution of 1975 and later reinstated by the Constitution of 1982. The President of PRC is conceived of as a figurehead of the nation. The “2” points to the judiciary system: the Supreme People’s Court and the Supreme People’s Procuratorate. The “6” organs of leadership are listed as followings:

- 1.CPC’s Central Committee (including Political Bureau (a/k/a Politburo), the Standing Committee of the Politburo, and the Secretariat of the Central Committee)
2. Central Commission for Discipline Inspection (CCDI) of Central Committee
3. National People’s Congress (NPC) and its Standing Committee
4. State Council
5. Military Commission of the CPC Central Committee (CMC)
- 6.National Committee of the Chinese People’s Political Consultative Conference (CPPCC)<sup>188</sup>

The original design of the 1982 Constitution was to separate power between the General Secretary of the CPC Central Committee, the branch to develop policy, and the Premier of State Council, the branch to execute and implement the policy, and to prevent a cult of personality from forming as it did under Mao Zedong’s ruling. The President, which evolved from the state Chairman, held formal responsibilities, such as greeting heads of foreign countries, should not intervene in state affairs, and was conceived of as a figurehead of the state.

Among the six organs, the Party’s Central Committee is at the core of the power structure. The 1982 Constitution stipulates that the NPC is the highest organ

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<sup>188</sup> Zhu Guanglei, *Decision Make and Implementation: Interpretation of the Processes of the Chinese Government*, (Beijing: Foreign Language Press, 2013). Please also see Zhu Guanglei, *The Governmental Process of Contemporary China*, (Tianjin: Tianjin People’s Publishing House, 2002), page 29-53.

of state authority power and legislative power, and that the State Council shall operate under and be responsible to the NPC. The NPC plenary session, which lasts about two weeks, is held once a year. When the NPC is not in session, the CPC Central Committee implements its resolution and takes the lead in all the work. Under this structure design, the actual power rests in the hands of the CPC Central Committee and the State Council. The former is in charge of policy decision, and the latter responsible for the execution of decisions.

Within the Central Committee, the Politburo Standing Committee is the center of policy making. When the Central Committee is not in session, the Politburo and its standing committee exercise the authority of the Central Committee. Since the year of 1987, the Politburo has held meetings roughly once a month, and the members of its standing committee hold meetings frequently. From about 200 Central Committee members are elected about 20 Politburo members, from whom in turn are elected roughly five to seven members to sit on Politburo Standing Committee (PSC), which sits at the top of this unitary system and pyramid structure. Its authority comes from two delegations, one from the NPC to CPC Central Committee, the other from the Central Committee to its PSC. Therefore, in any foreign economic policy making, Politburo Standing Committee plays the role of the highest decision body, and the State Council executes its decisions and report to it.

In the early stages of China's GATT application, two other decision bodies were in the power terrain, the Central Advisory Commission (CAC) and the Military

Commission. Central Advisory Commission (CAC) was created as a transition to resolve the retirement problem of leaders of the revolutionary generation. The 1982 Constitution stipulates that CAC members can participate in meetings of the Party's Central Committee and the members of the CAC Standing Committee can participate in meetings of the Politburo. Despite the fact that it was supposed to be advisory, the CAC influenced decision-making through the Central Committee and overshadowed the Politburo Standing Committee. During the CAC's lifespan from 1982 to 1992, the structure of Chinese government had the 7 organs of leadership, instead of 6 organs. When the revolutionary generation faded from the scene, the seniority issue was not heated any more. The CAC was abolished by the CPC Fourteenth National Congress in 1992, and its influence on Sino-American negotiations ceased at the same time.

The Military Commission of the CPC Central Committee (CMC) is a classic example for "two plaques for one team" in Chinese government structure. The Central Military Commission refers to both the Central Military Commission of the CPC and the Central Military Commission of PRC. Since the end of Mao's time and the Cultural Revolution, the leadership restored order and preferred collective decision. Thus, China perceivably had four main leaders: Hu Yaobang, the Party's General Secretary; Zhao Ziyang, the Premier of the State Council; Li Xiannian, the President; and Deng Xiaoping, the chairman of the CMC. As the paramount leader, Deng applied his influence on various policies, including foreign economic policies, through the CAC and CMC in the 1980s and early 1990s. By the year of 1993, Jiang Zemin gradually ascended to General Secretary of CPC Central Committee, Chairman

of CMC, and the President and possessed these three top positions for the rest of 1990s. As an organization, the CMC's impact on foreign economic policy faded away.

As the cabinet, the State Council acts as the major organization to execute the decisions which come from the highest decision body; it also monitors policy implementation at the provincial level or by ministries, issues its own decisions, and formulate administrative measures. It has authority over its subordinate agencies, which are commissions and ministries organized mainly by sector (such as agriculture) or function (such as trade and commerce); the premier, vice premiers, secretary-general, and state councilors sit on the Standing Committee of the State Council, supervising the daily operation of the government. Ministries are responsible for issues in specific sectors, and commissions enjoy broader responsibilities for cross-sectorial issues, thus supra-ministerial rank.<sup>189</sup> Yet, commissions do not have final authority. Therefore, when economic sectorial ministries cannot agree, commissions become the lowest level in the hierarchy for internal bargaining, and the State Council, as the functional center of state power, acts as the clearinghouse for government initiatives from various levels.

To sum up, in this "6+1+2" system, the Party's Central Committee possesses the top position of the pyramid power structure; its Politburo Standing Committee is located at the center for decision-making through two power delegations, the first from the NPC to CPC Central Committee and the second from the latter to Politburo

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<sup>189</sup> Commissions are regarded to have at least half level higher than ministries in terms of bureaucratic rank, especially because of its coordination function. For more information, please see Kenneth Lieberthal and Michel Oksenberg, "Commissions and Ministries" in *Policy Making in China: Leaders, Structures, and Process*, (Princeton: Princeton University Press, 1988), p 63- 134



Standing Committee. It seems that at least at the apex of this government structure, the chains of authority appear to converge upon a single command structure. Therefore, in any foreign economic policy making, the Central Committee, especially its Politburo, acts as the highest decision body by integrating various interests and maintaining internal balance by coordination, and the State Council executes its decisions and report to it. This “6+1+2” system lays the foundation to explore the chain-of-command within the Party/government system, and how domestic bargaining and consensus are made.

### **The Three-tier Decision Structure**

To understand American trade politics, we need to look at the three-level structure for administrative decision-making: the Principals Committee for cabinet secretaries, the Deputies Committee for deputy and under secretaries, and the Interagency Working Groups (“I-wigs”) for assistant secretaries.<sup>190</sup> A lot of issues are discussed and resolved at the lower level meetings, and only issues, on which agreement cannot be entered at the lower level, move up to the higher level for discussion and coordination.<sup>191</sup> In the process of China’s GATT/WTO application and negotiation, a similar three-tier structure existed for internal coordination and decision-making within the Chinese bureaucracy. Coordination (“*xietiao*”) is a surrogate word widely used by many of my Chinese interviewees to describe

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<sup>190</sup> Ivo H. Daalder and I. M. Destler, *In the Shadow of the Oval Office: Profiles of the National Security Advisers and the Presidents They Served – From JFK to George W. Bush*. (New York: Simon and Schuster, 2009) p. 213.

<sup>191</sup> My interview with the American interviewee, No. 8.

domestic bargaining within bureaucracy. Issues moved from the bottom to the top of these coordination forums for bargaining and decision-making.

#### State Council Committee on Inter-Ministerial Coordination on GATT

The State Council established an *ad hoc* interagency body for negotiation and coordination at the ministry level, as the lowest level forum in the decision-making structure. At the very beginning, only “two ministries and one administration” – Ministry of Foreign Affairs, Ministry of Foreign Economic Relations and Trade (MOFERT)<sup>192</sup>, and the General Administration of Customs – participated in GATT affairs.<sup>193</sup> With more and more industrial issue-topics involved in the bilateral negotiations, liberal trade policies made at the international negotiating table needed domestic support from industrial ministries for implementation.<sup>194</sup> In 1986, the Inter-Ministerial Coordination Group on GATT negotiation was initially formed under the State Council. It was lead by State Councilor Zhang Jinfu, who also headed State Economic Commission. In 1988, this body was reorganized and renamed as State Council Committee on Inter-Ministerial Coordination on GATT, headed by Vice Premier Tian Jiyun.

In the early stage of China’s GATT/WTO application, this interagency body convened once a month or once every other month, and it effectively resolved many

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<sup>192</sup> In March 1993, MOFERT was renamed to Ministry of Foreign Trade and Economic Co-operation (MOFTEC).

<sup>193</sup> My interview with the Chinese interviewee, No. 20.

<sup>194</sup> My interview with the Chinese interviewee, No. 20.

issues at the ministry level.<sup>195</sup> In the later stage, it convened according to the schedule of international negotiations. At least one meeting was called before any international negotiation.<sup>196</sup> After a consensus was formed in the top leadership that market economy would replace planned economy, the State Economic Commission (SEC, the predecessor of the State Economic and Trade Commission, SETC) was on the rise. In the year of 1992, SEC was formed mainly based on the original State Economic Commission and was separated from the powerful State Planning Commission (SPC). Since then, SEC gradually took over the GATT/WTO affairs from the SPC.<sup>197</sup> Holding supra-ministerial rank, SEC took the lead in these inter-ministerial coordination meetings, and one of its associate directors was assigned to be in charge.

Participation in these inter-ministerial coordination meetings was very fluid, depending on the relevancy of the issue-topic. On average, a meeting assembled officials from eight to ten ministries, and this number was never fixed. The associate director of SEC, who presided over the meeting, was the only one that attended all the meetings. When an issue under discussion was not important to a ministry, an official of department or bureau level was usually sent by his ministry for the meeting. Instead of participating in the discussion, he would simply put down notes about other ministries' positions in order to report to higher officials in his ministry. When an issue at the meeting was important to a ministry, it would make sure that its official of vice-minister level participate it and present the

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<sup>195</sup> My interview with the Chinese interviewee, No. 20.

<sup>196</sup> My interview with the Chinese interviewee, No. 23.

<sup>197</sup> My interview with the Chinese interviewee, No. 23.

ministry's positions. For example, when auto issues were under discussion, a vice-minister of Ministry of Machinery Building Industry attended the meetings.<sup>198</sup>

The mechanism for tariff negotiation and coordination was a little bit different from other issue-topics. Before China's GATT/WTO application, the State Council had already formed the Customs Tariff Commission, a well-functioning mechanism on inter-agency coordination for tariffs. As a decision-making body, it was set up as an *ad hoc* agency, but it has existed ever since. During China's GATT/WTO application, it became the major forum to discuss tariffs. The major agency players were the Ministry of the Treasury, the General Administration of Customs, MOFTEC, the Ministry of Agriculture and more than 10 industrial ministries.<sup>199</sup> Its office was originally located at General Administration of Customs, then SETC, and now Ministry of the Treasury<sup>200</sup> after the dissolution of SETC. The decisions made on tariffs were reported at the meetings of the Committee on Inter-Ministerial Coordination for GATT/WTO.<sup>201</sup>

The Customs Tariff Commission played a critical role in the first stage of the application when tariffs were the focus and China's goal was to restore its GATT membership. More than thirty GATT member countries requested that China reduce tariffs, and the requests were sent by the Customs Tariff Commission to various industrial ministries, specifically the department of industry planning under each ministry. The ministries would make responses and gave their bottom lines.

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<sup>198</sup> My interview with the Chinese interviewee, No. 23.

<sup>199</sup> My interview with the Chinese interviewee, No. 22.

<sup>200</sup> According to my interview with the Chinese interviewee, No 2. For the time being, Custom Tariff Commission and Ministry of Finance's Department of Tariff are "one agency, two plaques." Policies made here are issued with the title of State Council.

<sup>201</sup> My interview with the Chinese interviewee, No. 22.

At the Customs Tariff Commission, bottom lines for international negotiation were made based on various positions and then reported to the Committee on Inter-ministerial Coordination for GATT/WTO. In every line of the Chinese negotiators' notebook were the item code, foreigners' asking percentage, the Chinese bidding percentage, and the real bottom-line.<sup>202</sup>

Occasionally at these meetings, the associate director of SEC invited in one or two economic experts, and let these experts lecture in front of high officials sent by industrial ministries on what kind of government regulation of a specific industry or about whether specific protection suited the market economy theory.<sup>203</sup> Therefore, the Chinese GATT/WTO negotiation, either at the domestic level or the international level, was closely associated with its prioritized decision to develop a market economy, which was determined by the very top leadership. At the domestic bargaining table, pro-trade agencies strategically tied the liberal trade policy to the market economy theme, in order to promote GATT/WTO accession. Most of industrial ministries were not against the market economy and shared the consensus that relaxing government protection would be the trend. Their different opinions focused on how to relax protection measures step by step, and the internal bargaining at the domestic table centered on how many years it would take to abolish the protection policy and liberalize trade.

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<sup>202</sup> My interview with the Chinese interviewee, No. 22.

<sup>203</sup> My interview with the Chinese interviewee, No. 23.

## The Premier Working Meeting

Above the Committee on Inter-Ministerial Coordination on GATT in the decision-making structure was the intermediate level forum, the decision-making at the premier and vice premier level. According to all the relevant ministries' positions presented at meetings of Committee on Inter-Ministerial Coordination on GATT ministry-level coordination, the associate director of SEC came up with a scheme for international negotiation and reported to officials at the premier level.<sup>204</sup> Thus, the agreement and disagreement at the ministry level moved up to the heads of the State Council, the agreement of ministries waiting for ratification, and the disagreements for dispute resolution.

On many occasions when the issues were not significant or solutions were easy to find, the associate director of SEC simply reported to the vice premier in charge of the GATT/WTO affairs for ratification or instruction. After the vice-premier ratified the negotiation plan, this plan, along with the vice-premier's instruction, would be directed to the MOFTEC and its negotiating team for the next round bargaining. The associate director revealed that roughly about 70 percent of the reports, formed based on coordination at the ministry level, ended up with the vice premier's ratification and his instruction.<sup>205</sup>

The rest went to the Premier Working Meeting.<sup>206</sup> There are three kinds of meetings held at State Council for the premier's decision-making in 1990s. The first

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<sup>204</sup> My interview with the Chinese interviewee, No. 23.

<sup>205</sup> My interview with the Chinese interviewee, No. 23.

<sup>206</sup> My interviews with the Chinese interviewees, No. 14, 22, and 23, respectively.

two kinds of meetings, the Plenary Meeting and its Executive Meeting, are two decision formats stipulated by the 1982 Constitution and the Organization Law of the State Council. The plenary meeting consists of all the component members of the State Council, premier, vice premier, state councilors, ministers, directors of various commissions, president of the People's Bank of China, auditor-general and secretary-general. The executive meeting consists of premier, vice premier, state councilors, and secretary-general.<sup>207</sup> The premier working meeting, not regulated by law, had no required participants.

There is no specific provision on the division of work between the plenary meeting and executive meeting. The plenary meeting is usually held once every five or six month, for assigning and drawing conclusion about important state administrative work. Generally, it is not used for decision-making. In the 1990s, the plenary meeting had a quorum of 56 in 1993 and 38 in 1998, while the executive meeting had a smaller quorum of 15 in 1993 and 10 in 1998. The executive meeting convenes more frequently than the plenary meeting, about once in less than a month.<sup>208</sup> With a smaller quorum, this kind of meeting is designed for the premier to widely collect various positions from relevant administrative organs and for discussion and decision on specific issues. Only when the issues under discussion are related to the missions of the ministries, ministers from these relevant

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<sup>207</sup> Zhu Guanglei, *The Governmental Process of Contemporary China*, p 42-44

<sup>208</sup> Zhu Guanglei, *The Governmental Process of Contemporary China*, p 42-43. Please also see Zhu Guanglei, *Decision Make and Implementation: Interpretation of the Processes of the Chinese Government*, p 34-35.

ministries participate the executive meeting. Ministers present the positions of their ministries, but they do not have voting power.<sup>209</sup>

In comparison with these two formats of meetings, the premier working meeting was not regulated by law. In practice, it became the most frequently used decision mechanism at the State Council in the 1990s. On the one hand, the State Council does not have committees or commissions, as a deliberative assembly, for decision-making on behalf of the State Council, yet the premier is personally responsible for NPC regarding all decisions made at State Council. Thus, the premier has highest authority within the State Council and heads all its staffs. On the other hand, the Organization Law of the State Council does not stipulate any details, such as quorum, jurisdiction, and frequency, about the premier working meeting. Therefore, the premier working meeting provided so much flexibility for the premier to apply his authority on decision-making – he can collect selective high officials and call for a premier working meeting at any time – that it became legally questionable. Later, it was abolished in the year of 2004.<sup>210</sup> But it proved very effective in the GATT/WTO negotiation.

The premier working meeting gradually evolved into the most effective, frequent forum for discussion and decision-making at the State Council.<sup>211</sup> Especially in 1990s, Zhu Rongji empowered the premier working meeting<sup>212</sup> so that

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<sup>209</sup> My interview with the Chinese interviewee, No. 17.

<sup>210</sup> The usage of premier working meeting was condemned because ministries claimed that they were less represented. This format of meeting was abolished right after the administration transition in 2003, and the criticism later faded away. However, not long after the new administration started to function, the efficiency of decision-making and this format of meeting were again weighed heavily.

<sup>211</sup> My interview with the Chinese interviewee, No. 17.

<sup>212</sup> My interviews with the Chinese interviewees, No. 17 and 18, respectively.



it was widely used for daily operation and emergency, etc. When agreement on GATT/WTO affairs could not be reached after coordination at the inter-ministerial level, issues needed to move one level up. The associate director of SEC revealed that about 20 to 30 percent of his reports, formed after coordination meetings at ministry level, moved to the premier working meeting, where the premier and the vice premier in charge of the GATT/WTO affairs had discussion and made decisions.<sup>213</sup> The premier has the final say at the premier working meeting.

#### Central Committee Finance and Economic LSG

When the issues under negotiation were out of the scope of the State Council or at some critical point of international negotiation, the report about international negotiation plan needed to move above the State Council to the highest level of the decision structure, the CPC Central Committee Finance and Economic Leadership Small Group (LSG).<sup>214</sup> As Dr. Lieberthal remarks, “Leadership small groups form a bridge between the top leaders of the political system and the major bureaucracies that generate information and implement policy. Each of the major leadership small groups, which are the apex of their related functional portfolios, leads an array of related party, government, and/or military bureaucracies.”<sup>215</sup> My interviews revealed that Central Committee Finance and Economic LSG, an executive body of the party system, occupied the top level of the decision structure in China’s

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<sup>213</sup> My interview with the Chinese interviewee, No. 23.

<sup>214</sup> My interview with the Chinese interviewee, No. 23.

<sup>215</sup> Lieberthal, *Governing China: From Revolution Through Reform*. p216.

GATT/WTO case, and that it demonstrated the principal and agent relationship between the Party and the government.

The leadership small groups play a very important role in policy making in China. Given that they are largely hidden from the public view, they appear to be mysterious to the west. When most western literature discusses leadership small groups, the focus has been on the Central Committee's leadership small groups, the small groups at the highest level. Actually, as an inter-agency mechanism for policy-making and coordination, small groups exist at different levels of government. For example, within China's unitary system, under the central government at the state level are provincial government, city government, and district government. At the time of writing this dissertation, there are Guangdong Province Real Estate Registration Leadership Small Group, Shenzhen City Anti-counterfeiting Leadership Small Group,<sup>216</sup> Shenzhen City Nanshan District Human Resource Leadership Small Group.<sup>217</sup>

Among all leadership small groups, the title before the LSG manifests the level of this LSG in the party/government system. Guangdong Province Real Estate Registration Leadership Small Group is at the provincial level. Within the central government, titles starting with "the State Council" or "National" indicate that they are an administrative body of the State Council. For example, State Council LSG on Western Region Development and National Economic Census LSG. Titles beginning

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<sup>216</sup> Shenzhen City enjoys the associate provincial level because it is special economic zone. Different from many cities, its government is associate provincial government. Nevertheless, it does not affect this example.

<sup>217</sup> It also varies depending on the province. For example, Hainan Province clarified that its cities and administrative bodies under city level did not have LSGs. See [http://paper.people.com.cn/rmr/b/html/2009-02/20/content\\_196549.htm](http://paper.people.com.cn/rmr/b/html/2009-02/20/content_196549.htm)

with Central Committee, such as Central Committee Finance and Economic Leadership Small Group, indicate that it is an executive body of the CPC Central Committee.

Totally, there are three kinds of small groups, Working Small Group, Coordination Small Group, and Leadership Small Group (LSG), and the LSG enjoys the highest authority. Examples are National Working Small Group on Inter-Ministerial Coordination for Deepening Health Care System Reform, Central Committee's Xinjiang (Uyghurs) Affairs Coordination Small Group, and Central Committee's Finance and Economic LSG. After the National Working Small Group on Inter-Ministerial Coordination for Deepening Health Care System Reform was formed in 2006, the health care reform was delayed due to red tape. In 2008, the State Council restructured and renamed it as Health Care Reform Leadership Small Group. Then vice-premier Li Keqiang led it. After its change from a working small group to a leadership small group, the Xinhua News immediately reported that the health care reform rode into the fast lane.<sup>218</sup>

In general, a LSG of central government has a team leader whose full position is based either in the CPC Central Committee or the State Council. This leader's highest position in the Party/state hierarchy indicates the level of the LSG in the Party/state system. All LSG members of central government have their full positions at other party bodies or central government agencies and hold the concurrent post at LSGs. It has one or two associate team leaders, and the number

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<sup>218</sup> See the Chinese news report <[http://news.xinhuanet.com/politics/2009-08/14/content\\_11881232\\_2.htm](http://news.xinhuanet.com/politics/2009-08/14/content_11881232_2.htm)>

of its team members is not fixed. Usually, LSGs do not have fixed staff, official stamps, or independently issue administrative paper. LSGs operate relying on associated government agencies, which are permanently institutionalized, such as commissions or ministries, one of which takes the lead of the task and becomes the location of the LSG. In some cases, a LSG does not even have an office location. Some LSGs are set up either for specific task, such as Central Committee Nuclear Energy Work LSG, or for coordination, such as Central Committee Finance and Economic LSG. If an LSG was set up for a task during a specific period, it would be abolished afterwards. Others run permanently.

Different from most central level LSGs, Finance and Economic LSG has its own office, located in Zhongnanhai,<sup>219</sup> that runs on daily base. Central Committee Finance and Economic Office once shared its office with The Office of Central Committee Foreign Affairs (for Central Committee Foreign Affairs LSG); later when the Office of Central Committee Agriculture Affairs (for Central Committee Agriculture Affairs LSG) was initiated, it shared office with Finance and Economic Office. The Office of Central Committee Finance and Economic Affairs, ministry-level in the hierarchy, has 6 department-level divisions, Complex Division, Secretary Division, Macroeconomics Division, Finance and Trade Division, Economics and Trade Division, and Agriculture Division. Smaller divisions have 3 or 4 on staff, bigger ones 5 or 6 on staff. Directors of this office has been Li Zhisheng, Jiang Guanzhuang, Zeng Peiyan, Hua Jianmin, Wang Chunzheng, Zhu Zhixin and for now Liu He. Zeng led the office during China's GATT/WTO negotiation in 1990s. Starting

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<sup>219</sup> Zhongnanhai is where the headquarter of the CPC Central Committee and State Council are located in Beijing.

from Zeng, directors also hold the associate director of State Planning Commission (later National Development Reform Committee, NDRC).

Central Committee Finance and Economic Leadership Small Group was led by Zhao Ziyang as vice-premier, premier, and general secretary of Central Committee in 1980s. With the rise of Zhao, this LSG rose to one of the most important LSGs, an LSG led by the CPC Central Committee's General Secretary. This tradition has been kept after the political reshuffle in 1989, and its team leader has always been the general secretary of Central Committee. Starting in 1990s, Jiang Zemin presided the meetings as the General Secretariat of Central Committee as well as the President. Its associate team leader was the Premier of State Council, and its members were part of, not all, Politburo members,<sup>220</sup> including a few Vice-Premiers, State Council Secretariat, Secretary of Treasury, Governor of People's Bank of China, etc. In terms of agency mission, Finance and Economic LSG looks similar with SPC then (NDRC now); nevertheless, Finance and Economic LSG has much higher authority in coordination across different agencies, considering the high bureaucratic rank its members possess.

Issues that were carried above the State Council up to Finance and Economic LSG were very rare. "Decisions made at this level were only about very ultimate, fundamental issues. On the difficult issues, China can draw back from, insist on its position, or find middle ground. It was rarely about concrete numbers."<sup>221</sup> The associate director of SEC (later SETC) recalled that from 1993 to 1998, he was asked

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<sup>220</sup> My interview with the Chinese interviewee, No. 23.

<sup>221</sup> My interview with the Chinese interviewee, No. 23.

to report in front of the Finance and Economic LSG only twice. For example, safeguard had almost all industries' interests involved and was regarded as important to the development of market economy. As a very important issue, it moved to Finance and Economic LSG.<sup>222</sup> According to the decisions made on the highest level, the associate director of SEC would work on the negotiation scheme again and send the instruction to MOFTEC's negotiators.

When the MOFTEC negotiators bring the American pressure back home, on the Chinese domestic table existed three-tier coordination structure for decision-making: State Council Committee on Inter-Ministerial Coordination on GATT, including the Customs Tariff Commission under it, the premier working meeting in the middle, and the Central Committee Finance and Economic LSG at the top. As internal bargaining and decision-making mechanism, this three-tier decision process functioned through most of the time when China conducted international negotiations with the US and other GATT/WTO member countries. Many interviewees stated that there was no WTO leadership small group.

Dr. Susan Shirk described one feature of decision-making in Chinese bureaucracy as delegation by consensus and assimilated it with management by exception in corporate management. "Those who sit at the top of the bureaucratic hierarchy delegate the authority to reach an agreement and come to a decision to their subordinates. If their subordinates can build consensus, the superior leaders ratify the decision. If their subordinates cannot come to a consensus, the superior

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<sup>222</sup> My interview with the Chinese interviewee, No. 23.

leaders intervene or have the issue tabled. Delegation by consensus is practice at each level of the organizational hierarchy.”<sup>223</sup> My research reveals that regarding the issue-topic for international negotiation for GATT/WTO accession, when a consensus was formed at the Inter-ministerial Coordination meetings, it moved up to vice-premier or premier for ratification. Otherwise, it went to the premier working meeting for decisions. Very rarely, an issue of significance went all the way up to the Central Committee Finance and Economic LSG. This case of China’s GATT/WTO accession confirms and supports Dr. Susan Shirk’s theory of delegation by consensus.

## **The Representation of Ministries**

When foreign pressure was sent by MOFTEC negotiators back home, various ministries of interests participated domestic bargaining in the process named as coordination. Decisions were not made by majority rule, and voting was very rare in policy process when the leaders were deadlocked and could not agree with each other.<sup>224</sup> As discussed *supra*, coordination (“*xietiao*”) is a preferable word within bureaucracy to describe internal bargaining because it emphasizes solidarity. Within the Party/government system existed a three-tier decision structure, for aggregating and balancing various interests, reaching dispute resolutions, and eventually making decision. In this coordination structure, different interests had their own representatives, the supervising ministries. In the Chinese regime, what

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<sup>223</sup> Shirk, *The Political Logic of Economic Reform in China*, p. 116.

<sup>224</sup> My interview with Dr. Xu Xianglin.

interests did ministry officials represent on the domestic bargaining table? How were the interests of ministries and major industry players in line with each other?

At the meetings for inter-ministerial coordination for China's negotiation positions for GATT/WTO, ministry officials were supposed to present their ministries' perspectives. Actually, the interests of industrial ministries were in line with the state-owned enterprises (SOEs) under their supervision. Ministries' revenue was related to the profits of those companies run under them. Given that private enterprises were minority and SOEs were the major leaders of each industry in the 1990s, the interests of SOEs were regarded as the interests of the whole industry. Instead of through lobbying groups outside the government, industrial groups promoted their interests through ministries that supervised them.

As discussed *supra*, the State Council's commissions and ministries are organized mainly by sector or function. This structure design allows that ministries represent industrial groups by economic sector. Actually, major SOEs and their supervising ministry were regarded as the same *xitong*, or "system." Officials rose up the career ladder either in the ministry (including the provincial and local offices with professional relationship with the ministry) or major SOEs within the same *xitong*. Most officials spent their entire careers in one *xitong*, and this bureaucracy design reinforced organizational allegiances and officials' particular ideology of that organization. Personnel transfer and relocation happens mostly within the same *xitong*, which creates an information channel between the ministry and the



industry.<sup>225</sup> When officials speak in the meetings, especially the meetings for all kinds of coordination, they speak on behalf of their agencies, not necessarily on behalf of themselves as individuals.

The automobile tariff is an example. China's auto tariff was as high as 220%, and then the Chinese government took initiative to reduce it to 180%, 150% and then 120% at the time of joining the WTO. For quite a while, the extremely high tariff rate encouraged smuggling. After comparing data with Japanese Customs, the director-general of General Administration of Customs Department of Tariffs realized that for the same year, Japanese Customs recorded exports of 300K automobiles, and the Chinese Customs recorded imports of 100K automobiles. Due to China's long seashore, it was impossible for the Administration to send security guards in most places where boats can be anchored.<sup>226</sup> The Administration was burdened by the work to crack down on smuggling, which the military participated to quite extent.<sup>227</sup> With tariff reduction, more imports would be reported to the Customs, and its tariff contribution to the central government would be improved. Thereby, the Customs supported tariff reduction and liberal trade policy. Tariffs, collected by the central government, were not of much concern to local governments.

On the other side, the productivity and competitiveness of the Chinese domestic auto industry was very low in early 1990s. Afraid of foreign competition, the six large auto companies (the so-called "three big, three small") requested

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<sup>225</sup> My interview with Zang Li.

<sup>226</sup> My interview with Wu Jiahuang.

<sup>227</sup> My interview with Zhang Zhiyong.

protection policy. They played the card of nationalism, claiming that machinery-building industry should independently produce machines, including vehicles, otherwise it would endanger the whole country's economic independence. Both the ministry and the auto industry argued their positions in terms of broad national interests.<sup>228</sup>

Due to the strong connection between SOEs and the supervising industrial ministries, SOEs did not incur much government relations spending. The heads of these SOEs held vice-minister rank, and they could easily find high officials at Ministry of Machinery and Electronics Industry (later, Ministry of Machinery Building). Actually most high officials rose to this Ministry from these auto companies.<sup>229</sup> Most officials worked within one *xitong* (system) for all his life, and they deeply shared viewpoints and ideology of this *xitong*. At domestic bargaining table, a ministerial official was obliged to represent the perspectives of the ministry and relevant SOEs, even when they are different from his own opinion.<sup>230</sup> The strong connection between SOEs and the supervising industrial ministries was the same for all industries, including the Ministry of Textile Industry.<sup>231</sup>

When a GATT/WTO related issue was brought on to the domestic bargaining table, organizational actors' different positions was presented from their own perceptions, implying their own parochial interests. In China, the institutional design had built the strong connection between the industrial ministries' authority,

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<sup>228</sup> My interview with Zang Li.

<sup>229</sup> My interview with Zang Li.

<sup>230</sup> My interview with Dr. Xu Xianglin.

<sup>231</sup> My interview with the Chinese interviewee, No. 23.

workload and revenue with each industry's interests, such as profit, policy preference, competitiveness and development. When these industrial ministries made internal bargaining, they represented not just the organizational perceptions and interests, but also the interests of SOEs under their supervision.

### **The Unequal Bargaining Power and Internal Balance**

When all ministries present their positions on the same table, they do not have equal bargaining power. By institutional arrangements, the long-term policy preference in China has tilted toward industry over agriculture, and heavy industry over light industry.<sup>232</sup> Only a few ministries were concerned with agriculture, but approximately fifteen industrial ministries existed in the bureaucracy. A variety of light industrial sectors were combined under one ministry, Ministry of Light Industry, and the only exception was that textiles had its own ministry. In contrast, each heavy industry had its own representation in the bureaucracy in the 1990s, such as chemicals, coal, petroleum, nuclear power, aviation, railways, electric power, machinery, electronics, iron and steel, etc. The administrative structure was designed to have unequal bureaucratic voice, giving the strongest voice to heavy industry and policy favors to industry over agriculture.

The pro-heavy industry bias was perpetuated in the priority of economic reform and development, which has been transformed to these industries' higher status and political influence. In heavy industries, major enterprises were SOEs, run

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<sup>232</sup> Sarcastically, the regime was founded, claiming its representation of peasantry.

directly under heavy industrial ministries; whereas light industry and textile factories were managed by provincial and local government, in lack of direct connection to ministries and the State Council. For example, the First to Sixth State-owned Cotton Factories in Zhengzhou was run by Zhengzhou City Government and Henan Provincial Government. Without enterprises directly under their control, officials in the ministries of light industry, textile, and agriculture were considered political lightweights. The need of the military modernization, combined with the need of other ministries for heavy industries' cooperation to provide inputs in short supply, all gave these priority industries leverage at the bargaining table over output quotas, investment allocations, and protection policies.

Furthermore, China's public finance system reinforced the pro-industry bias by creating a rich industry and poor agriculture system. Agricultural products were assigned low prices, and manufactured goods were assigned high prices. The industry bias transformed to urban bias, which was built into Chinese political institutions and reflected in policy outcome. With the monopoly and low productivity, it was hard for the consumers to buy manufactured goods in the 1980s and most of the time in 1990s.<sup>233</sup> The high price of products and cheap raw materials added up to high profits for manufacturing industries. The lion's share of state revenues came from the profits of the industrial enterprises.<sup>234</sup> The dependence of the central government on the financial health of these industries

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<sup>233</sup> My interview with Zang Li.

<sup>234</sup> My interview with Zang Li.

shored up their political weights. In contrast, this system has given agriculture only a feeble bureaucratic voice.

On the domestic table for the GATT/WTO application, each ministry displayed its structural strength or weakness. The Chinese Communist regime claims that it represents the interests of peasantry so that rural dwellers do not have any agricultural association to represent their interests or lobbying groups to work on it.<sup>235</sup> Due to the policy disfavor, agriculture was a poor industry without much government subsidies, and rural dwellers remained a disenfranchised majority. Ministry of Agriculture could not contribute much to the central government's revenue, nor did it enjoy a big budget, nor did it have authority on the imports and exports of agricultural products.<sup>236</sup> As a weak player, perhaps the weakest player, on the domestic bargaining table, the ministry did not have much leverage itself.

As a group disenfranchised from the policy process, agriculture is less likely to be satisfied with the policies that are chosen. The Customs Tariff Commission was in charge of agricultural tariffs, whereas the major issue was agriculture quota. The real decision-makers on this were the State Planning Commission (SPC) and the few, major state-own import-export companies, which was run under MOFTEC. The former had authority on agricultural imports, and the latter on agricultural exports.<sup>237</sup> On the negotiation table, however, it did not seem appropriate to have either SPC or MOFTEC represent the Ministry of Agriculture. Thereby, Agriculture

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<sup>235</sup> My interview with Bai Shuqiang.

<sup>236</sup> My interviews with Zhang Zhiyong and Wu Jiahuang.

<sup>237</sup> My interviews with Wu Jiahuang.

had a division chief sit on the domestic table.<sup>238</sup> As discussed, a director-general of department level would be sent for negotiation and coordination if the issues were not critical to his ministry, and a vice-minister would sit for negotiation if the issues were relevant. In the hierarchical bureaucracy, a division chief, who held a much lower bureaucratic rank than his colleagues around the table, did not have leverage over the policy making. As early as 1994, China's tariffs on agricultural products were lower than many developed countries and significantly lower than developing countries.<sup>239</sup>

By contrast, the automobile industry enjoyed policy preference, so did its supervising organizations. The auto industry was emphasized because it represented a country's productivity in machine building, could ensure the stability of the steel industry and was also related to toll charge and petrol consumption.<sup>240</sup> The production of automobile, as well as other machinery, was regarded as a critical part of heavy industry and a vital component for the development of industry modernization.<sup>241</sup> As discussed *supra*, the auto industry's favorable treatment and priority was transformed to the higher status and political influence of auto *xitong* (system), including Ministry of Machinery Building Industry and National Mechanic and Electronic Import and Export Office. National Mechanic and Electronic Import and Export Office, an agency in charge of auto import approval under the State

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<sup>238</sup> My interview with Wu Jiahuang.

<sup>239</sup> My interview with Wu Jiahuang.

<sup>240</sup> My interview with Suo Bicheng.

<sup>241</sup> Industry modernization was one of the Four Modernizations, a set of development goals and priorities first set forth by Zhou Enlai in 1963 and then enacted by Deng Xiaoping in 1978. The founders of communist states created an institutional structure designed to produce the policy actions they preferred. Then institutional arrangements are sticky and constrain radical shifts in policy direction. Industry modernization became one of the defining features of Deng's tenure, and it is still functioning as an active slogan and policy priorities.

Council, was the strongest opponent for liberalizing auto trade.<sup>242</sup> Had it lost the authority to approval auto and auto parts import, it would be confronted with the question of its necessity.<sup>243</sup> The concerns these agencies laid out on the table was that foreign competition would injure China's own auto productivity and thus endanger the machinery building capacity.

In the days when China had extremely high auto tariffs, such as 220%, it was very difficult to nudge the auto system. On the domestic table for auto negotiation were SPC's Department of Industry and Department of Machinery, National Mechanic and Electronic Import and Export Office, Ministry of Machinery Building Industry, MOFTEC, Ministry of Foreign Affairs, General Administration of Customs, etc.<sup>244</sup> Foreign pressure became a concrete bargaining chip for pro-trade officials to break this trade-threatened ministry's resistance. The Customs officials actually were very happy when they heard a foreign country's request for tariff deduction. They used Customs Tariff Commission as a media to send foreign requests to the Ministry's Department of Industry Planning.<sup>245</sup> This department passed on the foreign requests to the auto companies and collection opinions from them.

Confronted by strong resistance in the Ministry of Machinery Building Industry, the State Economic and Trade Commission (SETC) stepped in for internal balance and coordination. In early 1990s, only few state trading companies had MOFTEC's approval and thus rights to conduct international trade. MOFTEC argued

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<sup>242</sup> My interview with Li Zhongzhou.

<sup>243</sup> My interview with Wang Lei.

<sup>244</sup> My interviews with Zang Li, Li Zhongzhou, and Wu Jiahuang.

<sup>245</sup> My interview with Wu Jiahuang.

that should it relax trading rights, companies with trading rights would resale imports on domestic market to others, in lack of supervision.<sup>246</sup> Ministry of Internal Trade<sup>247</sup> claimed that foreign enterprises and joint ventures enjoyed trading rights, which was supra-national treatment and hurt domestic companies. The SETC realized that trading companies had made trade very inefficiency, and the associate director made a case that with the trading companies in the middle, the inefficiency cost Chinese walking tractor's market share on the international market place.<sup>248</sup>

The associate director in charge of the GATT/WTO coordination gave his priority to help machinery-building factories, which were the ancestors of major auto companies, gain trading rights, against the interest of pro-trade MOFTEC. For example, China's walking tractor had good quality and low price, one of the few machine equipment that China could sell overseas in 1990s, yet it had never occupied a significant market share. Those trading companies' sales representatives did not have sufficient training in engineering and were slow to respond to foreign customers' questions and requests because they always needed to ask and wait for answers from the factories. Moreover, trading companies could not take care of after-sale customer services; and when customers could not contact factories directly, the payment for after-sale services were an issue kicked by all relevant parties.<sup>249</sup> Without trading rights, the Chinese machinery lost market share.

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<sup>246</sup> My interview with the Chinese interviewee, No. 23.

<sup>247</sup> Ministry of Internal Trade was dissolved and split up between SPC and SETC in 1998.

<sup>248</sup> My interview with the Chinese interviewee, No. 23.

<sup>249</sup> My interview with the Chinese interviewee, No. 23.



Upon the support of vice premier Li Lanqing, the Foreign Trade Law was enacted in 1994. It stipulated that the trading approval should gradually be abolished and replaced by trading registration. In December 1993, Wu Yi, minister of MOFTEC reported to the NPC Standing Committee Conference and explained about the needed transition from trading approval to trading registration.<sup>250</sup> MOFTEC officials claimed that MOFTEC sacrificed its own authority over trading approval and it did not promote GATT/WTO accession for the agency's own benefits.<sup>251</sup> On the other side, with trading rights, officials at the Ministry of Machinery Building Industry saw the benefits of liberal trade policy.

However, when Ministry of Machinery Building Industry's Department of Industry Planning communicated with the major auto companies about the 60% threshold for place of origin, they were very dissatisfied. In order to qualify for lower tariff on imported parts, the auto firms must produce cars that contain at least 60% Chinese-origin parts and components, otherwise the firms will incur tariff surcharge penalty. As reaction, these SOEs conducted an open bidding for the resolution. The auto system was affluent with funding so that it was capable to send people to Germany for training. With policy preference, more capable cadres were attracted to heavy industry and relevant ministries, where the payment and benefits were better. With sufficient funding and better human resources, First Automobile Works, especially its Sales Department, took lead, and Second Automobile Works (later renamed as Dongfeng) and Shanghai Automobile Works (SAIC) participated

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<sup>250</sup> See <[http://www.npc.gov.cn/wxzl/gongbao/2001-01/02/content\\_5003157.htm](http://www.npc.gov.cn/wxzl/gongbao/2001-01/02/content_5003157.htm). >

<sup>251</sup> My interview with the Chinese interviewee, No. 12.

this initiation. This open bidding of these companies became the first marketization of research projects in China.<sup>252</sup>

A group of researchers bid the project, and they sought resolution under the 60% Chinese content requirement, aiming to design a plan to encourage foreign auto companies to transfer technology to China, instead of selling cars. They discovered that domestic auto companies kept a mature and comprehensive sales network nationwide, yet foreign auto companies did not have, based on which they successfully sold the idea of “exchanging market for technology.” The investment on sales would cost roughly RMB 50 Million plus human resources training for a couple of months. Most foreign shareholders did not look positively at the Chinese market at that time, and these companies were not willing to invest in sales network because they would incur big loss if sales did not catch up immediately. This plan designed a set of regulations and policies to encourage joint ventures for the Chinese auto companies to offer the sales network in exchange of the technology spill-over and 50% of the joint ventures’ profits. Upon the government’s acceptance of this plan, the auto companies took the 60% Chinese content requirements. After the implementation of this plan, Toyota and Mercedes-Benz set out a breakthrough in their cooperation with Chinese local companies.<sup>253</sup>

The domestic bargaining was affected by the bureaucratic structure, which favored heavy industry over light, industry over agriculture. Therefore, ministries had unequal bureaucratic voice on the domestic table. By institutional

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<sup>252</sup> My interviews with the Chinese interviewee, No. 5.

<sup>253</sup> My interviews with the Chinese interviewee, No. 5.

arrangements, heavy industry enjoyed more representation and stronger bargaining power than light industry; agricultural ministry was the most disadvantaged in the administrative structure. The coordination for China's GATT/WTO accession demonstrated development priority, structural imbalance, and thereby unequal bargaining power of each ministry. As perhaps the weakest player, Ministry of Agriculture had a division chief sit on the domestic bargaining table, who had lower rank than officials of other ministries. As one of the strong players, Ministry of Machinery Building Industry was offered side payment at the cost of MOFTEC, the most active advocate of GATT/WTO. Moreover, the major auto companies were able to command on its resources and drive a hard bargain on its own. Therefore, structurally unequal power of each ministry was an organizational attribute in the process of internal coordination and balance.

### **The Established Rules of Internal Bargaining Game**

When the MOFTEC negotiators brought the American pressure back home, an issue would go on to the domestic bargaining table. In the three-tier decision structure, relevant ministries and industries did not have equal bargaining power. In the process of aggregating and balancing various interests, reaching dispute resolutions, and eventually deciding on a policy, we would naturally have the questions about the established traditions or rules for decision-making.

First, the bureaucratic rank of an organization is extremely important for domestic negotiation and outcome. Organizations of equal rank can sit down at the

bargaining table as equals, and organizations with higher rank play as mediator and coordinator. The most significant example is that commissions are regarded as half level higher than ministries because ministries take responsibility of administering one sector of the economy, whereas commissions are in charge of cross-sector issues. Any large project inevitably requires the active cooperation of other bodies, yet an industrial ministry lacks the power to compel other organizations for cooperation and implementation. Then the supra-ministerial commissions have a crucial role to play. In China's GATT/WTO case, the SETC led the meetings of Committee of Inter-Ministerial Coordination and moderated the negotiations between ministries. Its leverage over this policy process depended directly on its formal rank, which was higher than ministries.

Second, the bureaucratic rank of officials would also affect the negotiation outcome. As discussed, when Ministry of Agriculture sent a division chief for the coordination meetings, across the table were vice ministers or director-generals from other ministries. Presumably, he was not there to weigh in the positions of Agriculture. Moreover, MOFTEC's officials actively sought the advice of other ministries and lobbied them for pro-trade policies when it attempted to shape its proposal – this process common in the Chinese bureaucracy has its term, *paowen*. For example, Long Yongtu took his subordinates to relevant offices of other agencies and tried to persuade them.<sup>254</sup> MOFTEC's tactic was to send its own officials one

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<sup>254</sup> My interview with Wang Lei.

level higher than the officials at other agencies, in order to show the respect to others, and more importantly to gain leverage at internal coordination.<sup>255</sup>

Third, the process of building a consensus begins early before coordination meetings, yet the decision process turns to coordination meetings only when disagreement rises. For any project that requires cooperation of different ministries, a ministry, even if it takes the lead, lacks the power to compel other ministries or agencies to provide the necessary resources and facilities for implementation. The ministry involved must consult with other relevant bodies in the course of decision-making and consensus building. Therefore, the process of consensus building begins in the initial drafting stage.

When the draft proposal is sent to various leaders, the leaders in charge or at bodies with authority over the issue put down opinions and advice, as is called *pishi*, and other leaders draw a circle, implying their agreement, as is called *quanyue*. If there is no dispute and all relevant leaders build a consensus, at the margins of documents were either the signed opinions or circles, as is called *huiqian*. However, when there is disagreement, this process of consensus building stops. This leader with disagreement does not draw a circle or put down his opinions or concurrence, instead he orally reports to his superior. The process turns into meetings for internal coordination, as this chapter discusses. After consensus is built through coordination meetings, all the leaders should either put down his advice or draw a

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<sup>255</sup> My interviews with the Chinese interviewee, No. 10.

circle. Thus, the process goes back to *huiqian*.<sup>256</sup> On the paperwork shows only consensus, built after coordination meetings.

Fourth, along with the state bureaucracy is the Party system, which also affects the decision structure. Heads of ministries are not just the representatives of their organizations, but also Party members. The Central Committee's Organization Department is in charge of appointment of civilian officials. While they are encouraged to think from the perspectives of and present the position of their own organizations, these high officials, as individuals, look to Party leaders and the Party system for career advancement. When a bureaucrat repeatedly refuses to compromise with other administrative bodies, he certainly will not be popular with his superiors as well as his peer bureaucrats or even pay the price to hold out and force the intervention of the higher levels. For example, the chief negotiator Long Yongtu did not gain popularity inside the bureaucracy for being a vigorous trade advocate. He was not promoted to minister of MOFTEC after he completed the bilateral negotiation with the Americans, but he retired to Boao Forum after China entered into the WTO.<sup>257</sup> In contrast, pressure would form on those with strong position for protection policy, when other ministries withdrew.<sup>258</sup> No one wanted to be perceived as uncooperative or willing to sacrifice the national interests in favor of his own organization.

Officials need to balance whether they should hold out without compromise or accept coordination and a less-than-optimal decision. In order to anticipate

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<sup>256</sup> My interviews with the Chinese interviewees, No. 17 and 18. respectively.

<sup>257</sup> My interviews with the Chinese interviewee, No. 5.

<sup>258</sup> My interviews with the Chinese interviewee, No. 5.

leaders' decision, the agency representatives seek information and try their best to make informed judgment and speculation. This is called *chuaimo*, pointed out by many interviewees.<sup>259</sup> When leaders are clear and unified, that is to say the top leadership knows exactly what they want and can agree on a policy preference or the priority, organizations are motivated to compromise and accept for less-than-optimal option. When leaders are unclear, ministries' perspectives effectively provide information and even education for top leadership. When leaders are not unified, their subordinates spot opportunities and take advantage of the uncertainty by holding out for their organizational interests.

In most of the time during China's GATT/WTO accession in 1990s (except the very end), no clear and unified signal of their policy preferences was sent out from the top; thus there was no focal point for bureaucratic consensus. However, when the top leadership came to consensus in the late 1990s, CPC leaders demonstrated again their political authority, and domestic coordination between agencies became effective. This has been described as the popular saying, "If the state system does not work, use Party system." (*zhengwu xitong zou bu tong, zou dangwu xitong*)<sup>260</sup>

Fifth, although the top leaders have authority to veto policies they oppose and nominate subordinates they favor, they are constrained by reciprocal accountability. The term reciprocal accountability was used to describe that in a Communist country, government officials are both the agents and the constituents

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<sup>259</sup> My interview with the Chinese interviewee, No. 5. This is also confirmed by my discussion with Professor Huang Weiping.

<sup>260</sup> My discussion with a former Chinese official at the National People's Congress.

of Party leaders so that the lines of accountability run in both directions.<sup>261</sup> Bureaucrats hold their positions and get promotion at the pleasure of the Party leaders, whereas Party leaders hold their positions, select their protégé, and implement policies at the pleasure of the officials in the selectorate, which is the CPC's Central Committee in China. While ordinary citizens are excluded from the politics, the Central Committee, as a whole, holds the formal authority for ratifying major decisions. Thereby, the Party leaders' decision should be acceptable to the officials of the Central Committee, the selectorate.<sup>262</sup> Due to reciprocal accountability, neither side has a definitive right in this relationship.

In the power game and policy process, top leaders need to take into account opinions of the Central Committee members, though they still have more leeway to turn the tide in their favor. On the one hand, top-down authority is much stronger than bottom-up authority in the reciprocal accountability, and top leaders have much more leverage over officials of Central Committee, as discussed *supra*. On the other hand, leaders do not want to alienate their bureaucratic constituents because leaders need their political support. Thus, the control over the composition of the Central Committee provides an element of flexibility.

Since the Central Committee or its Politburo is the final veto gate in policy-making and makes decisions by majority rule, leaders can consolidate support by changing the membership of the selectorate and expanding the size of meetings in order to bring new groups into it. When top leaders are confronted with opposition

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<sup>261</sup> Philip G. Roeder, "Reforming the Constitution of Stalinism: Gorbachev's Institution Problem," (paper delivered at the Annual Meeting of the American Political Science Association, August 30 - September 2, 1990).

<sup>262</sup> I adopt Dr. Susan Shirk's usage of the term of *selectorate*, in contrast to the term *electorate* in the democracy.



from central bureaucrats, they turn to provincial officials,<sup>263</sup> which constitute the largest bloc in the Central Committee. In China's decision process on the WTO accession, President Jiang asked provincial officials to express their viewpoints about the WTO affairs,<sup>264</sup> in order to seek political support. Later in February 1999, an enlarged Politburo meeting was held to approve concessions needed for bilateral negotiations for China's WTO membership. In this way, the Party system penetrated and controlled the government apparatus, specifically the State Council, for decision-making in the "6+1+2 system."

### **Inside the Garbage Can**

Chinese decision-making has established a three-tier structure, which is similar to that of the US. Different from trade politics in the US, industrial ministries represented the interests of each industry under their supervision and control, and ministries did not share equal bargaining power. On every tier or forum for internal bargaining and coordination, established rules and tradition influenced the process of aggregating and balancing various interests, reaching dispute resolutions, and eventually deciding on a policy. For the organizational process, Allison says, "The constraints are relatively stable. ... The stability of these constraints is dependent on such factors as rules for promotion and reward, budgeting and accounting

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<sup>263</sup> My interview with the Chinese interviewee, No. 14.

<sup>264</sup> My interview with the Chinese interviewee, No. 14.

procedures, and mundane operating procedures.”<sup>265</sup> However, the constraints were not stable in the China case.

The Sino-American WTO protocol negotiation spanned more than a decade. For China, it was a process of clarifying goals; the technology was not well defined at the beginning; and participation was fluid in the period. One American interviewee stated that the Chinese negotiators’ knowledge of American politics improved during the negotiation process.<sup>266</sup> The Chinese negotiators thought that USTR was part of the cabinet and National Economic Council belonged to the White House and that their different access to the president explained the different positions between NEC Advisor Gene Sperling and USTR Charlene Barshefsky.<sup>267</sup> The Chinese team gave Sperling a nickname, Party Representative, which demonstrated the lack of understanding American trade politics and government structure.<sup>268</sup>

Inside the Chinese negotiating team, some believed that the bilateral agreement with the US was simply a door to the WTO. Commitment made for the agreement was not very important; failure to fulfill the promise would not have serious consequences.<sup>269</sup> When American negotiators asked to increase import quota for soybean, the Chinese speculation was that since China National Cereals, Oils and Foodstuffs Corporation (COFCO) was the only company with authorization to import soybean, it would be easy to call and ask COFCO not to buy American soybean. Therefore, the acceptance of American demand would not cause any

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<sup>265</sup> Graham Allison, *Conceptual Models and the Cuban Missile Crisis*, p700.

<sup>266</sup> My interview with the American interviewee, No. 6.

<sup>267</sup> My interview with the Chinese interviewee, No. 12.

<sup>268</sup> *Ibid.*

<sup>269</sup> My interview with a Chinese official, anonymous upon request.

problem. Not long after accommodating this American demand, the Chinese negotiators found American trade negotiators pushed efforts on SOE trading rights, and then six Chinese companies were authorized soybean import.<sup>270</sup>

Ideologically speaking, the Chinese government has claimed that it is the representative of the Chinese working class and believed that the Chinese working class should have no interest conflict with American working class, opposite to American business, which should symbolize American capitalism and imperialism. The Chinese trade experts endured the confusion of American labor organizations' pursuit of trade protectionism until the very end when people joked, "We finally understand that we defeat American working class."<sup>271</sup>

From stories as above, we learn that China's GATT/WTO accession was a dynamic process. China's understanding about the GATT/WTO and bilateral negotiation changed; decision makers' recognition of the problems changed; the organizational participants on the domestic bargaining table changed; the trade promoting organizations and protectionist agencies had structural change. With the aid of garbage can model, we will be able to adventure beyond the standard procedures and established rules, explore the changing internal constraints and dynamics, and discover how the various streams joined together for the conclusion of the bilateral negotiation.

First, the GATT/WTO accession had never been regarded as an independent crisis or problem seeking for solutions, instead it had been recognized as part of the

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<sup>270</sup> My interview with a Chinese official, anonymous upon request.

<sup>271</sup> My interview with the Chinese interviewee, No. 14.

economic reform in the late 1980s, the development of market economy in the early 1990s, and later as a potential solution for the reform of state-owned enterprises in the late 1990s, which will be detailed in the next chapter. At the top level, the significance of the GATT/WTO accession had been attached to different issues, which indicated that Chinese top leaders' perception of the GATT/WTO accession progressed with the bilateral trade negotiation with the US government moving forward.

Inside Chinese bureaucracy, the understanding of GATT/WTO affairs, bilateral negotiation and agreement was initially rudimentary. The negotiation became a learning process. One interviewee revealed that no thorough quantitative research was ever conducted to study the impact of any compromise to American demands on the Chinese economy.<sup>272</sup> The GATT/WTO accession was regarded as a tariff issue. Since the tariff has been revenue for the central government, it has never concerned the provincial interests. Therefore, the whole negotiation process did not touch upon the relationship between the central government and provincial government, except that, as discussed *supra*, provincial leaders were involved to provide political support late in Stage Three. In estimating the cost of political support, local government gradually realized the importance of understanding the impact of WTO accession on the local economy and started to set up WTO consulting centers.

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<sup>272</sup> My interview with the Chinese interviewee, No. 3.

In the 1990s, the consensus gradually formed that China needed to make 8 percent or higher growth rate in GDP in order to keep social stability.<sup>273</sup> Constructing this indicator acceptable to different factions in politics and different positions in the bureaucracy took some time, but in the late 1990s, both the reformists who wanted economic development and the conservatives who pursued the governance stability of the Communist regime, both the trade liberalists and protectionists in the State Council agreed to the goal for a healthy economy – the GDP growth rate of 8%. As a countable problem which “acquires a power of its own that is unmatched by problems that are less countable,”<sup>274</sup> this concrete indicator, 8% of GDP growth, has become very powerful ever since. It functions as index for macroeconomic policy decision at the central level and as a threshold for promotion and reward in the bureaucracy in localities. Policy makers began to consider a change in this indicator to be a change in the state of system and interpret it as a symbolic of something larger which requires a move.

Problems capture the attention of decision makers when the indicator simply shows that there is a problem, and the determination that a problem exists is a matter of interpretation. Starting from 1995, the Chinese GDP growth rate fell, from 10.5% in 1995 to 9.3% in 1997, and then to 7.1% in 1999, and the retail price fell almost at the same time. The market full of laid-off workers from SOE privatization did not respond to the government’s monetary policy. A lower GDP growth rate, less than 8%, was interpreted as not only an economic problem, but also an issue

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<sup>273</sup> My interview with the American interviewee, No. 3.

<sup>274</sup> Kingon, *Agenda, Alternatives, and Public Policies*, p98.

about the safety of the regime, which may cause a crisis if nothing would be done. Once the economic problem was put into the category of political stability, it possessed high priority. The negotiation for WTO accession, which was ongoing for more than a decade, looked more attractive than before for its potential to boost the economy.

About the same time, Zhu Rongji, the new head of the State Council, was confronted with difficulty in his SOE reform and needed foreign pressure to counter resistance inside the State Council. The State Council under Zhu's leadership recognized reinvigorating the economy and modernizing the SOEs as the top priority. For example, in order to introducing modern technology and upgrade the manufacturers in textile industry, the total spindles nationwide were reduced from 50 million to 30 million.<sup>275</sup> Weakening the SOEs equals diminishing their representatives in the bureaucracy. For better cooperation and coordination in the Ministry of Textile Industry, an associate director of the SETC, Shi Wanpeng, was relocated to head this ministry around 1997-1998.<sup>276</sup> From his administration of the SOE privatization program, Zhu became aware of this tremendous obstacle – the bureaucratic resistance from industrial ministries inside the State Council.<sup>277</sup> When the SOE reform reached an impasse, the mismatch between the observed condition and Zhu's conception of an ideal state of domestic enterprises presented him a problem to resolve.

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<sup>275</sup> My interview with the Chinese interviewee, No. 23.

<sup>276</sup> *Ibid.*

<sup>277</sup> My interview with the Chinese interviewee, No. 6.

Although the WTO accession did not look interesting earlier, the foreign competition that it would introduce was now regarded as leverage in pressing SOEs to become efficient and make reforms. Against the backdrop that the GDP growth rate slipped down enough to set off the alarm, the decision makers and problems, tracking each other, converged on an existing idea, the WTO accession. The GATT/WTO accession, which was part of the grand strategies, economic reform and the development of market economy, was redefined as a potential solution for these two urgent problems.

Second, the idea of GATT/WTO accession began in the 1980s and survived in the 1990s. By the end of 1990s, it was no longer a new idea, but one that floated around in policy community for more than a decade. As a proposal that associated with economic development, it had the right type of policy direction. China's economic reform brought not only an economic miracle in this period, but also a substantial change of the value. The value, which only pro-trade advocates held, gradually spread to the policy communities, in which less tended to be inertia-bound and resistant to major changes, and more see the trade liberalization in similar ways and approve of approaches to liberalize trade and economy.

When many proposals coexisted in the "policy primeval soup," the selection process was evolutionary. In this lengthy process, the origin of GATT accession in the Cold War was no longer important. This proposal survived the processes of mutation and recombination: It survived Tiananmen Square incident and revived after China established the market economy as policy direction. In the 1990s, it lost

the priority to other proposals, such as the Three Gorges Dam project; it suffered the setback caused by the failure to enter into the GATT by 1994; and it was held off of a policy agenda for a considerable amount of time while internal coordination and balance occurred, for example, the associate director of SEC pushed MOFTEC to open trading rights for auto industry and its ministry. In the same period, trade advocates and liberal minds had the sense of the “right” type of policy direction, and it was finally recombined with the SOE reform and became acceptable to the policy communities.

The proposal of GATT/WTO accession floated in the policy community for more than a decade. Trade advocates tried to soften up both policy communities and the general public. As discussed earlier about the term *paowen* inside the bureaucracy, MOFTEC sent its higher officials to other industrial ministries, trying to coordinate and persuade them in shaping its own policy proposals. Moreover, around 1992 and 1993, MOFTEC waged a campaign to educate the general public about the GATT, which will be detailed in the next chapter. Although these measures did not prove to be effective, it paved the way to get the relevant public ready for the accession when the timing came later.

The pro-trade agencies and coalition came into being in the same period. The leading trade-promoting agency had structural changes in the process of the GATT/WTO accession and came into being. Change began in the year of 1978, when Chen Muhua, the Minister of Ministry of Economic Relations with Foreign Countries was promoted to Vice Premier, and at the same time, she also acted as the Minister.



When this pro-trade ministry was headed directly by a vice premier, it elevated the importance and status of this ministry in the organizational structure, thus it facilitated the pro-trade agencies. A few years later in 1982, the Ministry of Foreign Trade, Ministry of Economic Relations with Foreign Countries, State Import and Export Regulation Commission, and Foreign Investment Regulation Commission were merged into one ministry, Ministry of Foreign Economic Relations and Trade (MOFERT). The combination of various trade-related agencies and human resources empowered the pro-trade coalition by eliminating cross-agency coordination. In March 1993, MOFERT was renamed to Ministry of Foreign Trade and Economic Co-operation (MOFTEC). In this way, MOFTEC came to resemble the USTR on international negotiations.

At the beginning there was no specific office for the GATT or WTO inside the MOFTEC. Instead, a team for international relations took the responsibility of international trade issues.<sup>278</sup> With more and more important workload, it gradually rose to department level and became Department of International Trade and Economic Affairs.<sup>279</sup> This department took lead of trade negotiations with foreign countries and international organizations, under which were founded new divisions. The Second Division, the so-called GATT Division, was founded specifically for the GATT application around 1986, and mainly in charge of trade negotiations for the GATT/WTO accession. The GATT Division started from seven staff members, much smaller than other divisions.<sup>280</sup> With the rising importance of its mission, this small

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<sup>278</sup> My interview with the Chinese interviewee, No. 9.

<sup>279</sup> *Ibid.*

<sup>280</sup> My interview with the Chinese interviewee, No. 1.

division was eventually separated from Department of International Trade and Economic Affairs and evolved into Department of WTO Affairs, with seven divisions and one office under it. While rising in the bureaucracy chart, this agency and its bureaucrats had the incentives to negotiate with the Americans and promote liberal trade policy for promotion of personal career, agency expansion, the enlargement of bureaucratic turf.

The pro-trade coalition not only formed and but also became intertwined and stronger. The inter-personal exchange, between MOFTEC, General Administration of Customs, and the SETC, also facilitated the formation of the pro-trade coalition in this policy community of specialists. For instance, GATT Division's first division chief was promoted to director-general of Department of Tariffs at Customs and acted as an important member of Custom Tariff Commission. One of MOFTEC's assistant to the minister transferred to the SETC. He acted as the associate director in charge of Committee on Inter-Ministerial Coordination on GATT/WTO and presided the coordination meetings.

The value acceptability was another criterion for the proposal's survival. Scholars like Dr. Lieberthal have pointed out the fragmentation in the regime of Communist China. Unlike a more closely knit community which generates common outlooks, orientations, and ways of thinking, the Chinese policy community is not tightly knit. Compared with their peers in the bureaucracy, officials in pro-trade agencies appear to be more open-minded in thinking about how trade and open-

door policy would benefit the country.<sup>281</sup> From my interviews, I found many of these trade officials, even the experts invited to coordination meetings, were exposed to foreign education, work experience overseas (mostly in Geneva), or numerous foreign travels. Their views on issue-topics at international negotiation directly affected the alternatives they proposed. By interacting with other agencies, they spread these values within the Chinese bureaucracy. In the late 1990s, some top leaders, for example Zhu Rongji and Li Peng, had already taken the concepts conveyed by western literature, such as absolute advantage in Adam Smith's *The Wealth of Nations* and comparative advantage in David Ricardo's *The Principles of Political Economy and Taxation*.<sup>282</sup>

With the gradual change in the values of bureaucrats, the measures that were compatible to the requirements of GATT/WTO membership became more and more acceptable within the Chinese bureaucracy. In 1992, China tactically used market access to exchange for American support – “The U.S. Government will staunchly support China’s achievement of contracting party status to the GATT.”<sup>283</sup> Later, high officials at the State Council dropped limitation on market access on their own initiative. China permitted limited market access for international supermarket groups: One company could not run more than 10 stores in Beijing. In order to research the operation of supermarket, the associate director of the SETC opened a small supermarket next to the SPC. He recalled it was very hard to figure out when to put what on the shelf and when to take what off the shelf. From his hands-on

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<sup>281</sup> This was inspired by the discussion with my Chinese interviewee, No. 11.

<sup>282</sup> My interview with the Chinese interviewee, No. 5.

<sup>283</sup> See Article VIII.2, Memorandum of Understanding Between The Government of The United States of America and The Government of The People’s Republic of China Concerning Market Access.

experience, he drew the conclusion that the business model of supermarket could only operate well when it formed a chain. If foreign supermarket chains could run well, we should not prohibit it. Upon this suggestion, Wu Yi, as the State Councilor in charge of trade, met with the heads of international supermarket chain companies which violated their market access permission, and made clear that they would not be investigated.<sup>284</sup>

In the “policy primeval soup” of many proposals, the proposal of GATT/WTO accession, which floated in the policy community more than a decade, finally rode in the “right” policy direction in the 1990s. It benefited from the rise of MOFTEC and its trade negotiation division, as well as the formation of pro-trade coalition. After years of softening up, it not only survived the lengthy selection process, but also entered into a short list of ideas when top leaders and bureaucrats were receptive to values promoted by the free global trading net. As a viable alternative available for economic impasses, it achieved the high placement on policy agenda. In March 1998, China submitted a list of nearly 6000 products for tariff reduction on its own initiative.

Third, independently of the problems and policy streams, the political stream has its own dynamics and can be an important promoter or inhibitor for a policy proposal.<sup>285</sup> In China’s GATT/WTO accession, agenda change occurred in both of these two ways: Incumbent in positions of authority changed their priorities and pushed for this proposal’s agenda status; at the same time, the personnel in the

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<sup>284</sup> My interview with the Chinese interviewee, No. 23.

<sup>285</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, p 152-172.

State Council were restructured, and new priorities were brought onto the agenda by virtue of this government turnover. The standard operating procedures that the organizational process model emphasizes help us understand the routine operation of the Chinese government, yet the garbage can model shows its strengths in explaining changing situations and constraints.

A change of top personnel in an administrative agency substantially changed the agenda. In the year of 1998, Zhu Rongji was promoted to the Premier. Acting as Premier, Zhu's view about the impact of foreign competition on domestic enterprises was different from that during his vice premier tenure. His new priority was to implement SOE reform. As early as in 1986, then Vice Premier Tian Jiyun remarked at a meeting, "The overall reform of the economic structure is in a sense a readjustment of power and interest, in which a large amount of contradictions exists." Confronted with vested interests in the SOEs and industrial ministries, Zhu tried to leverage foreign pressure to push for SOE reform. Details will be discussed in the next chapter.

A government turnover, which aimed at its own causes in economic development and domestic politics, showed powerful effects on the agenda, and the WTO case became a collateral issue, which benefited from this turnover. In 1998, the State Council underwent a major reform of its structure, which fundamentally changed the bureaucratic rank of numerous agencies, correspondingly their bargaining power on the table. In total, the State Council downsized and shed off

about half of its bureaucrats.<sup>286</sup> Fifteen ministries or commissions were abolished, among which many were powerful heavy industrial ministries. Ten of them were first downgraded from a ministry under the State Council to a bureau under the SETC, and a few years later, they transformed from governmental agency to industry association. For instance, Ministry of Machinery Building Industry was downgraded to Bureau of Machinery Building Industry under the SETC, and later it became China Machinery Industry Federation. Ministry of Metallurgical Industry was downgraded to Bureau of Metallurgical Industry under the SETC, and then it became Metallurgical Industry Association.

In contrast, pro-trade agencies such as the General Administration of Customs and MOFTEC maintained their bureaucratic ranks. Thus, protectionist agencies had lower bureaucratic rank than pro-trade agencies after the restructuring. As discussed *supra*, bureaucratic rank of an organization is extremely important for domestic negotiation and its outcome. When they were downgraded to industrial bureaus under the SETC, it was understood that they were to transform to industrial association and abolished from the bureaucracy eventually. The demotion of these heavy industrial ministries in the organizational chart significantly decreased their bargaining power *vis-à-vis* pro-trade agencies inside the State Council. This change of relative hierarchical status and bargaining power between pro-trade agencies and protectionist agencies gave an advantage to the WTO proposal.

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<sup>286</sup> My interview with the Chinese interviewee, No. 22.

Having many heavy industrial ministries ranked as bureaus underneath, the SETC had been awarded greater authority and leeway to bargain with them. The SETC became the new representative and supervising agency over many industries. As a commission of supra-ministerial rank, it was half level higher than those protectionist industrial ministries; now it had significantly higher bureaucratic rank than these industrial bureaus. The combination of SETC's dual identity, the coordinator for the WTO accession and the new supervising agency of industrial interests, facilitated the progress of internal coordination and turned the tide toward to the WTO accession. The State Council reorganization fundamentally changed the balance of power on the domestic bargaining table for the WTO case.

Moreover, the three-tier decision structure was changed correspondingly. After most industrial ministries were reorganized into the SETC, Committee on Inter-Ministerial Coordination on GATT/WTO, the lowest forum for bargaining and coordination between ministries was abolished,<sup>287</sup> allegedly for Premier Zhu to take direct control over the WTO affairs. As widely reported, Premier Zhu stepped in at the very end and negotiated across the table with Ambassador Barshefsky. The organizational process followed for internal coordination for more than a decade was changed. The following story of a phone call manifested the chain-of-command in the late Stage Three of bilateral negotiation.

An interviewee recalled one night of bilateral negotiation, the MOFTEC Minister Shi Guangsheng visited the Chinese staff's conference room with pajamas

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<sup>287</sup> My interview with the Chinese interviewee, No. 20.

on and told them a story: When Shi was on the phone with Wu Yi (State Councilor in charge of trade), Premier Zhu called Wu. Wu said to Shi, the Premier wanted to talk to you. You should report to him directly. At this time, President Jiang called Premier Zhu, and Zhu turned around and asked Shi to report straight to the president.<sup>288</sup> From this story, we learn that at the very end, the proposals moved up from MOFTEC minister to State Councilor, then to the Premier, and eventually to the General Secretary/the President. After Zhu rose to the Premier and took over the WTO affairs, the established three-tier decision procedure was no longer followed. It allowed the pro-trade agencies' proposals to gain advantages in the selection process and showed the powerful effect on the agenda.

The end of the 1990s became a critical juncture where three streams – problems, policy, and political stream – came together. Having floating in the policy stream, this idea of GATT/WTO accession became a worked-out, viable proposal by softening-up. It was compatible with the substantial change of values in 1990s in the bureaucracy and rode in policy direction of the right type. Although it floated in the policy community for quite a while, only in the end of 1990s did it become coupled to prominent problems, the slow-down of domestic economy and the SOE reform. At the same time, it was attached to these problems as a solution for the foreign pressure that it could bring to SOE for better performance. The development in the political stream, the significant turnover inside the State Council in 1998, provided a receptive climate for the WTO accession. This combination of the solution and problems finally found sufficient support in the political stream.

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<sup>288</sup> My interview with the Chinese interviewee, No. 12.



From the organizational perspective, when the coupling of three streams occurred inside the Chinese bureaucracy, the bilateral negotiation strode to the success.

## **Conclusion**

As Dr. Kingdon argued, “In contrast to a problem-solving model, in which people become aware of a problem and consider alternative solutions, solutions float around in and near government, searching for problems to which to become attached or political events that increase their likelihood of adoption.”<sup>289</sup> Different from Cuba Missile Crisis, China’s decision-making on WTO accession was a lengthy process, in which this policy alternative had constantly existed in the policy stream for more than a decade. After years of softening-up, the value that trade advocates promoted spread to the bureaucracy, and even to the top leaders. It was suddenly elevated on the agenda because it was perceived as a solution to pressing problems in economy.

In this case, the organizational process model shows its limitation, while garbage can model demonstrates strong explanation power. In the lengthy process, the reorganization inside Chinese government heavily affected the internal bargaining table. On one side, the pro-trade agencies became stronger, and the trade coalition gradually formed among MOFTEC, the General Administration of Customs, and SETC. On the other, many industrial ministries were downgraded to bureau level and eventually transformed to industrial associations. The government

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<sup>289</sup> Kingdon, *Agendas, Alternatives, and Public Policies*, p 181.

restructuring tilted the balance of power on domestic bargaining table, which benefited the pro-trade agencies' pursuit. The decision procedure of three-tier, which functioned for years for tariff issues and trade negotiations, were not followed after the government turnover. With the help of the garbage can model, we have a better understanding when the problem, policy, politics stream are all coupled together by the year of 1998, the Sino-American trade negotiation proceeded to its final conclusion and success.

## **Chapter 5: The Third Cut of China's GATT/WTO Bid: Bureaucratic Politics in the Two-level Game**

In Chapter III, I have built my analytical framework, relying on the structure of Dr. Allison's policy analysis models. The analytical framework addresses three different aspects of one policy outcome. In this chapter, the focus of analysis shifts to how bureaucratic politics affect China's decision on its negotiation for GATT/WTO accession, featuring the internal bargaining, international bargaining, and their interplay with each other.

There is no separate, open sphere of politics in China as there is in democracies for internal bargaining over policies. Group interests, which are denied overt channels of expression, are fed into the bureaucratic politics. In the policy process, these interests look to ambitious officials to take up their pursuits. At the domestic bargaining table, struggles over policy, or even policy orientation, go on concurrently with the struggle for power. China's accession to the GATT/WTO, as a liberal trade policy, was intertwined with internal power competition and succession politics in the three stages.

The fifteen years of China's accession negotiation to enter the GATT/WTO coincided with the power transition from the second-generation leadership to the third. Due to the lack of institutional election, the transition from one generation of leadership to the next is often accompanied by faction competition. In the factional competition for power, communist officials cannot openly campaign for leadership posts because of the consensus to maintain party unity. The contest for power

between factions is hidden in the bureaucratic policy process. The CPC's bureaucratic politics features the balance between factional competition and the consensus to maintain party unity.

The strong link between policy and power in communist systems means that succession struggles create opportunities for policy innovation. In the succession competition, taking a particular policy position can enable a potential candidate to appeal to groups within the selectorate,<sup>290</sup> and it also can facilitate a power seeker going on the offensive against a rival. Generally speaking, the opportunities for innovation are welcome in communist systems, which can obtain consensus only with conservative policies that preserve every group's original share of the pie.

Regarding bureaucratic politics and bargaining at the domestic table, the significance of China's decision on accession to the GATT/WTO varied in three stages. In Stages I and II, China's decision on the GATT was associated with China's economic reform policy and the development of market economy. Bureaucratic struggles over economic reform policy were tremendously affected by the power transition and succession politics. At the time, China's decision-making on its accession to the GATT was confined to a limited number of bureaucratic officials, mainly the power players at the very top level. MOFTEC negotiators at the working level were also included. Domestic bargaining about the GATT, subordinated to the internal debates on economic reform, went on concurrently with domestic competition in power succession. In Stage III, power of the third-generation

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<sup>290</sup> Dr. Susan Shirk used this term to describe the officials at the CPC Central Committee, in contrast to elected officials in democracy.

leadership had been consolidated. The economic reform was no longer under question. At the domestic bargaining table for China's WTO accession, bureaucratic units, in pursuit of their organizational interests, acted as basic building blocks of China's internal politics on WTO affairs. Policy coordination seemed to not work well, so top-down authority played the key role, though it cannot dominate the domestic bargaining table.

### **The Politics in Stage I**

Dr. Putnam's two-level game theory reveals the entanglement of domestic politics and international relations. He points out that the "agreement [at the Bonn summit of 1978] was possible only because a powerful minority within each government actually favored on domestic grounds the policy being demanded internationally." Therefore, "without domestic resonance, international forces would not have sufficed to produce the accord."<sup>291</sup> Except at the very end, the first stage of bilateral negotiation witnessed a core leadership leaning toward liberal economic policy.

The core of the Party is regarded as the top leader who possesses the greatest political leverage and reputation. For example, Mao is regarded as the core of the first-generation leadership, and Deng, the core of the second-generation leadership. A core of leadership comes into being when he and his supporters achieve victory in factional contests during leadership transition. Then, the policy

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<sup>291</sup> Putnam, *Diplomacy and Domestic Politics: The Logic of Two-level Games*, p 428-430.

preference of the core of the Party becomes the official guideline in the policy agenda because he possesses great political leverage. He would also maximize his power and make his policy preference prevail over that of his rivals. In contrast, his rivals may criticize certain policy that is usually associated with this top leader, with the intention to undermine his capacity, power and reputation. Policy-making in large part hinges on the contest of political strength between party factions.

Leadership succession and power transitions present opportunities for party factions to compete, and the policy orientation of the country and the policy over the GATT accession were affected significantly. In the power transition from the first generation to the second, Deng Xiaoping succeeded in maneuvering the attacks against Hua Guofeng, Mao's designated successor, and replaced him as the paramount leader of the CPC, though Deng did not hold the chairman position. In the efforts to erode Hua's capacity in policy-making and leadership in ideology, Deng cooperated with Chen Yun, another Party elder. Chen held the post of deputy party chairman and maintained membership in the Standing Committee of the Politburo. In the ensuing years, Deng was credited as the architect of China's economic reform, while Chen had made his contribution in planned economy and his political base in the planning system.

On the turf of economic policy, the top leadership were never unified in its view: Deng was regarded as reformist, yet Chen, conservative. The policy orientation of Chinese reformists under Deng was to emphasize a high rate of economic growth, extensive marketization, rapid integration of the Chinese

economy into the world economy. By contrast, the faction under Chen promoted a more conservative policy orientation. They claimed that China should pursue economic reform within the basic framework of the planned economy and that the market should supplement the plan. He stressed that the state should maintain the leading position of the SOEs, and that integrating China into the world market would lead to economic and political dependence on the outside world.

These two CPC factions led by these two top leaders became the drivers of internal contest and compromise in the arena of economic policy. In the early 1980s, their differences emerged, especially after Deng rejected Chen's approach to urban reform.<sup>292</sup> In principle, Chen never objected to Deng's reform, but he opposed the way that urban reform was carried out. Although the gap gradually enlarged between the two factions, Chen never challenged Deng's power. Instead, Chen strategically used economic hardship, staged protests against the radical reform programs, and pushed Deng to lean toward his policy orientation. In the ensuing years, the two factions waxed and waned in their compromise and contest with each other, creating the rounds of the economic policy cycle, which also shaped the dynamics of internal politics for China's GATT/WTO accession.

At the beginning of the first stage, China's accession to the GATT benefited from the powerful, reform-minded minority. At the top, the core of the second-generation leadership endorsed it, as it was regarded as part of liberal economic reform. At the State Council, Premier Zhao Ziyang and his allies promoted it. In the

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<sup>292</sup> Lowell Dittmer and Wu Yu-shan, "The Modernization of Factionalism in Chinese Politics," *World Politics*, Vol. 47, Issue 4 (July 1995), pp. 467-94. Also see Frederick C. Teiwes, "The Paradoxical Post-Mao Transition: From Obeying the Leader to 'Normal Politics'," *The China Journal*, Vol 34, (July 1995) pp. 55-94.

year of 1978, Chen Muhua, then Minister of Ministry of Economic Relations with Foreign Countries,<sup>293</sup> was promoted to Vice Premier, which indicated the growing importance of foreign trade in the Chinese economy, as well as the rising weight of the pro-trade political coalition within the center of top-level decision-making in China. At the working level, liberal minded officials, such as those with the MOFERT, supported it.

In 1986, the State Council Inter-Ministerial Coordination Group on GATT Negotiation was established for policy coordination. State Councilor Zhang Jinfu served as its head, and vice directors included the Minister of Foreign Affairs, Minister of Foreign Trade, and General Director of Customs. In 1988, this coordination group was renamed the State Council Committee on Inter-Ministerial Coordination on GATT to coordinate with relevant ministries. With the name change from “coordination group” to “committee,” it began to include more members from various agencies, and the lead role was played by a vice premier now. Tian Jiyun, the vice premier in charge of it, was promoted by Zhao, was known as his protégé, and enjoyed better access to Zhao. At the time, he ran meetings regularly once a month.<sup>294</sup>

Reportedly under Zhao’s instruction, the reformist bureaucrats at the working level of the State Council launched deliberations on China’s GATT accession. Officials with the Department of International Organization and Conference of the

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<sup>293</sup> The predecessor of MOFERT, MOFTEC and Commerce.

<sup>294</sup> My interview with the Chinese interviewee, No. 20.



Ministry of Foreign Economic Relations and Trade (MOFERT) <sup>295</sup> were commissioned to write a report about the pros and cons on China's GATT accession.<sup>296</sup> This report suggested that China should move toward openness, and Zhao agreed and approved it. Zhao also invited the Director-General of the GATT, Sir Arthur Dunkel, to visit China in January 1986. He personally informed Dunkel that China would apply to rejoin the GATT and assured him that China's planned commodity economy could integrate in this global trading net without damaging it.

The young bureaucrats at the working level were pro-trade and pro-openness. In the first stage, only a limited number of bureaucratic agencies were involved, mainly the Department of International Organization and Conference of MOFERT. Most of its young bureaucrats joined the Party after the PRC was founded and had no combat experience from wartime. Their educations and careers were negatively impacted by the Cultural Revolution, and then benefited from Deng's measures to restore the order of society after he return to power. After Deng promoted professionalization, emphasized formal education and technical training, and stressed "rejuvenation" (*nianqinghua*) in recruitment and promotion, their career flourished. These young bureaucrats at MOFERT were in particularly pro-trade. In September 1984, MOFERT even gave up some of its own authorities on foreign trade approval and regulation. Importers and exporters were not required to choose the MOFERT-licensed foreign trade corporation to work as their trading

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<sup>295</sup> The predecessor of Ministry of Foreign Trade and Economic Cooperation (MOFTEC).

<sup>296</sup> My interview with the Chinese interviewee, No. 22.

agents. Only imports that were classified as restricted category needed MOFERT's approval.

Holding a strong tie to the policy of economic reform, China's accession to the GATT was considerably affected by Zhao's rise and fall. Zhao's bureaucratic career became notable around 1951 when he worked in Guangdong province. Initially, he followed an ultra-leftist leader, Tao Zhu and worked on land reform and later the People's Commune. From 1958 to 1961, Mao's Great Leap Forward created an artificial famine. This experience led both Tao and Zhao gradually lean toward Deng Xiaoping and support moderate political and economic policies. Consequentially, Tao was attacked and dismissed during the Cultural Revolution. Without Tao's protection, Zhao was dismissed from all official positions and spent four years working as a mechanic fitter in Hunan Province. Zhao's political exile ended in 1971. Under the direction of Premier Zhou Enlai, Zhao's political career rocketed. He was appointed to Deputy Party Secretary of Inner Mongolia in 1972, the First Party Secretary of Guangdong Province in 1974, and then Party Secretary of Sichuan Province, Deng's home province, in 1975.

In Sichuan, Zhao made a significant mark in his term. He successfully implemented a series of free-market reforms, and increased industrial output by 81% and agricultural production by 25% within three years.<sup>297</sup> The conspicuous achievements caught the attention of Deng, who was born in Sichuan and rose to the core of top leadership at that time. Deng advocated Zhao's "Sichuan Experience" as

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<sup>297</sup> See "Obituary: Zhao Ziyang," BBC News, January 17, 2005. <<http://news.bbc.co.uk/2/hi/asia-pacific/2989335.stm>>

a model for Chinese economic reform and promoted Zhao to the top leadership. Zhao became a full member of Politburo in 1979, replaced Hua Guofeng as Premier in 1980, and joined the Politburo Standing Committee in 1982. Zhao rose to power, as Deng's protégé.

After Zhao took the premier position, China's agricultural production rose by 50%. The success in agriculture strengthened Zhao's political base in the central government to implement economic reforms. He advocated the privatization of SOEs, promoted the separation of the Party and the state, sought to streamline China's bureaucracy, and implemented bold economic reform programs. Zhao also played the key role in China's GATT affairs. He approved the MOFERT's pro-trade report, invited Dunkel, the GATT's director general, to visit China, and his ally, Tian Jiyun, led the State Council Committee on Inter-Ministerial Coordination on GATT.

Zhao rose to the national scene from the provincial level, and he did not have strong political connections within the top leadership. At the central government he relied on Deng's support to implement his reform policies. Reportedly, Hu Yaobang, another protégé of Deng, coveted the chairmanship of the Military Affairs Commission (MAC) and was regarded to be too anxious to seize power. In January 1987, without any required plenary session of CPC Central Committee, he was deposed by a group of Party elders from the post of General Secretary of the Party. Thereafter, Deng promoted Zhao to the CPC General Secretary, the highest official position, virtually putting him the first in line to succeed Deng in the paramount leadership. Zhao began to think of himself as a successor and shifted his reform

policy in order to mobilize support for himself.<sup>298</sup> However, neither Hu nor Zhao was made the head of the Military Affairs Committee (MAC), the chairmanship of which was still held by Deng. At the same time, the premiership was filled in by Li Peng – Premier Zhou Enlai’s adopted son – who was regarded as a conservative by media outside China.

When the powerful minority within the government wanted to boost foreign trade and investment for economic development, re-entry into the GATT seemed to be in line with the open-door policy.<sup>299</sup> However, Zhao’s bold economic reform programs, especially price reform, led to high inflation and extra-budgetary investment in late 1980s. The hybrid system of market forces and planned economy encouraged corruption among those with official positions or with official connections. The economic hardship and the societal inequality offered the conservatives an opportunity in 1988. By condemning Zhao’s measures, they justified their requests to tighten central control, reduce investment, and cool down the economy. The conservatives called Zhao a revisionist of Marxism. Among the Party seniors, Chen Yun and Li Xiannian were allegedly critical about Zhao’s policies. At the State Council, Zhao was confronted with the conservative faction led by Li Peng and Yao Yilin.

Deng’s support was critical, and losing it was detrimental. The death of Hu Yaobang triggered a nation-wide protest, demanding an end to Party’s corruption. The Party’s seniors grabbed the opportunity and claimed that Zhao’s

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<sup>298</sup> Shirk, *The Political Logic of Economic Reform in China*, p. 89

<sup>299</sup> David Dodwell, “Chinese to Apply for Membership of GATT,” *Financial Times*, (January 13, 1986), p.1.

rapid reform caused the confusion and frustration among college students. At a meeting in May 1989 with Soviet leader Mikhail Gorbachev, Zhao made a statement, which implied that Deng still had the final say in major decision-making although he did not hold any high position. On Tiananmen Square, college students on protest shouted “down with China’s regent.” Deng was furious. On May 18, 1989, Politburo Standing Committee was called for a meeting to endorse martial law, and Zhao was marginalized. On May 19, Zhao appeared on Tiananmen Square. Perhaps with the intention to rally support, he delivered his famous speech and showed his sympathy to students. A day afterwards, Premier Li Peng declared martial law. Zhao was stripped of all positions and put under house arrest.

On June 4, 1989, the People’s Liberation Army took control of the Tiananmen Square from the students. The Tiananmen Square incident had significant impact on China’s participation on the international stage, and this political earthquake fundamentally changed the Chinese political landscape. The World Bank and the Asian Development Bank suspended loans to China; foreign direct investments were cancelled. Deng’s influence in the Party had been weakened, and many reform-minded leaders were put on house rest, temporarily or permanently. The end of Zhao’s political career directly affected the economic reform programs he promoted, including China’s GATT accession. When the conservatives, with their stress on preventing peaceful evolution<sup>300</sup>, returned to the center of power, the orientation of

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<sup>300</sup> The theory of “peaceful evolution” was formulated by former US Secretary of State John Foster Dulles during the Cold War. It refers to the alleged attempt to peacefully effect a political transformation in China. Chinese analyses hold that it has become part of the theoretical foundation for US’s China policy.

economic policies had been reversed. The reformists became a crippled minority, and international openness lost its domestic resonance.

In the first stage of China's GATT accession, the domestic political contest between the pro-trade reformists and the conservative faction was the major driver of the size of its win-set. With political endorsement of the core leader of the Party, the GATT policy was regarded as one of the liberal approaches to rejuvenate the economy and realize the Four Modernizations<sup>301</sup>. At the international level, Deng and his economic reform were highly applauded by the Americans,<sup>302</sup> and Chinese trade negotiators felt friendly encouragement and even help from the US, rather than strong American pressure.<sup>303</sup> However, the Tiananmen Square events tremendously changed the political landscape in China. With reformists marginalized, the conservatives returned to the center of power and possessed the advantage in policy decisions. Without knowing whether China would continue with the reform measures, the pro-trade officials were not concerned about whether the deal could be ratified, but confused about whether they should continue the GATT talks with the westerners.

## **The Politics in Stage II**

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<sup>301</sup> The Four Modernizations were a policy objective set by Zhou Enlai in 1963 and enacted by Deng Xiaoping in 1978. The goal was to realize modernization in agriculture, industry, national defense, and science and technology.

<sup>302</sup> Deng appeared multiple times on the cover of *Time* magazine, for example on January 1, 1979, September 23, 1985, and January 6, 1986.

<sup>303</sup> My interview with the Chinese interviewee, No. 1.

At least in the twentieth century, power transition in China has lacked institutionalization, and the dilemma has existed in the relationship between a top leader and his successor-designate. As in all the dynasties before, the succession politics contributes enormously to the political chaos in Communist China, and dominates the bureaucratic politics for policy-making at the domestic level. How a successor-designate handles the succession dilemma is critical for the policy orientation in the transition period. China's GATT accession, as a policy with liberal orientation, was inevitably disrupted and affected by the succession politics in this duration. The power transition from the second-generation leadership to the third revealed the succession problem again, and the dramatic end of Zhao's political career became a lesson for his political successors.

Every top leader sought to choose his successor, who was supposed to continuously show fidelity to his sponsor. The death of a top leader was the demise of his clan's power. If the protégé began to consolidate power after his sponsor's death, he might have been safe when his sponsor was alive but fail to survive the political competition later, such as Hua Guofeng as Mao's designated successor.<sup>304</sup> When this top leader was still alive, his successor-designate would try to build up his own power base so that he could survive and compete after his sponsor passed away. Nevertheless, the top leader might perceive his protégé's activities as a plan to seize power too soon or even unseat him. As a result, he risked being suspected

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<sup>304</sup> Kenneth Lieberthal, *Governing China: From Revolution Through Reform*, 2<sup>nd</sup> Edition. (New York and London: W. W. Norton & Company, 2004): 149.

and purged by his own sponsor. Examples are Lin Biao as Mao's designated successor, and Hu Yaobang and Zhao Ziyang as Deng's designated successor.

Following the fall of Zhao, Jiang Zemin, the general secretary of CPC's Shanghai Committee, was promoted to be the replacement for the General Party Secretary of China. He held the highest position of the Party from June 1989 to November 2002 and the office of the President from March 1993 to March 2003, the period when the US and China intensively negotiated and concluded the agreement for China to enter into the GATT/WTO. In hindsight, it has been widely acknowledged that Jiang was a liberal minded leader, at least in economic policy. The policies of integrating China into globalization, especially accession to the GATT/WTO, obtained his enormous support. However, in the second stage of the negotiation process, the orientation of his economic policy seemed to be vague, and even appeared to be conservative.

The chaos in Mao's final decade unsettled the whole country. From this Deng became aware of the succession problem and attempted to avoid it. Deng emphasized in 1981 that failure to address the problem of rejuvenating the party's leadership ranks would immediately lead to chaos after veteran leaders passed away or became incapacitated. In step with promoting younger bureaucrats with formal education and administrative experience, Deng revoked the lifetime tenure of Party leaders and created Central Advisory Commission (CAC) as a transition to resolve the retirement problem of leaders of the revolutionary generation.



Despite the fact that the CAC was supposed to be advisory, its power surpassed the Politburo Standing Committee, in practice. The Constitution of the CPC of 1982 stipulated that CAC members can participate in meetings of the Party's Central Committee, and the members of the CAC standing committee can participate meetings of Politburo. The membership of CAC was offered exclusively to those with forty years or more of service. Deng Xiaoping acted as its first director from 1982 to 1987; Chen Yun served as the second and last director from 1987 to 1992. Although Deng conceived of the CAC as a temporary device, until it was abolished at the Fourteenth National Congress of the CPC in 1992, it overshadowed the Politburo and its Standing Committee and applied tremendous influence in decision-making. By contrast, the Politburo evolved into a committee of protégés who answered to the real power players of CAC. During the purges of Hu and Zhao, important decisions were made by the CAC Party elders, instead of formal meetings at Politburo. Although Deng was fully aware of the succession problem and pushed efforts to build blocks for a stable, predictable succession, the deposition of his two designated successors, Hu in 1987 and Zhao in 1989, demonstrated the collapse of his succession strategy.

For a subsequent designated successor trying to resolve the succession dilemma, the deposition of Hu and Zhao became a lesson of losing support of their patrons. Besides, Jiang was confronted by another quandary. As general secretary, he was put the first in line to be the successor to Deng, who leaned toward reformists. However, on his road from Shanghai to Beijing, the center of power, he was nominated by Li Xiannian and endorsed by Chen Yun, two Party seniors who

were considered to be conservatives. Between reformists and conservatives, his choices of priority and the changes of his choices in the agenda of economic policy reflected how he handled these dilemmas and his consolidation of power.

At the time of his promotion, Jiang's own political base in the center was weak. Jiang's previous work experience at the central government was short. He served as vice minister of the electronics industry in 1982 and minister in 1983, before he acted as mayor of Shanghai in 1985. Chinese Communist leaders consolidate their political support by changing members of the Central Committee of the CPC or expanding the Central Committee in order to bring new members in it. Jiang was allowed to bring only one of his subordinates in Shanghai to Beijing, and this political ally, Zeng Qinghong, did not even obtain the membership of the Central Committee, which demonstrated that Jiang's political base at the center was weak. In the ensuing years, nevertheless, Zeng helped Jiang consolidate his power, which proved that this choice was a wise one.

On Jiang's policy agenda, the top priority in the first half of the 1990s was to maintain his position at the center. His promotion started with the nomination by the conservative leaders, Chen and Li, who became influential after the Tiananmen Square incident. The inconsistent actions of Deng on his initial support for and later ouster of Hu and Zhao diluted his political prestige. To effectively maintain his position, he could not risk threatening either Deng or Chen, and he attempted to take policy stances which would not alienate any factions. Allegedly, Li Xiannian emphasized about the importance of preventing "peaceful evolution" in six letters

among the nine he sent to Jiang between in 1989 and 1991. At a meeting of Politburo Standing Committee, Jiang criticized his predecessor of being “hard on the economy, soft on politics.” Reportedly upon the suggestion of Zeng, Jiang chose to lean toward the conservatives.

The bilateral talks for China’s GATT accession held in this duration were unproductive. Under the influence of the conservatives, the Fifth Plenary Session of 13<sup>th</sup> Central Committee of CPC enacted the economic policy objective, “improvement and rectification”<sup>305</sup> (*Zhili Zhengdun*). Both the leaders at the top and officials at the working level took a hard line on politics and reforms. Bold economic measures halted; open-door policies were put on hold due to their potential connection with “peaceful evolution.” In line with conservatives, Jiang’s economic policy featured the efforts to stabilize the economy, tighten monetary policy, and control inflation. A politician with political standing at home high enough to win ratification for foreign initiatives did not exist.

It was also not politically acceptable to make any significant concessions to the Americans at the GATT negotiating table. Under the influence of the conservative faction, the policy orientation of economic reform and open-door was under question. Making compromises to Americans seemed to be like yielding to capitalist power. In order to avoid political missteps, the Chinese trade negotiators were not able to look soft. In describing its economy system, Chinese trade negotiators made a request to the State Commission on Restructuring Economic

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<sup>305</sup> See “CPC Central Committee’s Decision on Further Improvement and Rectification and on Deepening Reform,” November 1989. < <http://cpc.people.com.cn/GB/64162/64168/64566/65388/4441852.html>>

System on the possibility of using the term of “market economy” and got a negative response.<sup>306</sup> They had to walk the line between the two factions by cautiously choosing the word, “commerce economy,” a term which confused their international counterparts and left themselves with many questions to answer at international negotiations.

As discussed in Robert Putnam’s *Diplomacy and Domestic Politics: The Logic of Two-level Game*, second image reversed depicts that international sources of pressure can reverberate within domestic politics. Negative reverberation of international pressure, although rare, can create a domestic backlash if its source is viewed by domestic audiences as an adversary rather than an ally.<sup>307</sup> When Americans no longer had to tolerate national economic interests for their geopolitical strategy, the US government took a tough position on trade policy toward China. In 1991, the USTR launched a Section 301 investigation, threatened to impose sanctions, and announced potential prohibitive tariffs. This offered the conservatives the rhetoric to portrait American imperialism and to oppose Deng’s economic reform. Chinese bureaucrats, including trade negotiators, were under the influence of conservatives, and the bilateral talks became deadlocked.

In the year of 1992, the balance between two factions tilted again, this time in favor of the reformists. The changed political landscape in China paved the way for reform-oriented measures, including decisions to revive the bilateral negotiations with the US. First, Li Xiannian, one of the top conservative leaders was first

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<sup>306</sup> See Yang Jufang, “Shiwu Nian de Rushi Zhilu,” p. 1.

<sup>307</sup> Putnam, *Diplomacy and Domestic Politics: The Logic of Two-level Game*, p456.

hospitalized and then died in June 1992. As discussed *supra*, the power that derives from a top leader dies off when he passes away. His death became a major blow to the conservative faction and Jiang, as he had nominated and promoted Jiang and had been his patron at the central government ever since. On the contrary, Li's death became an opportunity to restore the influence of the reformist faction. Second, Deng launched an inspection trip in South China in January and February 1992 and intensely campaigned for economic reform. The trip rallied sufficient support for him from provincial and local governments, revitalized the economic reform and open-door policy, and also cleared the way for China's GATT accession.

Against the backdrop of growing influence of the conservative faction, Deng delivered a speech in Shanghai in January 1991. He urged the country to pursue a market economy and continue the open-door policy. Reportedly under the support of then Shanghai Major Zhu Rongji, a group of authors in Shanghai published a series of editorials in *Liberation Daily*, under a pseudo name, Huangpu Ping<sup>308</sup>, to endorse Deng's speech. These editorials set off a nationwide debate in the media about whether economic reform is socialist or capitalist and whether market economy is capitalist.<sup>309</sup> Given Deng's weakened position at the center, it aroused severe criticism by the conservatives and did not get expected support from the central government. One of the few exceptions was then Vice Premier Tian Jiyun, who was Zhao Ziyang's ally and acted as the head of State Council Committee on Inter-Ministerial Coordination on GATT.

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<sup>308</sup> The name implies, "In the name of people, help Deng Xiaoping."

<sup>309</sup> See Zhou Ruijin, "The Situation of Huangpu Ping's publication," *People's Daily*, <<http://www.people.com.cn/GB/paper2086/10236/936354.html>>

As a result, Deng launched the southern trip in the early 1992, to rally local support and campaign for economic reform policy. It became another tipping point, which fundamentally changed China's policy direction from "left" to "right."<sup>310</sup> Initially, official media of the center did not even report the trip, and Jiang showed little support. However, Deng's political and policy rhetoric in many speeches delivered on the trip generated large local support for reform, which proved again that he was still the most powerful man in China. Allegedly, Deng said, "Whoever rejects the reform should be deposed," as the toughest ultimatum to people within the center government who were siding with the conservatives. In the second half of 1992, Jiang changed sides and delivered speeches to endorse economic reform and open-door policy. Rallying behind reformists solidified his position as Deng's successor. Behind the media spotlight, Deng helped his reformist supporters to climb to the apex of national power. Zhu Rongji was promoted to be Vice Premier in charge of the economy. Thereby, he entered into the scene of China's GATT/WTO accession as another important player later.

As discussed in the two-level game theory, domestic causes and international factors interact simultaneously with each other. The second image describes how separate discussion within each group of constituents about domestic ratification of an international agreement can affect negotiation at the international level. When the liberal economic policy regained its momentum in the year of 1992, open-door policy had been endorsed by both Party elders of the second generation, such as

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<sup>310</sup> In China, "left" is referred to the faction, which endorses planned economy and Marxism ideology; "right" is referred to the faction, which supports liberal economic policy and stays flexible on ideology.

Deng, and Party leaders of the third generation, such as Jiang and Li. It was politically possible from the Chinese side to step out of the deadlock of the bilateral negotiation, and the Sino-American negotiation on the GATT affairs indeed made significant progress in the same year.

The Memorandum of Understanding on Market Access was signed in 1992, and this break-through agreement got China's GATT accession back on track. The USTR set October 10, 1992, as the deadline to conclude the market accession agreement with China. The failure to reach it would incur prohibitive tariffs on \$3.9 billion Chinese exports to the US. The two parties intensively negotiated for seven days in Washington, DC and concluded the deal fifteen minutes before the deadline. At the time of this round of negotiation, the domestic political landscape had clearly shifted in favor of the reformists. It was obvious to all Chinese that economic reform and open-up policy would resume. Based upon the consensus within the Party, the Chinese negotiating team was able to make a lot of concessions at the international table, even including the tariffs and quotas of automobiles and auto parts.

Before Deng's southern trip in 1992, domestic resistance against China's concession for entering the GATT rallied behind the conservative faction, which questioned economic reform and the open-door policy in general. After the central government reestablished the economic reform policy in the year of 1992, the policy orientation – building socialist market economy – became a general consensus. On October 12, 1992, two days after the conclusion of the MOU on Market Access, the Fourteenth National Congress of the CPC, the first Party's congress after Tiananmen

protests, was held in Beijing. It stipulated the decision that China was to build a socialist market economy. The policy of joining the GATT, as further opening-up policy, was politically linked to the decision on socialist market economy.<sup>311</sup> On October 21, 1992, Chinese chief negotiator, Tong Zhiguang, announced in Geneva that under socialist market economy, China's economic structure and policy would move toward the GATT's requirement.<sup>312</sup> At the international negotiating table, Chinese negotiators were able to throw away the awkward term, "commerce economy," and comfortably use the term "market economy" without any political cost back home.

However, unanimity about concessions regarding some specific industries or commodities was never easily reached. On the way to negotiate into the GATT, what China needed to do essentially was to reduce tariffs and quotas, reduce and clarify internal regulations on trade, lift bars on market access of foreign companies and commodities, and so on, in order to gain the qualification of the global trading net. Domestically, tariffs, quotas and internal regulations on every commodity were on the turf of different bureaucratic agencies, which had their own organizational interests attached. "Internal coordination," a word almost all my interviewees in Beijing used, was essentially domestic bargaining between relevant agencies. The power balance between the top leadership and the bureaucracy came into the play.

"Politicians may be willing to risk a few of their normal supporters in the cause of ratifying an international agreement, but the greater the potential loss, the

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<sup>311</sup> Long Yongtu, "Long Yongtu Releases His Article Written 18 Years Ago," *Nanfang Daily*, November 10, 2011.

<sup>312</sup> See Yang Jufang, "Shiwu Nian de Rushi Zhilu," p 20.



greater their reluctance.”<sup>313</sup> In determining how much support he should provide for the GATT deal, Jiang needed to calculate his potential loss. After switching to the reformist faction, Jiang played his cards cautiously and regained Deng’s trust. The Fourteenth National Congress of the CPC in 1992 formalized Jiang’s position as the general secretary of the CPC. Having successfully maintained his title and position, Jiang set out to consolidate his power at the top. He abolished the CAC, the board of revolutionary party elders. With the aid of his subordinates (i.e. Zeng Qinghong), Jiang successfully weakened his potential competitors within the reformist faction and their supporters among Party elders (i.e. Yang Shangkun). Tian Jiyun, who was Zhao Ziyang’s protégé, was moved from State Council to serve as vice chairman of the Standing Committee of the National People’s Congress. Jiang began to relocate his supporters from Shanghai to Beijing and promoted his allies in the central government. Li Lanqing, Jiang’s political ally, was elevated from Minister of MOFERT to Vice Premier, in charge of State Council Committee on Inter-Ministerial Coordination on GATT.

Jiang became increasingly vocal in his support for China’s accession to the GATT, but he did not push hard for it. The designation of Hu Jintao as Jiang’s successor clearly set the deadline for his tenure and made him the first general secretary with a fixed term in CPC history. His leadership was believed to be transitional, and he was considered to be an unlikely candidate for real power. When advocates of the GATT participation argued that China would have to make far greater commitments in order to be admitted into the WTO later if China could

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<sup>313</sup> Putam, *Diplomacy and Domestic Politics: The Logic of Two-level Game*, p458.

not join the GATT by 1994, the negotiating team sent up a report for approval of a bigger win-set. Jiang sanctioned the strategy of moving quickly before the end of 1994, but he did not feel comfortable about taking political risks for the deal because this strategy encountered bureaucratic resistance from the State Council.

In the State Council, Li Peng succeeded to the premiership from Zhao Ziyang in 1988 and became a powerful player afterwards. As an adopted son of former Premier Zhou Enlai, he enjoyed a close network with Party elders. Rising from the bureaucratic agencies of the energy sector, he possessed abundant knowledge and management skills regarding the operation of the State Council. Within the State Council, Li was highly praised by personnel and endorsed by these bureaucratic interests.<sup>314</sup> In turn, he represented and supported bureaucratic interests. As Susan Shirk wrote in *The Political Logic of Economic Reform in China*, “group interests, denied over channels of expression, are fed into the bureaucratic policy process, where they seek ambitious officials who will take up their cause.”<sup>315</sup> Agencies, who perceived their authorities were to diminish and their interests in the SOEs under their supervision were to decline, rallied within the State Council.

Reportedly, Li used his position as the head of the State Council to effectively blocked concessions by ensuring that they fell short of American demands.<sup>316</sup> Previously a hydraulic engineer, Li was interested in the construction project of the Three Gorges Dam and considered it as his life work. In the second stage of bilateral talks, this megaproject was under heated debate and possessed his attention. With

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<sup>314</sup> My interview with the Chinese interviewee, No. 20.

<sup>315</sup> Shirk, *The Political Logic of Economic Reform in China*, page 86.

<sup>316</sup> Fewsmith, “China and the WTO: The Politics Behind the Agreement.”

Li's political capital spent, this megaproject finally set off in December 1994. Apparently, compared to the Three Gorges Dam project, GATT accession was not prioritized on the State Council's policy agenda.

Zhu Rongji was elevated to vice premier in charge of the economy and governor of the People's Bank of China. At this time, he appeared to be more interested in domestic economic policy, including cooling down the overheated Chinese economy, the problems of inflation, etc. With conspicuous achievements in successfully clearing the so-called triangle debts<sup>317</sup>, he was widely acclaimed as a capable economic administrator, which paved his way to be premier later. With the domestic economy and the problems of SOEs on his policy agenda, Zhu viewed the foreign competition that would come with the GATT/WTO membership as likely to worsen these existing economic problems. In his calculus of the GATT/WTO accession, he weighed domestic protectionist interests more heavily. Therefore, as a member of State Council Committee on Inter-Ministerial Coordination on GATT, Zhu treated GATT accession with caution.

As discussed in *Chapter IV*, the term of reciprocal accountability describes the line of accountability in the hierarchy within the CPC. Neither Party leaders nor bureaucrats have definitive power over the other group. When consensus is not formed among leaders, their subordinating bureaucrats would take advantage of the uncertainty by holding out for their organizational interests. Late in the second stage, unanimity was not reached at the top level. Without help of top-down

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<sup>317</sup> The triangle debt was a term to describe the procrastinating payment among enterprises, which formed a vicious circle.

authority, pro-trade advocates at the working level had to face domestic resistance on their own.

In order to generate public support and counterbalance the domestic resistance, bureaucrats of MOFTEC adopted the strategy of waging a campaign for the GATT accession in 1992 and 1993. Through press and media, they attempted to educate the mass public in China about the benefits of GATT accession and rally support from the general public.<sup>318</sup> In American trade politics, trade-injured interests are concentrated, easily organized, and vocal, while trade beneficiaries are diffuse and tend to be free-rider.<sup>319</sup> Pro-trade campaigns were organized for the collaboration among trade beneficiaries.

However, this experience did not work in China. First, the Chinese consumers of 1990s were not able to realize their benefits from the GATT and were not an independent, vocal societal group. Second, the private sector was a minority of the Chinese economy, and the portion of private sector which benefited from the access to foreign market was even smaller. Third, the industries in the public sector, for example textiles, which benefited from exports, were struggling with restructuring, privatization, and mass lay-offs, and they held negative views about liberal economic policy in general. Fourth, information about the GATT negotiation was confined to a limited number of bureaucrats, but the campaign revealed some of it and stirred up negative views about it among the interested public. Last, open campaigning has not been a strategy welcomed in Communist China after Mao's

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<sup>318</sup> Pearson, "The Case of China's Accession in GATT/WTO," p 364-65.

<sup>319</sup> Destler, *American Trade Politics*, Chapter 1.

time. When communist officials openly campaign for leadership positions, they are deemed to break the consensus to maintain party unity. MOFTEC's campaign alienated its officials, especially enthusiastic advocates such as Long Yongtu, from his peer bureaucrats in other agencies and exposed him to attacks in the bureaucracy.

Later, when the four chief negotiators accepted interviews by Beijing Youth Daily on the eve of China's formal accession to the WTO, they all talked about the strong domestic resistance. Gu Yongjiang, the third chief negotiator, who led the Chinese negotiating team in the year of 1994, recalled,

"I faced more internal pressure than external pressure. One international newspaper in Beijing had a series of reports on how our delegation betrayed China's national interests. I was very sensitive because I was the head of the delegation and I was responsible for the consequences."<sup>320</sup>

The fourth chief negotiator Long Yongtu served as assistant to the minister of MOFTEC and worked in the negotiating team at that time. When he was asked about the reasons that China failed to accede the GATT by the end of 1994, he shared the same opinion,

"I was trying my best to solve this negotiation. Actually it was not totally impossible to achieve our goal at the 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 authority to do so. This was the major reason we failed to win negotiation as planned to a large extent."<sup>321</sup>

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<sup>320</sup> See Yang Jufang, "Shiwu Nian de Rushi Zhilu," p ?.

<sup>321</sup> *Ibid.*

The agreement was possible only when a powerful minority within each government actually favored on domestic grounds the policy being demanded.<sup>322</sup> As chief negotiators on the Chinese side, they were confronted with misunderstanding and resistance by people on the same side of international negotiating table. Some of them complained that domestic resistance applied more pressure on them than American power. By the end of second stage, this minority in favor of the deal was not powerful enough to surmount the opposition of agencies.

### **The Politics in Stage III**

In the last stage, the transition of leadership had been completed, so that succession politics no longer affected the bilateral negotiation. WTO accession had been attached to the development of market economy and open-door policy, established as the policy orientation sound enough against challenge. The bureaucratic interests took another basis for criticism, nationalism, to protect their interests. In the power balance between the top leadership and bureaucracy, the top-down authority proved to be decisive when top leaders were unified. This happened only after the minority who favored the deal finished power consolidation and formed consensus over WTO affairs. While the domestic cause facilitated the progress of international negotiations, what occurred on the international table had tremendous reverberation on domestic politics in China, as it could empower as well as weaken the pro-trade Chinese officials.

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<sup>322</sup> Putnam, *Diplomacy and Domestic Politics: The Logic of Two-level Game*, p 428.

### Agency Ownership, Parochial Interests, and Overlapping Jurisdictions

At that time, some joked that the Chinese economy was agency ownership, rather than state ownership. Industrial agencies had founded those SOEs and collected revenue from them. In every industry, SOEs were under the control of relevant industrial bureaus and ministries in the State Council. Comparing to American trade politics where the trade-injured interests can be concentrated geographically, in China's trade politics trade-injured interests were concentrated system-wide (by *Xitong*)<sup>323</sup>. In one system, for example auto system, industrial agencies had their interests in line with the SOEs under their supervision. The auto industry had three major auto enterprises: First Automobile Works, Second Automobile Works (later renamed as Dongfeng), and Shanghai Automobile Works (SAIC). They were administered by the Ministry of Machinery and Electronics Industry (later Ministry of Machinery Building Industry). Any concessions that might hurt the auto industry would directly affect the interests of the Ministry of Machinery and Electronics Industry.

As building blocks of political interests in the bureaucracy, agencies had their interests in line with the SOEs under their supervision. They were responsive to and represented their constituency on the domestic bargaining table. When an industry might be injured by foreign competition, SOEs in this industry, the

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<sup>323</sup> For example, auto SOEs and the Ministry of Machinery and Electronics Industry belonged to the same auto system. For detailed discussion about "system" (*Xitong*), please see Kenneth Lieberthal, *Governing China: From Revolution Through Reform*, 2<sup>nd</sup> Ed. Page 218.

predominant part of the Chinese economy, would be the biggest group of potential victims. Different from the interest groups lobbying in the US Congress, Chinese industries “lobbied” through their supervising agencies in the bureaucracy. SOEs and their supervision agencies had frequent personnel exchange, which provided informational channel for the “lobby.” Details have been given in *Chapter IV*.

Furthermore, agencies had their own parochial interests injured because the economic reform policy, in nature, was to reduce governmental regulatory power and let the market take more control of the economy. So agencies were also motivated to bargain for the preservation of their own authorities. In negotiating into the GATT/WTO, relevant industrial agencies had to rescind their regulatory authority over SOEs’ economic decisions, which was detrimental to the interest of these agencies, too. They were downgraded from ministry-level to bureau-level or even lower, as discussed in *Chapter IV*. The job, position, and job-related benefits of every employee in these agencies hinged on the bargaining of the agency’s head at the domestic table. When an agency’s head fought for all his subordinates, who were also his constituency, he confessed, in private, that his own agency should be abolished in the market economy.<sup>324</sup> Although some of the heads of agencies, even their subordinates of the agencies, perceived liberal trade policy as beneficial to the country,<sup>325</sup> they had to bargain for protectionism under pressure from the agency as a whole. The representative agencies were empathetic with each other and naturally formed a strong, united coalition.

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<sup>324</sup> My interview with the Chinese interviewee, No. 17.

<sup>325</sup> My interview with the Chinese interviewee, No. 4.



The domestic bargaining involved agencies with overlapping authority and jurisdiction. Western scholars coin the term “fragmented authoritarianism”: In multilateral nationwide bureaucracy, officials of any given office in a locality answer to more than one superior agency, due to the coexistence of vertical coordination between the central and local governments (*tiao*) and horizontal coordination within the locality (*kuai*).<sup>326</sup> The nature of this matrix-like organization structure (*tiao* and *kuai*) lies in the issue of dividing power between central government and local government.<sup>327</sup> I believe it is hard to define the central government strictly by the famous “fragmented authoritarianism” model and the terms of *tiao* and *kuai*. Perhaps, it is more appropriate to consider authority as fragmented in a general way.

In the case of the GATT/WTO negotiation, the focus is on the central government, where the overlapping of jurisdictions exists. Under the very top of Chinese political system, an agency, even an office within an agency, may need to answer to more than one boss. At the time of the bilateral negotiation, one issue-topic always fell on the turf of various agencies. Take tariffs as an example. The State Council Commission on Tariffs, which was responsible for tariffs, was affiliated first with the General Administration of Customs, later the State Economic and Trade Commission (SETC), and then the Ministry of the Treasury Department of Tariffs. In terms of tariffs for a specific commodity, industrial agencies had strong power in narrow, specific issue-topics because of their expertise on the turf. So they

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<sup>326</sup> For description of *tiao* and *kuai*, please see Kenneth Lieberthal, *Governing China: From Revolution Through Reform*, 2<sup>nd</sup> Ed. Page 218. Also see Kenneth Lieberthal and David Lampton, eds. *Bureaucracy, Politics and Decision Making in Post-Mao China*. (Berkeley and Los Angeles: University of California Press, 1992).

<sup>327</sup> Zhou Zhenchao, *Research on Contemporary China Government's Tiao and Kuai Relationship*, (Tianjin: Tianjin People's Publishing House, 2009).

would be consulted, too, specifically each industrial ministry's Department of Planning. When many agencies held overlapping jurisdictions on one issue, the internal coordination became extremely difficult.

Due to the overlapping jurisdictions in the Chinese political system, resolving a matter generally requires building a consensus among an array of pertinent officials. Take auto tariffs as an example. Among the three agencies listed above, State Council Commission on Tariffs took the lead role in decision-making on tariffs, and General Administration of Customs had more responsibility in policy implementation.<sup>328</sup> The Ministry of Machine Building Industry, as industrial agency, was consulted for industry policy, and its Department of Planning represented this ministry on the domestic bargaining table. In turn, the Department of Planning conducted consensus building with the major auto SOEs, which were under the control of Ministry of Machine Building Industry.

#### The Coordination Body, MOFTEC, and SETC

Without the Trade Promotion Authority as in the US, China does not have an effective mechanism to tie the hands of protectionist agencies. Therefore, Chinese policy making is characterized by an enormous amount of discussion and bargaining among officials. Confronted with pressures from industrial agencies, which had their own agenda to protect domestic industries, the State Council established an *ad hoc* body for GATT policy coordination at ministerial level. The State Council Inter-

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<sup>328</sup> My interview with the Chinese interviewee, No. 2.

Ministerial Coordination Group on GATT negotiation was formed in 1986 and reorganized in 1988 as the State Council Committee on Inter-Ministerial Coordination on GATT. The Committee provided a forum for domestic bargaining between pro-trade agencies, such as MOFTEC and protectionist industrial agencies.

What is important to successfully push for a policy innovation is to bring the right people and the right agency on board.<sup>329</sup> At the base level of the decision structure, this *ad hoc* body was headed by pro-trade high officials: The first head was State Councilor Zhang Jinfu, who also led State Economic Commission, and the second head Vice Premier Tian Jiyun, political ally of then Premier Zhao Ziyang. Vice Premier Li Lanqing, political ally of President Jiang Zemin, was the last head before it was dissolved in 1998. In constructing a consensus there, relevant agencies did not have an equal bargaining power (as discussed in *Chapter IV*). The State Planning Commission (SPC) and the SEC (later renamed as SETC) enjoyed a higher rank than industrial ministries, which were often assigned to be mediators. In the GATT/WTO case, the SEC/SETC played this role. Its associate director presided at the meetings on this forum, listened to each side, and pushed efforts to build consensus. There most decisions were made about the bottom-line for negotiating with the Americans.

Regarding the effectiveness of its coordination function, my interviewees had conflicting comments. One official remarked that the Committee operated effectively and resolved many problems.<sup>330</sup> Another official revealed that as an *ad*

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<sup>329</sup> My interview with the Chinese interviewee, No. 5.

<sup>330</sup> My interview with the Chinese interviewee, No. 20.

*hoc* interagency body, the Committee had no fixed schedule for meetings. Most of participants were minister-level officials, but participants in a meeting were typically not fixed, depending on the issue to be discussed.<sup>331</sup> Scholars noted that this Committee did not work effectively. The protection-oriented State Planning Commission (SPC) was the most powerful supra-ministerial player within the State Council. Its officials were not included in the list of Committee's vice chairmen, which weakened the coordination function. The Committee did not have a secretariat with sufficient, permanent staff support. It had difficulty in organizing a meeting, and sessions were usually short.<sup>332</sup>

When more issue-topics were involved in the bilateral negotiation, the Committee's membership expanded, including the Ministry of Finance, the Ministry of Machine Building Industry, the Ministry of Posts and Telecommunications, the Ministry of Textile Industry, the State Council Office of Import and Export of Mechanical and Electronic Products, and so on. In 1998, this Committee was dissolved. At the same time, under the restructuring of the State Council led by the newly promoted Premier Zhu Rongji, many industrial agencies were annulled or downgraded to a bureau under the State Economic and Trade Commission (SETC). The inter-ministerial coordination and negotiation turned to be intra-agency discussion and decision. Apparently, the SETC grew powerful, and the pro-trade coalition gained upper hand.

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<sup>331</sup> My interview with the Chinese interviewee, No. 22.

<sup>332</sup> Wang Yong, "Why China Went For WTO?" *China Business Review*, Vol. 26, Issue 4, (July/August 1999): 42-44.

On this decision forum, the most fervent pro-trade force was MOFTEC. Trade negotiators responded to concerns at the international table and, in turn, advocated liberal trade policy on the domestic table. For example, the fourth chief negotiator Long explained to officials at other agencies that the Bank of China was allowed to conduct currency business in the US. If China did not approve American banks doing RMB business in China, the Industrial and Commercial Bank of China would not be allowed in the US, according to the principle of reciprocity.<sup>333</sup>

The first Chief Negotiator Shen Jueren, a MOFTEC high official, initiated the strategy of including the affected industrial agencies in the Chinese negotiating team, which was followed by the next three chief negotiators.<sup>334</sup> Shen joked that those “who are the parents of the kids should carry them away,”<sup>335</sup> figuratively asserting issue-topics were the kids, and industrial agencies, their parents. At the Working Party meeting sessions, the Chinese team was asked to explain China’s trade regime and answer written and oral questions. The officials of relevant agencies were responsible for answering the question if it belonged to the jurisdictions of their agencies. If they could not answer it, they reported to their bosses back home after they travelled back to China and prepared for the next session. In this process, the expertise from the affected industrial agencies helped MOFTEC’s negotiators at the international table. What was more important was that it effectively transferred international pressure back to the domestic table.

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<sup>333</sup> My interview with the Chinese interviewee, No. 1.

<sup>334</sup> My interview with the Chinese interviewee, No. 20. Also see Yang Jufang, “Shi Wu Nian de Ru Shi Zhi Lu.”

<sup>335</sup> Yang Jufang, “Shi Wu Nian de Ru Shi Zhi Lu.”

However, this strategy, with the intention to transfer international pressure back home, became a major obstacle later. It allowed domestic resistance to affect the progress of international negotiation and exposed the Chinese negotiating team directly to domestic pressure. It diluted MOFTEC's authority as the lead negotiator at the international table. As discussed *supra*, all chief negotiators talked about their difficulty due to the domestic pressure. After the failed attempt in 1994, the Chinese official media had to criticize the US for "raising the bar," partly to protect the MOFTEC advocates. In 1995 and 1996, MOFTEC also stopped its strategy of educating the public about WTO affairs to avoid domestic criticism.

In the Chinese bureaucracy, the need of building consensus predisposes officials to negotiate with other relevant officials at an early point, even before the formal coordination meetings. A former official of MOFTEC's WTO Office recalled that Long actively took them to other agencies' relevant offices of the same administrative rank and tried to convince them, a kind of internal lobbying defined as *paowen*. Trying to persuade industrial agencies, MOFTEC tactically sent its officials holding the administrative rank higher than those officials at the industrial agencies.<sup>336</sup> For example, they sent a deputy director-general to talk with a director of a division at an industrial agency. To industrial agencies, MOFTEC showed its respect, and the higher rank came with reputation and authority and also made persuasion easier.

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<sup>336</sup> My interviews with the Chinese interviewee, No. 10.

Another major force on the domestic bargaining table was the State Economic Commission (SEC). It was separated from the powerful State Planning Commission in 1993 and became an agency of supra-ministerial rank, the same as the SPC. Between 1993 and 1998, the State Economic Commission, as a new agency whose mission was for macroeconomic regulation and control, struggled for its bureaucratic power and jurisdictions within the State Council. It was confronted with the issue of how to distinguish itself from other macroeconomic control agencies, especially SPC. In this period, it was regarded weak in both reputation and bureaucratic power.

SEC was responsible for domestic bargaining table through calling, organizing, and presiding inter-ministerial meetings. The associate director of SEC in charge of policy coordination meetings had work experience with MOFTEC and the Office of LSG on Finance and Economic Affairs, which helped communication and coordination. It reported to the vice premier-level State Councilor in charge of WTO (i.e. Wu Yi) and even Premier Zhu Rongji. When necessary, it reported to Central Committee Leadership Small Group (LSG) on Finance and Economic Affairs.

At the vice-premier level, Wu Yi made tremendous efforts for internal coordination. Before she acted as vice premier-level State Councilor in charge of the WTO affairs, she worked as vice minister and then minister of MOFTEC. When Tong Zhiguang, the second chief negotiator, was sick in November 1991, Wu briefly led the Chinese negotiating team and negotiated with her American counterpart. Her

strong tie with MOFTEC and her authority over WTO affairs benefited the pro-trade liberals and SEC's inter-ministerial coordination.

The restructuring of the State Council changed its power structure and awarded the State Economic Commission more power and jurisdictions. In 1998, the State Economic Commission and Ministry of Internal Trade merged together and formed the State Economic and Trade Commission (SETC). Its mission was to promote the market economy. More than 10 industrial agencies were downgraded from ministry-level to bureau-level agencies under the control of SETC. At this time, the head of industrial agencies became the subordinates of SETC. SETC grew powerful in industrial policy-making and thus became a major participant at the domestic bargaining table on WTO affairs.

Labor was generally divided between SETC and MOFTEC, in the way that the SETC was in charge of domestic bargaining and coordination, and the MOFTEC, international negotiation. There was complaint that the coordination structure was duplicative and unnecessary. Most of my interviewees who worked with MOFTEC believed that MOFTEC played the most important role in internal coordination. Those who worked at the SETC stressed on the role of SETC, but they admitted that SETC members were short of experience in negotiating with foreigners. In describing the role of SETC, SETC officials joked that they were "chefs in the kitchen,"<sup>337</sup> implying that they had to balance different domestic interests in a pot

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<sup>337</sup> My interview with the Chinese interviewee, No. 9.



and also that its efforts at the backstage were not exposed as much to the media as MOFTEC.

Regarding the role of SETC, I have got dramatically different interpretations, generally along the line between agencies. Undoubtedly, some of these differences were merely self-serving. But I believe that most came from honest perception because where you stand depends on where you sit. Therefore, I do not regard SETC as conservatives, as some former MOFTEC officials claimed. This mechanism of dual controls proved its advantage, but the division of labor became a major drawback. In dealing with the sense of belonging in the two organizations, some one even suggested that SETC was to coordinate on services issues, and MOFTEC on manufacturing goods.

In the late 1990s, policy coordination at the domestic table was slow, and protectionists were hard to nudge. For efficient policy coordination, meetings for internal bargaining were moved from Beijing to Washington D.C., right before the scheduled negotiation time with the Americans.<sup>338</sup> This tactic was intended to reduce the time for internal bargaining and trump domestic resistance by having a firm and imminent deadline for consensus building. Although domestic compromises were reluctantly achieved at those meetings in D.C., officials from industrial agencies wrathfully complained that they could not report to and get directions from their bosses back home. This tactic was widely criticized.

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<sup>338</sup> My interview with the Chinese interviewee, No. 6.

## Domestic Debate: Nationalists vs. liberals

After the core leader reconfirmed the policy of the socialist market economy, China's WTO accession, attached to this firm national policy, benefited from the substantial change of political landscape. Challenges against it would incur substantial political risk for any agency or individual. Agencies needed to strike a balance between showing support to the WTO accession policy in principle and protecting their own authorities and interests in certain industries in particular. Domestic resistance against liberal economic policy and China's WTO entry took another form – economic nationalism. Questions were raised: Would the concessions endanger economic sovereignty? How many concessions should China make on specific issue-topics? Should China enter into the WTO later rather than sooner?

The advocates of economic nationalism conceded that economic reform was the needed approach for China, but foreign companies were profit oriented, and they did not share the goal of strengthening the Chinese economy. Foreign investors emphasized the protection of patent, trademark and copyright and would never transfer advanced technology to Chinese enterprises. Foreign companies controlled technology and know-how and had decisive economic power in the market. When foreign goods and services accessed the Chinese market, it would injure SOEs, the foundation of the Chinese economy, and endanger the country's economic sovereignty and security. In the process of forming joint ventures, local governments tended to compete with each other by offering preferential treatment.

The properties of Chinese enterprises were undervalued. The Asian financial crisis of 1997 demonstrated the danger of economic globalization. Nationalists believe that the government should prevent foreign direct investment (FDI) from dominating strategic industries.

Liberals argue for industrial integration and the strategy of trading markets for technology. The local content of a product and share of ownership determine the market power. They also claim that China would use FDI to create jobs, gain access to foreign capital, and obtain foreign experience about the international market, management skills, and know-how. Granted market access, foreign investors would transfer technology to joint ventures. Liberals perceive the majority ownership of FDI as a natural capital inflow and seek a balance between economic openness and security.

In the last stage, when the negotiation on the international table moved ahead, policy coordination on the domestic table became very difficult. The support for economic nationalism came from many industrial agencies within the State Council, and they joined behind the powerful State Development and Planning Commission (previously State Planning Commission, SPC). The liberals had support from Commission on Economic Restructuring, which dwindled after the deposition of Zhao Ziyang. Afterwards, the pro-trade agencies were not unanimous. As the chief negotiating agency, MOFTEC protected the national interest on the international bargaining table and argued for pro-trade policy at the domestic negotiating table. Apart from the issue of the division of labor between MOFTEC

and SETC, opinions inside MOFTEC were divided. In the process of liberalizing trade some departments of MOFTEC would also have their regulatory power diminished, for example regulatory power over state trading corporations. Nevertheless, the officials of MOFTEC had been exposed to the international world and possessed better understanding of international trade and openness.<sup>339</sup> This agency as a whole was keen for trade liberalization. Confronted with industrial agencies' tough positions on domestic table, trade agencies did not appear to have an advantage. The intervention from the top-down authority broke this deadlock.

#### Jiang's Power consolidation

Jiang Zemin's greater consolidation of power in the late 1990s gave more confidence to those favoring GATT accession. After Jiang clearly delivered the messages about his endorsement of liberal economic policy, Deng gradually transferred most power in the state, party and military to him. Neither Hu Yaobang nor Zhao Ziyang had been made head of the MAC, and both were defeated by the conservative faction. Deng finally realized that a successor without full authority, especially authority over the military, was a lame duck. Deng made Jiang head of the PRC's MAC in November 1989 and head of CPC's MAC in March 1990, which facilitated Jiang's power consolidation. In March 1993, Jiang succeeded Yang Shangkun, another Party elder and Deng's ally, and became the President of China. By this time, Jiang possessed the offices of CPC's general secretary, chairman of MAC,

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<sup>339</sup> My interview with the Chinese interviewee, No. 12.

and President of China, the three major offices at the top of CPC's decision-making system.

In terms of power succession, Jiang was fortunate. In April 1995, Chen Yun, a Party elder in the conservative faction, died. Deng was feeble but outlived Chen, which offered Jiang a favorable opportunity. On one hand, Jiang was designated by Deng as his successor, a decision which was still honored inside CPC when Deng stayed alive. On the other hand, Deng's incapacitation made it impossible for him to seek a replacement of Jiang within the reformist camp. From Chen's death in 1995 to Deng's passing in 1997, Jiang moved adroitly to outmaneuver his key rivals (i.e. Chen Xitong in 1995).

From late 1994 to 1997, the new collective leadership formed, including Jiang, Li Peng, Zhu Rongji, and Qiao Shi sitting at the top. Without much interference from higher-level Party elders, they worked and collaborated reasonably well. With the aid of Zeng Qinghong, Jiang had maneuvered deftly to significantly consolidate his power and became the first among equals in the Politburo Standing Committee. Jiang began to promote many of his supporters from Shanghai to high positions of the central government in Beijing (e.g. Zeng Peiyan, Chen Zhili, Huang Ju, etc). Gradually the so-called Shanghai Clique formed within the central government. When Deng died in February 1997, Jiang was already in firm control, achieving the first peaceful succession between two generations of leaders since the Communists took over China.

Claimed as the third-generation core leader, Jiang successfully acted as a new power broker after Deng. At the National People's Congress (NPC) in March 1998, Qiao Shi was forced into retirement due to his age. Li Peng took over Qiao's position and acted as the head of NPC. Reportedly, Li kept his second ranking in the CPC Politburo – which is usually occupied by the premier – in exchange for his handing over the State Council to Zhu, the new premier. Within the State Council, Li Lanqing, Jiang's strong political ally who headed the Committee on Inter-Ministerial Coordination on GATT, became the first-ranking vice premier. As discussed *supra*, a policy initiative can be negatively affected by the demotion or deposition of the politician who is in charge of it. On the flip side, a policy initiative can also move up on the policy agenda at the time of the promotion of the politician in charge of it,<sup>340</sup> especially when this politician has access to the core leader.

On the one hand, the process of Jiang's power consolidation was parallel to China's GATT/WTO accession. While he was consolidating power and solidifying his political base, the bilateral negotiation was unproductive in 1995 and 1996. After he successfully firmed up his position in 1997 and had sufficient allies and endorsement within the central government by 1998, China made substantial concessions on the international bargaining table, and the bilateral negotiation moved ahead substantively. On the other hand, "participation on the world stage normally gives a head of government a special advantage vis-a-vis his or her domestic opposition."<sup>341</sup> In his tenure, Jiang went to APEC meetings every time.<sup>342</sup>

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<sup>340</sup> This was inspired by the discussion with my Chinese interviewee, No. 5.

<sup>341</sup> Putnam, *Diplomacy and Domestic Politics: The Logic of Two-level Games*, p 452.

<sup>342</sup> My interview with the Chinese interviewee, No. 12.

He demonstrated great interest in participation on the international stage, so a deal to sail China into the global trading net would apparently allow him to reap the “transaction benefits”<sup>343</sup> and solidify his position in domestic politics.

### Zhu’s Switched Interest on the WTO Accession

Another major player, Zhu Rongji, did not show much interest in the GATT accession when he was vice premier in the second stage, but when he rose to premier, his switched interest in WTO affairs and tremendously facilitated the bilateral negotiation in the third stage.

It is arguable whether Zhu should be categorized as a reformist or whether he leaned toward the planned economy. Generally he was regarded as one of the reformist faction and a politician with liberal economic policy, especially by media outside China. In his tenure of Shanghai major, he promoted Pudong New Area, a Special Economic Zone of semi-province level. In 1991, Zhu endorsed Deng when he advocated economic reform and the open-door policy in Shanghai and tried to steer economic policy away from the conservative planned economy. With Zhu’s support, a group of authors in Shanghai published a series of editorials in *Liberation Daily* to underpin Deng’s speech. A few months later, he was promoted to vice premier and relocated from Shanghai to Beijing.

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<sup>343</sup> For detailed explanation about transaction benefits, please see Putam, *Diplomacy and Domestic Politics: The Logic of Two-level Games*, p 452.

However, former officials and scholars in China argued otherwise. They claimed that Zhu leaned toward a planned economy, which was founded on his earlier record.<sup>344</sup> Zhu Rongji worked at local government briefly, and then in 1952 he started his career with the powerful, conservative State Planning Commission, which supported economic nationalism. Between 1979 and 1987, Zhu worked at the State Economic Commission when it was restored and just partitioned from the Planning Commission. In his vice premier tenure, Zhu also served as the governor of People's Bank of China and held the posts of directors for Production Office and Economic and Trade Office at the State Council. Although he was a member of Inter-Ministerial Coordination Committee, he did not show interest in the GATT/WTO affairs.

Trying to revive the SOEs, he focused on industry, agriculture and finance. In the early 1990s, he launched the drive to clear the triangle debts between SOEs and enacted tough macroeconomic contraction policy to curb inflation. Because of his achievements on these, he rose to the first ranking vice premier and one of the seven members of Politburo Standing Committee in the Fourteenth CPC Party Congress of 1992. In 1994, Zhu implemented a series of reform measures, one of which was the taxation reform. It was to reassign the proportion of tax collection between central and local governments. The central government increased its revenue, and the local governments had a shrunk proportion. In effect, this measure empowered the central government over local governments, SOEs, and then the market.

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<sup>344</sup> My interview with the Chinese interviewees, No. 4 and 16, respectively.



On GATT/WTO affairs, Zhu seemed to be less interested than Jiang and Li Lanqing. During his vice premier tenure, Zhu believed that the foreign competition from market opening would undermine the already crippled domestic enterprises. In 1998, Jiang nominated him for the position of premier of the State Council. As Premier, Zhu pushed efforts on SOE reform, which was to expunge low-tech, low-competitive SOEs, for example those in textile industry. In the wave of SOE privatization, 20-30 million blue-collar workers were laid off, most of which were not skilled worker and could not be reemployed in the growing private sector. With legions of unemployed workers and nearly bankrupted SOEs, the supervising ministries became very discontented due to the vested interest on their turfs. The SOE reform confronted a severe setback.

According to Putnam's two-level game theory, occurrences on the international table are cited by participants to domestic audiences as a way of legitimizing their policies. Against resistance inside the State Council, Zhu came to see foreign competition as leverage in pressing SOEs to become efficient and make reforms. Zhu said, "Competition arising from such a situation will promote the more rapid and healthy development of China's national economy."<sup>345</sup> Even though it was debatable whether he was a liberal or nationalist, Zhu switched his interest to the WTO accession and prioritized it. The State Council's Committee on Inter-Ministerial Coordination on GATT – an agency traditionally headed by a vice premier – ceased in 1998, reportedly in order for Zhu to take over this function from

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<sup>345</sup> Wang Yanjuan, "WTO: How Close Is the Deal?" *Beijing Review*, No. 19 (May 10, 1999), page 14-16.

Li Lanqing. This is one of the examples of Zhu's hands-on style, which would be proved again by his personal involvement in negotiating with the Americans in 1999.

On the Chinese domestic bargaining table, WTO accession gained favor from the first- and third-ranking leaders of Politburo of the CPC Central Committee (Jiang and Zhu) and the first- and second-ranking leaders of State Council (Zhu and Li). Jiang and Zhu had forged a reasonably good working relationship during their co-governance in Shanghai in 1980s, but it is not convincing to say that they were fully united. Nevertheless, when it came to the end of 1998 they shared the same policy objective on WTO affairs, and both were in favor of pushing forward Sino-American negotiation for China's WTO accession. On the international level, the bilateral negotiation stepped out of impasse and regained its momentum in 1998.

### The Year of 1999

When Jiang and Zhu's positions on the WTO accession converged, efforts were combined. Zhu lacked a broad network of national political support. He gained unpopularity in Chinese bureaucracy because of the reform programs he implemented: His SOE reform had millions of workers laid off and brought many SOEs to the verge of bankruptcy; The government restructuring impacted central government officials, and his hands-on style did not make him popular within the State Council;<sup>346</sup> His taxation reform in 1994, discussed *supra*, left local government

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<sup>346</sup> At my interviews, when asked to talk about Zhu's working style and characteristics, former employees from the pro-trade organization under the State Council started to speak highly about Zhu's predecessor, Li Peng.

a shrunk proportion of revenue collection. Nor did his anti-corruption program help build his popularity among bureaucrats. In contrast, Jiang enjoyed a broader political network after years of power consolidation. To push forward the Sino-American negotiation, Zhu needed Jiang's political support.

When policy coordination was confronted with resistance within the central government, Jiang spent his political capital, employed the top-down authority, and set out to rally support from local government. In light of Jiang's support for WTO entry, some bureaucrats at the central government apparently muted their opposition. In order to counterbalance the resistance at the central government, Jiang rallied enough support from local government and asked provincial leaders to voice their opinions. Not surprisingly, the leaders of Shanghai, which was his political base, were very responsive and showed staunch support.<sup>347</sup>

When enough support was rallied and could be counted, an expanded Politburo meeting was held in early 1999. With more participants at the meeting, the top-down authority proved effective, and a consensus was successfully built. It approved broad-gauged concessions in an effort to achieve WTO accession. Therefore, Zhu was able to tell Alan Greenspan, the chairman of the US Federal Reserve, that China was prepared to offer substantial concessions. At the international negotiating table, bilateral talks significantly moved ahead so that the speculation appeared that Zhu's state visit in April 1999 was the timing for the conclusion of this deal. At the domestic table, once a consensus at the top leadership

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<sup>347</sup> My interview with the Chinese interviewee, No. 14.

was built, challenges against it could be difficult, but not impossible. NATO's bombing on Serbia brought hesitation, but Zhu went ahead on his scheduled trip to the US, with Jiang's support.

During Zhu's state visit in April, Clinton backed out of the deal. When this international deal fell apart, it made "international pressures 'reverberate' within domestic politics, tipping the domestic balance and thus influencing the international negotiations."<sup>348</sup> In China, it gave the nationalists momentum to fight against the deal. The leaders who fought for the deal at the domestic table were notably undermined; the pro-trade officials had to change their tone about the deal. The original expectation was to have the deal signed shortly after Zhu left the US, and this reverberation within Chinese political arena completely changed about the schedule.

The White House release of the draft of the protocol agreement increased the cost of ratification in China. The Hong Kong textile businessmen read the draft of the deal on the White House website.<sup>349</sup> Their complaint revived the opposition, which had been reluctantly muted earlier. Countless articles appeared on the Internet, questioning the compromises China made to the US. In public, Zhu was mercilessly criticized and labeled a "traitor." In the bureaucracy, the Minister of the Information Industries reportedly tendered his resignation to show his protest against the deal. Those officials who pushed efforts to support the deal cautiously lowered their voices. State Councilor Wu Yi told reporters that the government

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<sup>348</sup> Putnam, *Diplomacy and Domestic Politics: The Logic of Two-level Games*, p 454.

<sup>349</sup> My interviews with the American interviewee, No. 3.

should solicit opinions from various big enterprises.<sup>350</sup> Shortly after, NATO bombed the Chinese Embassy in Yugoslavia on May 8. It added fuel to the flame. The bilateral negotiation became a casualty of the diplomatic crisis.

It is questionable that Zhu was bashed because he exceeded his authorization when he made compromises to the US in April. The criticism may lie in his unpopularity among the Chinese bureaucracy, and this failed deal of April simply offered a convenient opportunity for the bureaucrats whose interests were severely injured by various measures of Zhu's to get together. Reportedly at a Politburo meeting after the embassy bombing, Zhu's opponents got together behind Li Peng and castigated Zhu. Their accusations included that Zhu did not listen to his subordinates at the State Council; he pursued reform too quickly; and government restructuring hurt good CPC cadres. Beijing was rife with a rumor that Zhu might step down.

Some Chinese observers believed that criticism of Jiang was deflected onto Zhu. However, Jiang deftly maneuvered and recovered quickly. When Li Peng criticized Zhu at Politburo meetings, he tactically expressed his complete support for Jiang. Reportedly Jiang defended Zhu by saying that "he has not made concessions that give up the principle, nor has he deviated from the Politburo's bottom lines." Meanwhile, to calm down the opponents and protect himself, Jiang said, "Zhu might have done it a bit fast and early, and [taking the low bottom line]

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<sup>350</sup> *Dagongbao*, May 27, 1999.

might have left some kind of influence.”<sup>351</sup> At an internal meeting, Jiang stated that China had waited for 13 years and could wait for another 13 years for WTO membership.<sup>352</sup> Again, Jiang played as a power broker while carefully staying out of disputes. In this duration, the editorial articles of the CPC’s official newspaper adopted a tough tone toward the US, which indicated the difficulty of pro-trade leaders. Nevertheless, Jiang’s recovery salvaged political support so that the bilateral talk could move on later.

As the head of LSG on Foreign Affairs, Jiang had interests in foreign relations, especially that with the US. His domestic position could be weakened by worsened foreign relations due to the “transaction cost”, and the flip side is that improved foreign relations could also strengthen his position because of the “transaction benefits”. WTO accession would not only bring China stable foreign relationships and affirm China’s market economy by the recognition from the international community, it would also make China’s top leader an international player and leave a remarkable foreign policy legacy for his presidency as it approached its end in 2002. Given that Jiang had showed particular interest in APEC meetings and seemed attracted to the prestige that resulted from a warm Sino-US relationship, he would like to reap the transaction benefits from this deal. After the financial settlement of the bombing incident, Clinton and Jiang met at the summit meeting of APEC in New Zealand and decided to continue the WTO talks.

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<sup>351</sup> Luo B., Beijing’s Evaluations of Zhu’s Visit to the US are Divided into Praises and Criticisms,” *ChengMing*. May 1999.

<sup>352</sup> Joseph Fewsmith, “China and the WTO: The Politics Behind the Agreement.”

The talks resumed in September 1999. American negotiators found that Long Yongtu was not on the other side of the table. The Minister of MOFTEC, Shi Guangsheng led the team. The negotiations had been scheduled for two days, but it turned out to be was extremely brief. Thereafter, Clinton and Jiang talked over the phone twice. Clinton promised to deny the Taiwanese President Lee Teng-hui's "special state-to-state" relationship with PRC and urged the resumption of serious talks.<sup>353</sup> This occurrence on the international level helped further strengthen Jiang's domestic position. In turn, it facilitated Jiang's assertion on WTO affairs at the domestic table, and thus benefited the bilateral negotiation. Sometime around October, Jiang replaced Zhu as the head of LSG on Finance and Economy. Zhu became the vice director of this LSG. This sent a strong signal to every member of the CPC's Central Committee, especially provincial governors.

Publications aiming at educating the mass public about the WTO began to flourish on the market. Books, articles, and TV programs shared the optimistic viewpoint that the WTO membership will boost the Chinese economy, and that China should integrate into globalization by entering into the WTO. The personal image of American chief negotiator Charlene Barshefsky was boosted, too. Through TV program, the Chinese public got to know that she was a very capable attorney, and she liked Chinese silk scarves. Allegedly, the Chinese leadership ordered the media to avoid "sensational" and "exaggerated" coverage of the WTO accession.<sup>354</sup>

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<sup>353</sup> 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, November 18, 1999.

<sup>354</sup> Su, S. "Admission to the WTO and China's Political Situation," *ChengMing*, July, 1999.

The intellectual and professional critique was confined within the academic sphere. All of these efforts assisted to increase the win-set on the China side.

After April, Zhu was significantly weakened in the leadership. Allegedly, he tendered his resignation three times, all of which were rejected. Although Zhu stayed in his position as premier, he appeared to exercise less authority in his own right. The SOE reform program, which occupied the priority of his agenda, was taken over by Vice Premier Wu Bangguo. For Zhu, had the deal been successfully concluded, it would present him an opportunity to restore his domestic status, enhance his standing at the domestic level, and shift the balance of power in favor of his domestic policy agenda.

The potential impact of an international deal on domestic politics could be a strong motivation. In the final round of negotiations, Zhu appeared twice at the negotiation table, on November 13 and 15. He sat down and personally engaged in the bilateral talks with the Americans. His personal intervention helped the talks move ahead and finally reach a successful outcome. This time, he told his counterpart – as well as those sitting on the same side of the table – that “President Jiang asked me to come twice,” implying that he was siding with Jiang and had sufficient political support and authority. His frequent, personal involvement at the international negotiation table for a successful deal helped restore his authority and facilitated the improvement of his domestic position.

The year 1999 was dramatic. At the international table, the two countries came close to the deal, then stepped away from it, then finally concluded it. At the



domestic bargaining table in China, top-down authority appeared to be very effective for decisions on policy initiative. Nevertheless, pro-trade leaders' domestic position were hurt or boosted by the occurrences at the international table. In the end, at urgent meetings of the Standing Committee of the Politburo and the Standing Committee of the State Council, held respectively on November 9 and November 13, 15, the combined efforts from the top leaders effectively marginalized and muted the opponents. The opponents were "not won over, ...but rather run over."<sup>355</sup>

## **Conclusion**

In the Communist polity where power and policy are intertwined, policy initiatives can be used to pursue power and also be subordinate to power competition. The succession politics had great impact on the dynamics of the domestic bargaining table for the GATT/WTO accession. After power transition and consolidation, top-down authority proved to be more powerful than bottom-up authority, in terms of policy orientation, priority in agenda and win-set. No evidence indicated that international pressures could tip the domestic balance and influence the succession politics in China. However, the occurrences on the international negotiation table could hurt or strengthen the domestic position of pro-trade leaders and officials, expand the domestic win-set or create a domestic backlash, and thus impact on the ratification of the deal.

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<sup>355</sup> Pearson, "The Case of China's Accession to GATT/WTO," p 364.

## **Chapter 6: Policy Recommendation: Threatening vs. Persuasion**

In Dr. I. M. Destler's thorough analysis of US trade policy, he asserted that "much of the USTR's energy in the late 1980s was directed to what critics have labeled 'aggressive unilateralism': negotiations aimed at opening specific foreign markets under threat of closing our own."<sup>356</sup> In September 1985, President Reagan embraced a more aggressive, export-oriented trade policy. About one year later, the Uruguay Round was launched, and China submitted its application for the GATT membership. Setting aside the first stage when China's GATT application was strategically attractive to the US geopolitical calculation and the Chinese trade negotiators did not feel American pressure on the negotiating table, in the rest of the bilateral negotiation, Stages Two and Three in 1990s, American trade negotiators employed retaliatory threats of trade sanctions and withdrawal of the most-favored nation (MFN) status, as the major pressure tactic, to force market opening in China.

Based on the detailed case study of the Chinese decision-making in the bilateral negotiation presented in the previous chapters, this chapter examines the relationship between the American strategy of aggressive unilateralism – to be specific, the pressure tactics of retaliatory threats – and Chinese decision-making on concessions. It discusses the achievements and limitations of this pressure tactic, as well as the decline of its effectiveness. In the end, I offer a policy recommendation that American trade negotiators should replace retaliatory threats as the major tactics in negotiating with China and propose that the US pursue a strategy of

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<sup>356</sup> Destler, *American Trade Politics*, p123.

persuasion by appealing to China's self-interest in achieving the twin US goals of opening foreign markets and strengthening the global trading system.

### **The Achievements and Limitations of Retaliatory Threats**

Against the backdrop of protectionists' claim that foreign producers and investors enjoyed easy access to the relatively open US market while US firms were denied equivalent opportunities abroad, aggressive unilateralism, one may argue, would allow the administration to mobilize export interests, partially offset the protectionists, and placate the Congress. It was necessary to enforce and strengthen the GATT/WTO rules as part of the effort to fend off protection at home. When the US negotiators have been aggressive in pursuing unilateral liberalization in areas not covered by the GATT rules, one can even argue for its "justified disobedience,"<sup>357</sup> inasmuch as the US assertions indeed aimed at strengthening the GATT, rather than simply seeking unilateral trade concessions. Reportedly, the GATT Director-General Arthur Dunkel once credited US unilateralism with saving the GATT, at least temporarily.

In opening up the Chinese market for American exports and pushing China toward the rule-based global trading system, retaliatory threats indeed had some success. In Stage Two, by denouncing prison labor, the USTR's annual report of 1991 tactically created a powerful political linkage between China's trade surplus and its violation of human rights in order to tackle the trade imbalance. In

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<sup>357</sup> Robert E. Hudec, "Thinking About the New Section 301: Beyond Good and Evil," in J. Bhagwati and H. Patrick, *Aggressive Unilateralism*, (Ann Arbor: University of Michigan Press, 1990), page 137-38.

November 1991, the USTR threatened to impose \$1.5 billion in trade sanctions should China fail to improve its intellectual property protection. In August 1992, the USTR initiated a regular Section 301 case against China and published a hit list of \$3.9 billion of Chinese exports for possible retaliation.

Facing these three threats, China tried to bypass the US on multilateral talks or even threatened counter-retaliation against \$4 billion of US exports, yet it decided to yield to American demands – interestingly all in the year of 1992. Typically, threats succeed when the perceived economic and political costs to the target country of complying with a demand are lower than the perceived costs of defiance.<sup>358</sup> The growing trade volume and trade surplus against the US demonstrated the dependence of China’s exports on the US market. The political cost of compliance was once significantly high due to the political reshuffle in the top leadership after Tiananmen Square, but the balance between two factions of CPC tilted in favor of the reformists in 1992. As detailed in *Chapter V*, Deng’s inspection trip to South China rallied support from provincial and local government leaders. Those who took conservative position at the center yielded to this campaign. The liberal economic policy regained its momentum. Therefore, the political costs of compliance were significantly reduced, and those who supported trade liberalization in the Chinese bureaucracy were able to work on negotiating deals.

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<sup>358</sup> Analyses of the elements of this calculus may be found in the followings: William R. Cline, *Reciprocity: A New Approach to World Trade Policy? (Policy Analyses in International Economics)*, (Washington: Institute for International Economics, 1982); John McMillan, “Strategic Bargaining and Section 301,” in Jagdish Bhagwati and Hugh T. Patrick, *Aggressive Unilateralism: America’s 301 Trade Policy and the World Trading System*, (Ann Arbor: University of Michigan Press).

The critical elements in the success or failure of these negotiations were, on one side, the value that China placed on maintaining access to the US market and, on the other, the credibility of the US threat to retaliate, which was strong in the early 1990s. The American side was united when import-competing companies, injured by cheap Chinese products, cried for a tough position in early 1990s. After China lost strategic attraction to American foreign policy on the international stage, both the American executive branch and the US Congress were no longer willing to tolerate trade policies for the sake of foreign policy goals. At this time, it was easy for the US negotiators to convince their Chinese counterparts that their hands were so tied. The US negotiators and their political supporters were so united that their retaliatory threats were highly credible. In addition, the Tiananmen Square incident in 1989 sent an astonishing surprise to the international community. The Chinese decision makers understood the high probability that trade sanctions would actually be imposed if negotiations were to break down.

In this second stage, the American threats of trade sanctions possessed great credibility and achieved conspicuous success in reaching a series of agreements with China. Nevertheless, it depends on how success is defined and on the time span we are looking at. Unlike many scholars who define the conclusion of an agreement as a success case, Thomas Bayard and Kimberly Elliot believed that conclusion of an agreement is not sufficient to call an outcome a negotiating success. They defined a successful case as one in which US negotiating objectives were at

least partially achieved.<sup>359</sup> Although China agreed to join the Berne Copyright Convention and the Geneva Phonograms Convention and promised to improve its regulatory protection for intellectual property rights (IPR), the two scholars categorized this application of retaliatory threats as failure or nominal success, given the poor implementation of intellectual property protection in the few years to follow. Nevertheless, the improvement in IPR law enforcement years later when the Chinese companies started to apply for patents suggests that a relatively vulnerable country engages in substantial and widespread liberalization only when their policymakers believe that it is in their interests to do so.

If we look beyond the second stage, the temporary suspension of 1992 market access agreement in the third stage of bilateral negotiation may be a better example. After China's attempt to join the GATT before the end of 1994 and become a founding member of the WTO failed, China felt that the US reneged on its written promise to "staunchly support" China's GATT application, and it suspended the 1992 market access agreement. In response, the Clinton Administration threatened to impose over \$1 billion in trade sanction. China threatened to counter-retaliate against a number of US exporters and US companies that were trying to establish subsidiaries in China. Fear of US retaliation may squeeze out marginal compliance or promises of China, but those concessions were held out with one hand and taken back with the other.

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<sup>359</sup> Thomas O. Bayard and Kimberly Ann Elliott, *Reciprocity and Retaliation in U.S. Trade Policy*, (Washington D.C.: Institute of International Economics, 1994), page 59-62.

American retaliatory threats served as a crowbar to force China's market opening. In liberalizing China's highly restrictive trade regime, US unilateral demands worked effectively on readily identified, specific barriers, such as tariffs and quotas. With domestic support for tariff reduction inside the bureaucracy (i.e. the General Administration of Customs), China reduced tariffs various times in Stages Two and Three. Regarding the broader, less easily defined or more subjective barriers, such as administrative and regulatory impediments to trade, American threats showed effectiveness in concluding agreements when China's domestic politics allowed. Nevertheless, both the lack of IPR law enforcement and the temporary suspension of the 1992 market access agreement afterwards highlighted the limitations of bilateral trade negotiations based on unilateral demands backed by retaliatory threats.

### **The Decline of Retaliatory Threats' Effectiveness**

The tactical mechanisms analyzed in the literature often follow Thomas Schelling's *The Strategy of Conflict* in focusing on the role of commitment in making a threat credible.<sup>360</sup> John Odell has formulated two key hypotheses regarding how domestic politics affects bargaining outcomes: First, within the target nation, the greater the net internal political cost of compliance for the executive, relative to net internal political cost of no-agreement, the less likely the target government will be

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<sup>360</sup> See such as Catherine L. Mann, "Protection and Retaliation: Changing the "Rules of the Game," *Brookings Papers on Economic Activity*, Vol. 1987, No.1. (1987), pp 311-335. See also Alan O. Skyes, "Mandatory Retaliation for Breach of Trade Agreements: Some Thoughts on the Strategic Design of Section 301," *Boston University International Law Journal* Vol. 8, (Fall 1990), page 301-24.

to accept agreement on the terms demanded. Second, within the threatening nation, the greater the internal opposition to carrying out a threat, the lower the credibility.<sup>361</sup> In other words, the more united are interests in the US negotiators, the easier the US negotiators can convince their Chinese counterparts that their hands are so tied with respect to retaliation, the more credible retaliatory threats will be.

On the side of the power recipient, the higher the political costs of compliance in China, the lower the likelihood of getting an agreement satisfactory to the US. As discussed in *Chapter V*, the Chinese succession politics at the very top level was never affected by the international trade negotiations, yet American pressure, especially retaliatory threats, may hurt the pro-trade Chinese officials at the working level. Those Chinese bureaucrats who sat across the international negotiation table were in general pro-trade and pro-liberalization, relative to the rest of Chinese bureaucracy. American threats and retaliation, if implemented, may offer chances for the conservatives and protectionists to form a coalition, attack pro-trade Chinese officials, and promote their policy preference under the name of nationalism. In doing so, they increase the political cost of compliance with American demands in China.

On the side of power application, the third stage, in contrast to the second stage of the bilateral negotiation, witnessed realignment of American interests and the decline of retaliatory threat's effectiveness. In early 1990s, import-injured

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<sup>361</sup> John S. Odell, "International Threats and Internal Politics: Brazil, the European Community, and the United States, 1985-87," in Peter Evans, Harold K. Jacobson, and Robert D. Putnam, *Double-Edged Diplomacy: International Bargaining and Domestic Politics*, (Berkeley: University of California Press), pp. 233-264.



American firms condemned cheap Chinese exports, and both the executive branch and legislative branch agreed to take a tough position. When China loomed large for American exports and for American multinational corporations' foreign investment and expansion plans, a pro-trade coalition was initiated and sustained by American business. In the New China Lobby, a broad range of business interests, including almost all prominent American multinational firms, united to lobby for China's MFN status, out of fear of being shut out of the Chinese market and big losses in firms' broader competitiveness in East Asia. American business with interests in China stood in a different position from American business injured by Chinese exports.

The US government was no longer as united on China issues as in the early 1990s. On the Hill, the coalition of American business with interests in China worked with supportive legislators to counter balance those advocates for the human rights linkage. Washington State Congressman Jim McDermott helped mobilize 106 representatives to sign a letter to President Clinton urging for China's MFN status renewal. A bill was even introduced in 1997 to repeal the Jackson-Vanik Amendment. Inside the executive branch, Treasury, Commerce, USTR and the NEC were aligned with business against State, which held tough positions on the human rights issue.

On China's MFN renewal, the realignment of the American government agencies and the division of American commercial interests significantly affected the US negotiators' application of threatening on the bilateral negotiation table. After the Clinton Administration threatened \$1 billion in trade sanctions in response to

the Chinese suspension of the 1992 market access agreement, China threatened to counter-retaliate against US exporters and US companies which were applying for establishing subsidiaries to the Chinese government. The US negotiators fell short of saying that China was not complying with the 1992 agreement and tactically chose to claim that China did not “comply with some important aspects.”<sup>362</sup> At the same time, the US-China Eight-Point Agreement was reached to end the enmity.

On top of the divide in the American political arena against China, the difference in the informational channel between the two countries enlarged its impact on the bilateral negotiation. In a democracy such as the US, the media enjoys the freedom to scoop out the different opinions inside the US government and reveal various positions of American commercial interests. The Chinese perception about American demands was formed based on the US negotiators’ offerings as well as American news reports. In contrast, the information sent by Chinese negotiators and by Chinese news reports was harmonized after internal coordination.

Due to the freedom of information in the US, the Chinese negotiator received different information about American positions. When American demands presented at the international negotiating table were different from the positions argued by some commercial interests in the American media, it had impact on the progress of bilateral talks and reduced the effectiveness of American threats. When the USTR threatened trade sanctions, the Chinese read about some American commercial interests’ position papers, their testimony at published congressional

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<sup>362</sup> See Barshefsky’s remark, “Barshefsky Says China Undecided on Continuing WTO Talks.”

hearings, and American politicians' open debate and criticism on its own tough position or on protectionism. Thanks to these different voices, China received mixed signals about American demands, which significantly reduced the credibility of these retaliatory threats. The Chinese perceived that they had natural allies within the American domestic political arena and business communities. At a White House briefing after Clinton backed out the deal during Zhu's state visit in April 1999, the standing ovation Amb. Barshefsky received became an important signal to the Chinese that Clinton was being criticized for passing up a good deal. Thereafter, when American negotiators tried to get more out of the last round of bilateral talks, the Chinese were able to stand tight and refuse, which also indicated that China's understanding about American politics had increased. On the flip side, when the USTR wanted to conclude a deal, the different voices raising questions about the deal released by the news media might shatter the Chinese confidence to step up its efforts.

On the other side of international negotiating table, the Chinese voices were harmonized, at least in 1990s. As discussed in *Chapter IV*, the major companies in every industry were state-owned enterprises (SOEs), which were controlled by each industrial ministry, so each industry was aligned with their supervising industrial ministry regarding specific issue-topics. Therefore, internal lobbying between industries and ministries happened between business leaders, who were generally subordinates, and officials in the industry ministries, who were their supervisor. Unlike the lobbying in the US, where varying voices of every industry can be heard in major newspaper and at congressional hearings, the injured industries explained

their positions to the supervising ministries when the business leaders conducted work reports or made informal communication. The various voices of major industrial players, which were extension organizations of the government, were actually different opinions within the government.

The three-tier decision-making structure coordinated and harmonized different opinions during the bilateral talks, detailed in *Chapter IV*. Different positions of various commissions and ministries went through the State Council Committee on Inter-Ministerial Coordination on GATT/WTO, up to the vice premier in charge of economic affairs or Premier Working Meeting, and if necessary, eventually up to the CPC's Central Committee Finance and Economic Leadership Small Group. Most domestic bargaining occurred between industrial ministries and pro-trade agencies at the lowest level in this structure. After coordination at different levels of forums, decisions were made and sent from the upper level forum back to the lower level for the MOFTEC to implement. Therefore, what was presented to American negotiators were harmonized bargaining positions. Given that the news agency and major news outlets were also extension organizations of the Chinese government, which emphasized solidarity, the propaganda's news reports reflected the coordinated positions. Allegedly, right before the conclusion of the bilateral agreement, "sensational" and "exaggerated" coverage of the WTO accession was prohibited.<sup>363</sup>

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<sup>363</sup> Su, S. "Admission to the WTO and China's Political Situation."

In contrast with threats sent by a democratic, weak government, a strong government, which could decide for the SOEs' operation, unify the internal different opinions, and determine the media's reports, could send retaliatory threats with high credibility. When the 1992-1994 MFN campaign succeeded and the bilateral talks moved into the third stage, the Chinese perception was that the retaliatory threats of trade sanction sent by American trade negotiators were not as highly credible as the Chinese threats. American threats appeared not as forceful or effective as those announced in the early 1990s.

### **The Success: Persuasion with Tying Hands by Congressional Pressure**

As Jean Monnet, father of the European Union, remarked, "If negotiators sit on opposite sides of the table and repeat their long-held positions, they will fail. If they sit on the same side of the table, and put the problems on the other side, they can succeed." In the third stage of Sino-American trade negotiation when the effectiveness of retaliatory threats declined, the US negotiators began more and more to persuade their Chinese counterparts by appealing to China's self-interest and tying their own hands by congressional pressure. These less antagonistic strategies allowed their Chinese counterparts more room to work toward the pro-trade policy direction at the internal coordination process and provided them more credibility when they conducted negotiations at the domestic level.

In *Chapter IV*, a study of the power balance between the leaders sitting on the top and the bureaucratic officials in the selectorate shall be instructive for American

trade negotiators to “sit on the same side of the table” as the Chinese and understand the timing of major Chinese concessions made during the negotiation. In the power game between top-down authority and bottom-up authority, when no clear or unified signal is sent out from the top, the bureaucrats tend to take advantage of the uncertainty in the domestic political arena and hold out for their own organizations’ interests. This, in turn, increases the political costs of concessions to American demands for the top executives relative to no-agreement, as happened in the year of 1994. After the completion of power consolidation, the balance of power tilts toward the top-down authority because leaders have more leverage over their subordinates as a whole and they can send out a unified signal. Furthermore, after the top leadership comes to consensus, they can restructure the bureaucracy by administration turnover or hold enlarged Politburo meetings in their favor by controlling the composition of the Central Committee.

No evidence has indicated that the Chinese succession politics at the very top level was ever affected by the international trade negotiations, as noted in *Chapter V*. Nevertheless, it is observed that major concessions always occurred after power consolidation was completed and the top leadership could overpower the bureaucracy. After Deng mounted the paramount position in the leadership and placed liberal-minded bureaucrats in posts in the 1980s, China sent out signals that it was willing to become part of the global trading net. Immediately after Deng succeeded in rallying a campaign in 1992 for development of the market economy and readjusted the policy direction of the country, China made a few major concessions, including the 1992 market access agreement, and thereafter the

bilateral talks resumed. By 1998, Jiang had outmaneuvered his rivals and consolidated power as the first among equals in the top collective leadership. Then the bilateral negotiation achieved substantial progress and eventually moved to completion.

An investigation of organizations' bargaining power inside the Chinese bureaucracy is helpful, for it assists in understanding the natural allies on the Chinese side and selecting issue-topics where American pressure can be effective. As examined in *Chapter IV*, inside the Chinese internal decision structure – tiers of forums for discussion, negotiation, coordination, and decision, organizational players' bargaining power was not equal. Ministries acted as representatives of industries under their supervision and bargained for the industries' interests, but their bargaining powers were not equal. Because Chinese policy preference has created a rich industry and poor agriculture system, heavy industry has more political influence than light industry, and light industry higher status than agriculture. The structural weakness of agriculture that was displayed at the domestic bargaining table partially revealed that American pressure on this issue-topic would meet less Chinese resistance on the international negotiation table than the others, and *vice versa*. Both occasions – the incorporation of agricultural produce in the 1992 market access agreement and entry into agriculture side-agreement immediately when Clinton backed out of the deal during Zhu's state visit in 1999 – indicated that China has been susceptible to American demands on agricultural issues.

Understanding of the dynamics of Chinese domestic politics and structural strength or weakness of different organizations will provide important aid and input when American trade negotiators decide on the timing of pressure and the issue-topics to pursue. American power tended to be effective in pressuring China at the time when China's reform-minded top leaders have completed power consolidation, and on the issue-topics, of which the relevant industries and ministries possess weak bargaining power in the Chinese bureaucracy. On the contrary, China did not yield to American pressure when it was in the process of consolidating powers at the very top level. Even after China made compromises at the international negotiating table, heavy industries were financially affluent and politically capable enough to initiate plans, trying to protect their profits and interests.

In the 1990s, among trade negotiations with various countries, the USTR prioritized the China deal at the right time, when the Chinese top leaders were willing and able to coordinate their subordinate bureaucrats, make compromises to American pressure, and steer China toward more openness. For such a complex bilateral agreement, the USTR had inevitably to tackle difficult issue-topics and confront China's bureaucratic resistance passed by the Chinese negotiators. To their credit, American trade negotiators gradually reduced the employment of retaliatory



threats and tactically replaced it with persuasion by appeal to self-interest, an argument tactic high in the list of effectiveness.<sup>364</sup>

Appeal to self-interest is one of the two argument tactics useful to negotiate with bounded rational agents. According to advanced research about argumentation and negotiation in artificial intelligence, in order for an argument to be effective, it must address beliefs and intentions of the counterpart.<sup>365</sup> The beliefs of American negotiators about the Chinese – in particular, the type of agent the Chinese are believed to be – can be used as guidelines for argument generation and tactics selection. As argued in *Chapter III* and mentioned in *Chapter IV*, China should be regarded as a bounded rational agent on the international stage, although the Chinese understanding about American politics and global trading net, among other things, has been rapidly improving. When American negotiators believe that the Chinese, their opponent agent, are not aware of all the implications – in other words, they are not aware of their self-interests and they have limited knowledge, an appeal to self-interest is appropriate and useful.

This is indeed what happened in the third stage of bilateral negotiation. When China failed to join the GATT at the last minute, it was uncertain about the difference between the WTO and GATT, hesitated about its impact on bilateral talks and on its economy, and even announced that it would not seek to resume the talk.

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<sup>364</sup> Sarit Kraus, Katia Sycara, and Amir Evenchik, "Reaching Agreements Through Argumentation: A Logic Model and Implementation," *Artificial Intelligence*, Vol 104, Issue 1-2, (June 1998): p38. The order from the strongest argument to weakest one are: (1) a threat; (2) a promise of a future reward; (3) an appeal to self-interest; (4) an appeal to past promise; (5) a counterexample; and (6) an appeal to prevailing practice.

<sup>365</sup> Kraus, Sycara, and Evenchik, "Reaching Agreements Through Argumentation: A Logic Model and Implementation," p26, 28.

In order to vividly explain what China should do to achieve WTO entry, Barshefsky drew and displayed a nine-step roadmap to Wu Yi, the Chinese state councilor in charge of trade.<sup>366</sup> This move to “generate the list of actions, the plan, which will lead from the current world state to a state which satisfies the opponent agent’s selected desire”<sup>367</sup> sent a strong signal of encouragement as well as information for education purpose. Certainly, “this can be done using your own planning procedure.”<sup>368</sup>

As Putnam pointed out, when negotiators conduct bargaining at the international level, they should always be attentive to what is on the domestic negotiation table. To her credit, Amb. Barshefsky correctly sensed that Premier Zhu was deeply concerned about the SOE reform plan and wanted to improve the performance of SOEs, which had already incurred an egregious amount of non-performing loans with banks. She repeatedly told Zhu the following rationale: trade liberalization would bring foreign products and foreign companies to China; foreign competition would exert pressure on Chinese companies, mainly SOEs; the noncompetitive SOEs would be revived when they could learn efficient management and operation from foreign companies and compete to survive in market economy. This strategic linkage between trade liberalization and improvement of SOEs’ competitiveness occurred right on time, when Zhu’s SOE reform plan was in difficulty. Zhu was confronted with a lot of impediments and questions from SOEs in powerful industries and ministries. This linkage tactics presented an opportunity

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<sup>366</sup> My interview with the American interviewee, No. 10, in 2008.

<sup>367</sup> Kraus, Sycara, and Evenchik, “Reaching Agreements Through Argumentation: A Logic Model and Implementation,” p36.

<sup>368</sup> *Ibid.*

for him to tie his hands by foreign pressure in front of those opposing his SOEs reform. In this way, the correct discovery of the counterpart's self-interest and strategic linkage between this and trade liberalization proved to be very persuasive and effective.

In addition, when President Clinton decided to back out of the deal during Zhu's state visit in April 1999, he presented options to Zhu. The first one was to sign the deal when Zhu was in Washington, but the estimation was that it would fail in Congress, so would the Permanent Normal Trade Relations (PNTR). The second option was to put off the deal for a short period of time in order to make the President look strong and tough. In turn, it would help sell the deal in Congress. Clinton claimed that the second one would be political viable, helpful to the congressional ratification, and beneficial to the deal and bilateral relationship. He also assured Zhu that he would do everything imaginable to get it, if Zhu opted the second one.<sup>369</sup> Although it is known, in hindsight, that this estimate was wrong, a sincere persuasion from a leader of the superpower, with a plan to address the Chinese self-interests, could be powerful and effective. Besides, China's limited knowledge and understanding of the US Congress, which affected Zhu's judgment at that time, has been and will continue to be its Achilles heel.

Furthermore, a party's bargaining strategy will also be affected by its perceived vulnerability to retaliation or counter-retaliation. Not only did the features and occurrences of China's domestic political landscape have impact on

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<sup>369</sup> My interview with the American interviewee, No. 3.

American trade negotiators' selection of negotiation strategies, but also the Chinese perception. China understood that it could push American exporters by temporarily suspending the market access agreement and prod American multinational corporations by blocking their applications to run business in China, and it could also nudge a few US Congressmen who counted thousands of jobs in their constituencies which China's big buying missions can bring. Even the dragon slayer President Clinton looked more and more like a panda hugger after he delinked human rights from MFN renewal and talked about engaging China. However, the US Congress, nothing close to the National People's Congress, is always a very difficult subject for the Chinese to study and understand, as well as the most formidable obstacle in the American political landscape against China.

For the Beijing administration, the questions and problems from US Congress were constantly dreadful, which could date back to the "China Lobby" in the 1950s and 1960s.<sup>370</sup> In the whole decade of the 1990s, the human rights issues, Tibet, Taiwan, and non-proliferation were the major four topics, with which the Congress repeatedly bashed China. After China's MFN renewal was tied to its human rights record, the accusation and censure of US Congress became annual whipping. To borrow a phrase from French economist Patrick Messerlin, it can be characterized this way: The Congress viewed its aggressiveness as a way to push China to follow the rules of the international communities and the global trading net, while China viewed its participation of the WTO as a way of restraining American use of

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<sup>370</sup> The original "China Lobby" was a campaign in support of the Republic of China on Taiwan and to oppose recognition of Beijing administration.

aggressive unilateralism.<sup>371</sup> The aggressiveness of US Congress was an appalling impediment, forcefully persuasive to the Chinese.

In the third stage of bilateral negotiation, the Congress, more aggressive than the executive branch, gave the American negotiators more leverage on the international table. Following the logics of Putnam's two-level game theory, losing fast track in 1997-98 undercut the US negotiators' deliverability, but claiming the difficulties of winning congressional ratification provided the USTR a smaller win-set on the international negotiation table, which American trade negotiators might exploit as leverage to enlarge the Chinese win-set.

Having a president who had condemned "butchers of Beijing" come to visit Beijing greatly increased the confidence about the bilateral deal among those in the Chinese bureaucracy who had suspicions. The natural calculation would be that if the Clinton administration wanted the deal, it was "on the Chinese side," and what was still on the opposite side of the table was US Congress. In March 1999, Secretary of Commerce William Daley's talk in Beijing that Clinton came to China against 150 congress members' opinion simply confirmed the aggressiveness of Congress. Therefore, when the US negotiators explained to their Chinese counterparts that their own hands were tied due to congressional pressure, it was persuasive. The fear of involuntary defection enticed greater concession from China.

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<sup>371</sup> "To the US, the Code is an instrument to control subsidies. To the rest of the World, it is an instrument to control US countervailing duties." See Patrick Messerlin, "Public Subsidies to Industry and Agriculture and Countervailing Duties," (paper prepared for the European Meeting on the Position of the European Community in the New GATT Round. Spain, October, 1986): 16.

In summary, I argue that in bargaining with China, a rising power about to enter into the international stage, American trade negotiators achieved success in 1999 by correctly employing the two strategies. Facing a bounded rational agent across the international negotiating table, the USTR made a timely change in strategy from retaliatory threats to persuasion by appeals to China's self-interests. The idea spread out and became widely accepted in China late 1990s that foreign competition would make the Chinese domestic companies, especially SOEs, more competitive and efficient, and that openness to trade was the way to achieve it. The USTR also effectively used congressional pressure as powerful leverage to tie its own hands and convinced the Chinese that their compliance would be important not only for the conclusion of the bilateral deal of 1999, but also for the congressional ratification of PNTR in the next year. This successful combination of these two strategies at the end of last century is instructive and will demonstrate its effectiveness for the future.

### **Policy Recommendation**

Exports have become a more important source of US growth, and the US national interest is served by defending the market-opening principles, such as national treatment and nondiscrimination. It is also the US's long-term goal to maintain its leadership of the international trading system, the success of which will depend on the willingness of the economic superpowers to uphold and enforce its rules and principles.

With the establishment of the WTO in 1995, the political and economic calculus of retaliation has substantially changed. Since much stronger dispute settlement rules were incorporated into the WTO, the argument for justified disobedience, that the weakness and inadequacies of the GATT left no alternative to an aggressive unilateral policy, no longer holds. And under the new WTO circumstances, “The US [can] no longer retaliate, unilaterally, without the risk of being taken to court and losing.”<sup>372</sup> However, the US should continue to pursue aggressive unilateralism within the WTO’s purview, so that retaliatory threats carry the approval of the entire global trading system and their credibility and political weight will be enhanced. In doing so, America’s trading partners will view it not as the act of a bully which is to extract unilateral advantages for narrow sectoral interests, but as a demonstration of the US global leadership in enforcing the existing WTO regulations and strengthening the multilateral trade regime.

I argue that in bargaining with China, American retaliatory threats became less effective in the 1990s, and that they will become less desirable in the years to come. With more and more commercial activities between the two countries, it will be hard to find the timing for credible threats when both the Congress and the executive branch were united on a strong and tough position against China. The USTR’s great leverage provided by the Chinese desire to join the global trading net and to avoid the annual MFN renewal process no longer exists. The US may want the cooperation of China, now the second largest economic entity, on nuclear non-proliferation, anti-terrorism, etc. The tactics of retaliatory threats in trade policy

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<sup>372</sup> Destler, *American Trade Politics*, p243.

may put the president in an undesirable position and force him to make costly trade-offs among US priorities or even at the price of trade.

A better replacement should be the combination of persuasion with appeal to self-interests and tying hands by congressional pressure. When China is rising as an economic power and having more bargaining chips on hand than before, it is harder to get it to acquiesce to unilateral demands. In improving market access, the key to success is to understand its self-interest. What is required are profound understanding of causes and consequences of these impediments in the Chinese bureaucracy and clear analysis of influential selectorates in the decision structure in favor of change and their policy preferences. All of these take time to develop, but they are doable.

Since China's understanding of the international trading regime and its rules and principles is increasing, the US should actively participate in this ongoing process. China was forced under American threats to provide intellectual rights protection in early 1990s, yet in recent years of the patents boom it perceives that enforcement of IPR regulations is actually in its own interests. In contrast with threats of declining effectiveness, the US could take advantage of its advanced technical and administrative expertise and experience and help China reshape its perceptions of its potential benefits from maintaining international trade regime and the perception of its role in it. In this process, the USTR will be informed to select a correct linkage between China's policy preference and trade liberalization.



The leverage of Congress will continue to be effective, and the USTR should keep employing the tactics of tying its hands by the congressional pressure, to the extent that this external pressure functions as a constructive adjunct to the Chinese internal support for a policy change. In the 1990s, the US pressure for removing China's trade barriers was effective when the reform-minded leaders finished power consolidation and pro-liberalization organizations and bureaucrats were well positioned in the decision structure and had sufficient bargaining power. The congressional pressure should be applied in a way to forcefully empower those pro-trade organizations and officials on their domestic negotiation table.

In doing so, the US should aggressively publicize how these structural and regulatory trade impediments impose significant costs on China's domestic firms – both the SOEs and private firms – and consumers. In China's economic boom, a rising middle class benefits more and more from a less regulated trade regime. Although they are not part of the selectorate at present and do not have bargaining power or representatives in the decision structure, modern technology, such as the Internet, has given this middle class information channels to understand their interests and discussion forums to voice their positions and preferences. An open Chinese market serves the interests of this sector of the Chinese society and the US. At the same time, caution should always be exercised that inappropriate linkage or excessive power application might entice nationalism and weaken pro-trade bureaucrats relative to nationalistic protectionism.

## Chapter 7: Conclusion

Going beyond important variables, such as raw power, dependence on the US export market, and structure of trade, this dissertation searches for answers to the question – *Why does American pressure encounter Chinese resistance, different in issue-topics and time period?* It looks at the question from Chinese perspectives, trying to investigate how and why the Chinese made decisions to yield to the US demands or to resist American pressure.

This thesis conducts a literature review about models of the Chinese politics and concurs with Dr. Harding on his calling for a single, composite model to examine the Chinese politics. I construct an analytical framework, based on the structure of Dr. Graham Allison's models, a classic in governmental decision-making in foreign policy in studying Cuban Missile Crisis. As an embodiment of advancement in relevant disciplines, this analytical framework draws upon bounded rationality, the garbage can model, and two-level game theory. With these three conceptual lenses, I investigate the Chinese decision-making in foreign trade policy during Sino-American negotiation for China's WTO protocol from 1986 to 1999.

Selecting a set of models that has been thought not to apply to China's governmental behaviors, I believe that this revision could revive it and increase its explanatory power so that the application of this single, composite set of models can be extended from interpretations of national security crises to an analysis of an enduring economic relationship and multiple-round negotiations when China is

involved. In doing so, I intend to support Dr. Johnston's argument that theories and models of international relations should not be rejected as inapplicable to the Chinese politics, and that Chinese foreign policy should contribute to the theoretical richness of international relations, rather than being analyzed only through the lens of Sinology.

The analytical framework of bounded rationality, garbage can model, and two-level game theory lays the structural foundation of this dissertation. The first cut allows the analysis to be conducted from the perspective that China was, and most likely still is, a bounded rational player, and that it adjusted its behaviors based on its perception in the learning process. Treating China as a unitary actor with bounded rationality, the first primary cut revealed that China cautiously raised five original positions; it needed some time to understand that the end of Cold War affected the trade talks and change its estimation; it was over-optimistic about negotiation process and even employed a take-it-or-leave-it strategy without accomplishing the goal; its pay-off function and aspiration level were not constant due to changes on the international stage.

In this learning process, American's "softer" strategy – persuasion plus congressional pressure – demonstrated its effectiveness. Out of its own calculation for economic development, China offered a big tariff reduction plan and grabbed the opportunity when Clinton proposed to make progress on bilateral talks. American trade negotiators successfully persuaded the Chinese by linking foreign trade and competition to the SOE reform, and the Chinese believed that sufficient concessions

were needed for congressional vote for permanent MFN later. US high officials also persuaded Premier Zhu to pay a state visit to the US for the deal and then agree to not sign the deal due to congressional pressure. In the end, they effectively convinced Zhu that no deal was an honest mistake, but this information was sufficient for the Chinese to sit tight in the last round of negotiations and not to give up more to congressional pressure.

China yielded to American demands in early 1990s, especially in the Stage Two. American threats were effective when China perceived that it could not bypass American support to gain GATT/WTO accession. In the Stage Three, with its increasing understanding of American politics and the emergence of the New China Lobby, China threatened to counter-retaliate against American commercial interests in China. The effectiveness of American threats declined when China perceived its bargaining chips through American business interests in China.

The second cut presents an institutional perspective to study China's foreign trade policy-making in this lengthy negotiation. Different from the past literature about China's accession to the WTO, this research has discovered the three-tier decision structure: State Council Committee on Inter-Ministerial Coordination on GATT/WTO, the Premier Working Meeting, and Central Committee Finance and Economic Leadership Small Group (LSG), and detailed the participants, procedures, and routines on the three domestic bargaining and coordination forums inside the Chinese government. This finding not only helps us understand the institutions, processes of domestic negotiation and coordination to address issues during the

GATT/WTO accession, but also exemplifies how the Chinese government operates more generally.

The chapter on the second cut starts from a discussion of China's Party/government system, in order to lay a good foundation to understand the decision structure. It explains the distribution of constitutional authority among the National People's Congress, the CPC Central Committee, and the Central Committee Politburo and its Standing Committee and how it relates to policy making and implementation. For the medium level decision forum, I change the standard translated term from the Premier Working Conference to the Premier Working Meeting. Comparing two other State Council decision formats stipulated by law, I point out that the Premier Working Meeting has never been regulated by law and thus has no required participants. On many occasions, it has two or three participants, which makes it hard to be called a conference. This section also explains that it has become a widely used, important decision mechanism.

Up to now, leadership small groups, as a collective decision-making format, are understood in a very limited way. Western literature tends to describe the leadership small group as a perplexing decision body sitting at the very top of the Chinese government. This dissertation tries to objectively reveal that this inter-agency mechanism for policy decision and coordination exists at all levels of government, not only at the central government or top-level leadership, but also at provincial government, city government and district government. Moreover, there are three kinds of such small groups, Working Small Group, Coordination Small

Group, and Leadership Small Group. The dissertation also gives detailed explanation of the hierarchical level, function, and operation of small groups as well as the elevation and its impact on a policy implementation. Laying this foundation, I examine the Central Committee Finance and Economic LSG, its rise, difference, and role in the GATT/WTO accession.

The detailed analysis of decision structure and its established rules and routines reveals unequal power at the domestic negotiation table. Deriving from long-term policy preference, heavy industries enjoy higher status than light industries, and light industries are better off than agriculture. The unequal power, funding and resources among these categories of industries and industrial ministries translate into their bargaining power on the domestic negotiation table, and then to the international negotiation table. Therefore, both the agriculture industry and its ministry were the weakest at the domestic table, and American pressure met the lightest resistance on this issue-topic. By contrast, automobile industry and the Ministry of Machine-Making were powerful on the domestic bargaining table. At the lowest level of decision structure, the SEC associate director, as its coordinator, fought for its trading rights first and then gained compromise from the Ministry. Even after the ministry compromised, the automobile industry, on its own initiatives, strove to commission research projects and find countermeasures to handle the concessions made at the international negotiation table. The level of these officials sent by each ministry to the internal negotiation meetings confirmed the different power of these ministries and industries.

With the aid of garbage can model, I argue that the GATT/WTO accession had never been an independent crisis or problem seeking for solutions and that it had been attached to major policy directions: economic reform, the development of market economy and the reform of SOEs. In late 1990s, the slowdown of the Chinese economy to under 8% growth, as a countable problem, caught the attention of decision makers and also let reform-minded politicians and conservatives converge. Zhu's State Council believed that foreign competition and trade should reinvigorate SOEs. Thereby, the GATT/WTO accession was a potential solution, rather than a problem.

The policy proposal of GATT/WTO accession floated in the policy community and survived various deadlocks. In this period, MOFTEC was on the rise; the Department of International Trade and Economic Affairs was formed under MOFTEC; and the GATT Division was formed and rose to department level. The pro-trade coalition came into being and also became intertwined by personnel transfer between these agencies. With years of softening-up, the pro-trade coalition spread the values of free trade to the policy communities and the general public.

In the political stream, Zhu rose to the premiership and was confronted with bureaucratic resistance against his SOE reform plan. He began to perceive the WTO accession as a potential resolution for the SOE reform. The government turnover that occurred in 1998 had its own causes, yet it fundamentally changed the balance of bargaining power. The pro-trade agencies maintained their hierarchical level, but many protectionist industrial agencies were downgraded to bureau level and

eventually transformed to industrial association, out of the bureaucracy. The State Council Committee on Inter-Ministerial Coordination on GATT/WTO was dissolved. The constraints were no longer strong enough to prohibit actions. As described by the term coupling, in the year of 1998, these separate streams inside the garbage can came together, which explains very well the timing of the bilateral deal.

The third cut of two-level game theory features bureaucratic politics on two tables, the domestic bargaining table and international negotiation table. In other words, it can be described as domestic causes and international consequences, and international causes and domestic consequences. By reviewing Chinese bureaucratic politics, especially succession politics parallel to the bilateral negotiations, I have not found any evidence that the progress of international trade negotiations had affected the political succession at the very top level of Chinese leadership.

On the flip side, after the completion of political succession or power consolidation of the top leadership, bilateral negotiation accomplished substantial advancement, such as the time periods when Deng assumed power and launched economic reform early 1980s, when Deng reestablished his paramount leadership and the goal of development of market economy in 1992, and when Jiang successfully consolidated his power in 1998. At these time periods, the power balance between the top leadership and the bureaucracy tilted toward the former, and the bureaucratic resistance dwindled. Therefore, the reform-minded top leaders were able to push for liberal economic and trade policies. Otherwise,



resistant bureaucrats bet on the uncertainty at the top and hold out for their organizational interests.

Yet, international negotiation could empower or weaken pro-trade leaders and officials in the bureaucracy. The progress on the international bargaining table affected their credibility on the domestic negotiation table. On the eve of China's formal entry to the WTO, four chief negotiators accepted interviews together, and they all talked about the domestic pressure. The one who led the Chinese negotiating team through the year of 1994 revealed that he had to bear more internal pressure than external pressure. Premier Zhu's credibility in the domestic political arena was also significantly undercut when he flew to the US but could not bring a deal back home. Since the Chinese officials who sat across the table and negotiated with the Americans were those pro-trade officials arguing for liberalization on the domestic table, these occasions generated chances for those protectionists and political enemies to form coalitions.

In summary, after compiling and comparing the analyses from these three primary angles, the dissertation draws the following conclusions. During this lengthy bilateral negotiation, China tended to yield to American threats when the Chinese reform-minded top leaders finished political succession or power consolidation, when trade was perceived as a solution to China's economic problems, and when the US Congress and executive branch united for credible threats. American pressure confronted strong Chinese resistance when the Chinese protectionists and nationalists had leverage so that the political cost of compliance

was high for pro-trade officials, and when the Chinese perceived the divide in American commercial interests between those with interests in China and those injured by Chinese exports and the realignment in American political arena on China issue.

Meanwhile, American pressure encountered less Chinese resistance in issue-topics, such as agriculture, behind which were a politically weak industry and a ministry of little bargaining power at the domestic table. By contrast, American pressure encountered strong resistance in issue-topics, such as automobiles, behind which were a politically strong industry and agency created by long-term policy preference. In the latter situation, not only did the relevant agency have strong bargaining power, but the industry itself also possessed strong connections, information channels, funding and resources to play on the domestic bargaining table.

Upon the case study and detailed analyses, I argue that the effectiveness of American threats backed by trade sanctions declined, although it had limited achievements in the past. In bargaining with this rising power, the US should pursue aggressive unilateralism within the WTO's purview, which can empower the Chinese trade negotiators on the domestic bargaining table because they can argue for enforcement of international rules. The policy recommendation is that the US should first discern how China perceives its self-interests and build strategic linkage of it to trade liberalization, and then employ the combination of persuasion with

appeal to self-interests and tying hands by congressional pressure in bilateral trade negotiations.

As we can see in the recent negotiation for the Information Technology Agreement (ITA), when China tabled a list of sensitivities in June 2013, withdrawing from its earlier supportive position and surprising other WTO member countries, the US trade negotiators' strategies' demonstrated its effectiveness. On the one hand, the US negotiators maintained their tough position to ask China to significantly reduce the list of sensitivities, against the pressure from the member countries which wanted to resume the talks. In doing so, the pressure on China had the weight from the international trading regime. On the other hand, to their credits, American negotiators spotted the Chinese interests in participation in the Trade in Services Agreement (TISA) and strategically built a linkage between TISA and ITA. Virtually, TISA became the substitute of MFN in 1990s, giving the USTR more leverage so that they could measure Beijing's concession on ITA to weigh China's request to join the TISA. In this case, there was just modest congressional pressure on China. But the outcome of applying this strategy was the US-China agreement of November 2014 eliminating tariffs across a wide range of high-tech products.

The contribution of this dissertation is as follows: It revives a set of models rejected in the study of Chinese politics. By revising it with advancement in relevant disciplines, I build this three-prong analytical framework and apply it to China's foreign trade policy-making during bilateral trade talks for the WTO accession. With the assistance of the analytical framework, the research reveals institutions

and processes of the Chinese decision structure for us to understand not only its decision-making for the WTO case, but also how the Chinese government operates more generally. In doing so, the application of this single, composite model demonstrates that the concepts, models, and theories of international relations have explanatory power in the Chinese foreign policy-making, and it also indicates that the study of Chinese politics should go beyond ideology-related analysis.

Nevertheless, this thesis has the following limitations. First, the case of China's WTO entry has its unique position in China's progress of engaging into the global trading regime. Perhaps more than any other case in Sino-American trade negotiation, this case had almost all administrative agencies of the State Council involved because of the complexity and thoroughness of the agreement. Although it was confined to a few agencies in Stage One, all relevant agencies came to the play in the later stages. The involvement inside the bureaucracy and the attention it attracted nationwide were unprecedented and unique. However, I believe that this uniqueness does not hold us from understanding how China conducts decision-making in trade policy and how the Chinese government operates. Second, my interviews and field trips were constrained by limited funding and time. For various reasons discussed in *Chapter I*, my access to former officials at those protectionist industrial ministries was limited. Should I have resources to continue this research in the future, I would very much like to cover those officials as well as head persons at major SOEs, for a more balanced view.

A detailed case study has its limitations, and changes after this case should be incorporated into future research of China's decision-making. The case selected here is the first major decision in China's foreign trade policy after it ended isolation and reentered the global scene. In this case, provincial powers were not in the play for most of the time until the very end; the information American negotiators got from the Chinese negotiators and Chinese news reports was harmonized after internal coordination; the top leaders of the second and third generations were generally reform-minded. The first two do not hold any more. In the study of any case after this one, provincial powers should be added to the scene. The use of Chinese media based in the US to send out signals different from the Chinese propaganda needs to be considered for bilateral relations and domestic politics. The third factor would raise the question: What if the top leadership is no longer reform-minded, but protectionist or mercantilist? Its impact on the power balance between the top leadership and selectorate in foreign trade policy-making needs further research in analyzing the Chinese resistance to American demands.

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This research was conducted based on 2 field trips to Beijing, China and 33 interviews in the US and China. My interviewees included American and Chinese participants in the bilateral negotiation, former and current trade officials, those engaging in foreign policy-making toward China or the US, trade experts and scholars on both sides. Upon the requests for confidentiality of many interviewees, I do not reveal their names. Instead, I have coded every interviewee and presented the list of interviewees to my dissertation committee.

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