

# Domestic Politics and the U.S.-China WTO Agreement

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*This paper examines the influence of domestic politics on U.S.-China negotiations over Beijing's entry into the World Trade Organization (WTO). The argument is that, contrary to recent theories emphasizing the obstacles domestic divisions pose to international cooperation, domestic opposition to the WTO agreement in both the United States and China did not constrain the ability of American and Chinese negotiators to initiate and reach an agreement. Several conditions facilitated the conclusion of the WTO deal. First, dovish actors (i.e., those within a country whose preferences are closer to those of the foreign country) in both states held greater internal decision-making power. Second, the reformist leadership in China considered international cooperation as a way to overcome opposition to their domestic reform agenda and used their authority to circumvent domestic opposition that otherwise would have derailed the agreement. Such dramatic changes in elite preferences in favor of cooperation can in turn be explained by China's increasing integration with the world economy. Third, the agreement was designed in the United States in a way that concentrated benefits on the internationally-oriented sectors of the economy, thus minimizing opposition from other domestic forces. The paper illustrates the importance of these conditions to the conclusion of the agreement through a detailed analysis of U.S.-China negotiations between 1999 and 2000 over Chinese entry into the WTO.*

**KEYWORDS:** World Trade Organization (WTO); trade negotiations; domestic politics; international integration; elite preferences

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After thirteen years of protracted negotiations, the United States and China finally reached a historical agreement on the terms of China's entry into the World Trade Organization (WTO). The agreement on November 15, 1999 represented an unprecedented promise by Beijing to open up diverse sectors of the Chinese market, including telecommunications, services, agriculture, and insurance. Sweeping Chinese concessions led some American businessmen to comment that "parts of the agreement are too good to be true."<sup>1</sup>

China's willingness to accede to most American demands on WTO entry presents a sharp contrast with Beijing's past negotiation behavior. Throughout the 1990s, as U.S. trade deficits with China rose steadily, the United States resorted to various policy instruments to challenge Chinese policies in such areas as intellectual property rights (IPR), market access, textiles, and China's most-favored-nation (MFN) status. Even though the United States has invoked substantial threats of trade sanctions in each of these negotiations, Beijing's desired concessions have still been somewhat limited. Even in areas where the United States succeeded in winning China's written concessions (such as IPR or market access), Washington had difficulty convincing the Chinese to live up to the terms of the agreement due to difficulties in implementation. The reemergence of these issues in bilateral negotiations indicates the protracted process of getting the Chinese to offer greater access to American businesses. As opening up the Chinese market was often an incremental process, Beijing's willingness to offer wide-ranging market-opening concessions for the sake of joining the WTO, given the substantial adjustment costs that the Chinese would have to bear if China became a member, seems worthy of further exploration.

The ability of American and Chinese negotiators to come to an agreement on the WTO issue also merits explanation in view of the fact that

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<sup>1</sup>Quoted in Bruce Stokes, "The China WTO Dilemma," Berkeley Round Table on International Political Economy paper at <<http://socrates.berkeley.edu/~briewww/forum/stokes.html>>.

bilateral negotiations took place against a backdrop of substantial domestic opposition to the agreement in China. Throughout the bilateral negotiations, the attempts by the reformist leadership and internationally-oriented groups within China to further integrate the country into the world economy through participation in the WTO encountered strong resistance from conservative leaders and bureaucrats, in addition to industrialists who had for years enjoyed the benefits of state protection. Yet, an agreement was eventually reached despite substantial opposition from protectionist bureaucrats, industrialists, and the public. Why were Chinese leaders interested in entering into the negotiations in the first place and why were they able to push the agreement through in the face of a domestic audience not entirely receptive to WTO entry?

This paper argues that domestic opposition to WTO entry in China did not derail the deal because the reform-oriented leadership within the Chinese Communist Party (CCP) played an extremely important role in shaping negotiation priorities. As the following analysis indicates, political developments in China over the past decade empowered the internationally-oriented interests within the Chinese polity. As a result, reformist leaders in Beijing went out of their way to fashion an international agreement that, in their view, would provide the much-needed momentum for China's troubled reform efforts. Despite vocal opposition from entrenched conservative and protectionist interests, the reformist leadership under President Jiang Zemin (江泽民) and Premier Zhu Rongji (朱镕基) played a key role in defining and pushing through the negotiation agenda. These reform-oriented elite led the effort to persuade recalcitrant bureaucrats and a skeptical public that WTO entry would have a positive effect on the Chinese economy.<sup>2</sup> When the negotiations stalled following the bombing

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<sup>2</sup>As early as 1992, Wu Yi (吴仪) and Long Yongtu (龙永图), chief Chinese negotiators, sent Ministry of Foreign Trade and Economic Cooperation (MOFTEC) personnel to universities and on media interviews to explicate the rationale for China's WTO bid. A large number of books and articles in favor of WTO entry were published to educate consumer and industry groups about the positive effect of WTO admission for China. See Margaret M. Pearson, "The Case of China's Accession to GATT/WTO," in *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000*, ed. David M. Lampton (Stanford, Calif.: Stanford University Press, 2001), 364-65.

of the Chinese embassy in Belgrade in May 1999, this coalition staged a decisive comeback and revitalized the talks by staking their reputation and political fortune on gaining entry into the world trade body. In contrast to domestic politics in the United States where the building of a broad societal coalition in favor of an agreement provided the key impetus, the concentration of power in the hands of leaders at the top in China, who could by and large deflect and co-opt domestic opposition to WTO entry, turned out to be crucial to the conclusion of the agreement.

The paper further argues that the strong interest of reformers in gaining entry into the world trade body in turn reflected the impact of increasing international economic openness on the policy preferences of the political elite. As China's integration with the world economy deepened throughout the last decade, political leaders have become more favorably disposed toward international economic cooperation. In particular, many of the ruling elite have come to see international cooperation as a useful policy instrument that, by locking free-trade policies into place, helps insulate themselves from demands for protectionism, thereby fostering the development of a more market-oriented economic system. The story of China's bid for WTO membership thus suggests that increasing international interdependence may alter political leaders' perception of the merits of free trade, in turn encouraging them to draw on the opportunities afforded by international cooperation to advance their domestic policy objectives.

The paper proceeds in two steps. First, drawing on theories that emphasize the interaction between domestic and international politics, it presents an argument about how domestic politics facilitates international cooperation, describing the conditions under which political leaders will be both willing and able to pursue international cooperation. This paper also contrasts the different ways in which domestic conflicts over international economic cooperation can be played out in democratic versus authoritarian states, emphasizing the greater role of the political elite in authoritarian regimes. Second, the author illustrates these arguments by comparing the domestic political processes in both China and the United States. While not constituting a test of these arguments, the following analysis sheds light on domestic conditions that facilitate international cooperation.

## A Domestic Explanation of the U.S.-China WTO Agreement

The connection between domestic politics and the possibility of international cooperation has received increasing scholarly attention in recent years. Many of these studies of the influence of domestic politics on international negotiations have utilized the two-level game metaphor developed by Robert Putnam.<sup>3</sup> Previous works looked primarily at the interaction between domestic and international politics in pluralistic societies.<sup>4</sup> Unfortunately, little work has been done to extend these theories to analyze the interaction between domestic and international forces in authoritarian regimes such as China.

Using U.S.-China negotiations over Chinese entry into the WTO as a case study, this paper sets out to examine the degree to which existing theories can be extended to analyses of international negotiations involving an authoritarian state such as China. The author makes two central arguments. The first is that, as previous studies have found,<sup>5</sup> political leaders will be willing to initiate international negotiations to coordinate economic policy when their home economy becomes more closely intertwined with

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<sup>3</sup>See Robert D. Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization* 42, no. 3 (Summer 1988): 437-49; and Peter B. Evans, Harold K. Jacobson, and Robert D. Putnam, eds., *Double-Edged Diplomacy: International Bargaining and Domestic Politics* (Berkeley: University of California Press, 1993).

<sup>4</sup>See the case studies in Evans, Jacobson, and Putnam, *Double-Edged Diplomacy*; Howard Lehman and Jennifer L. McCoy, "The Dynamics of the Two-Level Bargaining Game: The 1988 Brazilian Debt Negotiations," *World Politics* 44, no. 4 (July 1992): 600-644; Jefferey W. Knopf, "Beyond Two-Level Games: Domestic-International Interaction in the Intermediate-Range Nuclear Forces Negotiations," *International Organization* 47, no. 4 (Autumn 1993): 599-628; Frederick W. Mayer, "Managing Domestic Differences in International Negotiations: The Strategic Use of International Side-Payments," *ibid.* 46, no. 4 (Autumn 1992): 793-818; Xia Ming, "U.S.-PRC Trade-Related Negotiations in the 1990s: Two-Level Game Analysis and Explanations," *Issues & Studies* 32, no. 4 (April 1996): 60-88; Leonard J. Schoppa, *Bargaining with Japan* (New York: Columbia University Press, 1997); Robert Paalberg, "Agricultural Policy Reform and the Uruguay Round: Synergistic Linkage in a Two-Level Game?" *International Organization* 51, no. 3 (Summer 1997): 413-44; Kimberly Ann Elliott, "(Mis)managing Diversity: Worker Rights and U.S. Trade Policy," *International Negotiation* 5, no. 1 (2000): 97-127; and Thomas König and Simon Hug, "Ratifying Maastricht: Parliamentary Votes on International Treaties and Theoretical Solution Concepts," *European Union Politics* 1, no. 1 (February 2000): 93-124.

<sup>5</sup>Helen V. Milner, "Regional Economic Co-operation, Global Markets and Domestic Politics: A Comparison of NAFTA and the Maastricht Treaty," *Journal of European Public Policy* 2, no. 3 (September 1995): 341-44.

the world economy. Secondly, unlike earlier studies that emphasize how conflicts among domestic actors with different policy preferences can impede cooperation, this study argues that international cooperation is possible despite domestic conflict if a group of the political elite committed to such a course is willing to mobilize resources to minimize domestic opposition. In doing so, this paper links international politics to domestic preferences, and then back to international negotiation processes and outcomes.

### *International Integration and Elite Preferences*

International economic cooperation will be unlikely if political leaders are unwilling to initiate an agreement in the first place. Given the substantial adjustment costs that coordinated international action will impose on countries and the loss of control over economic decision-making that such actions will entail, political leaders may be willing to initiate an agreement only if they believe that the benefits from international cooperation will exceed the costs associated with the loss of important powers to regulate the economy.<sup>6</sup>

Political leaders are concerned about the state of the economy because a country's economic performance bears importantly on politicians' chances of staying in power. To the extent that a country becomes more closely integrated with the world economy, political leaders may come to see coordinated economic policymaking as an important policy measure to help achieve sound economic growth. With greater economic openness, leaders will have greater incentive to resort to multilateral policymaking in order to overcome the constraints of world prices, to prevent other countries from adopting policies that may negatively affect their own economy, or to bind themselves to a course of action that will allow them to avoid pressures for protectionism.<sup>7</sup>

In the U.S.-China negotiations over WTO entry, the binding effect of international cooperation was most evident in the leadership's calculations.

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<sup>6</sup>Ibid.

<sup>7</sup>Ibid.

As the popularity of the regime in China had come to depend on Beijing's ability to deliver economic growth, Chinese leaders ought to have strong reasons to worry about the economy and to try to avoid problems such as economic stagnation and widespread unemployment that will likely cause regime instability.<sup>8</sup> Admission into the WTO and greater integration into the world economy had in turn come to be viewed by the reformist faction within the Chinese leadership as a necessary policy tool for their domestic reform agenda. True, China had, in the 1990s, significantly reduced tariff levels and eliminated quotas, licensing requirements, and other nontariff barriers on over a thousand import items. Also true is that China had pledged not to backtrack on the liberalizing steps that had been promised in negotiations over WTO accession. Chinese leaders can, however, still resort to trade protectionism in the event that an economic slowdown triggers strong pressure for state protection. If, however, Beijing committed itself to trade liberalization measures under the WTO, then the state would effectively be shielded from industry demands for protection. WTO entry could also provide a clearly defined schedule of future reform measures, thereby facilitating the reform of state-owned enterprises (SOEs) that had by then been placed at the top of the reform agenda. Hence, by the end of the 1990s, the benefits of being bound to the world trade regime seemed to have outweighed any potential costs of WTO entry. The WTO case thus bears out the argument that economic openness may alter politicians' calculation of the costs and benefits associated with coordinated economic action, thereby promoting international cooperation.

Other analysts of China's accession attempt have emphasized the influence of international rules and norms on the beliefs and behavior of domestic decision-makers through a process of learning. Margaret Pearson, for example, argues that Chinese leaders have undergone a fundamental "paradigm shift" in the last two decades, abandoning autarkic economic policies in favor of one that embraces the forces of trade, market, and com-

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<sup>8</sup>Indeed, from the point of view of the Dengist leadership, the ability to deliver economic growth provides the only way for the party to retain legitimacy and power. See, for example, Merle Goldman and Roderick MacFarquhar, "Dynamic Economy, Declining Party-State," in *The Paradox of China's Post-Mao Reforms*, ed. Merle Goldman and Roderick MacFarquhar (Cambridge, Mass.: Harvard University Press, 1999), 5.



parative advantage. She further argues that these conceptual changes, brought about in large part by the penetration of outside ideas, in turn pushed political leaders to deepen the process of economic reform and to adopt far-reaching changes in areas such as trade, foreign investment, IPR, and currency convertibility; these changes gradually brought Chinese foreign economic policies more in line with prevailing international practices.<sup>9</sup> While such a learning process no doubt contributed to China's gradual acceptance of the rules and norms of the international system and indeed laid the basic groundwork for China's accession, this paper argues that the more immediate stimuli came from the desire of the elite to use the forces of international competition to further domestic policy objectives. Even as learning went apace throughout the latter part of the 1990s, political leaders remained cautious about WTO entry during much of this period due in large part to their preoccupation with domestic issues. As will be explained in more detail below, the top elite in Beijing had begun to seriously entertain the idea of joining the WTO only in 1998, when leaders seemed to have exhausted measures to reform the economy from within following the slowdown in exports in the aftermath of the Asian financial crisis. In this sense, the desire of leaders to use international commitments to drive a wedge in domestic economic reform seems to be a key factor in explaining Beijing's willingness to initiate and later to accelerate the negotiations.

### *Domestic Politics and the Possibility of Cooperation*

Recent studies of international relations have found that domestic politics can get in the way of efforts to forge cooperative agreements. Helen Milner, in an important study of the connections between domestic and international politics, has argued that the distribution of domestic preferences and the nature of domestic political institutions (particularly the institutional process of ratification) play an important role in determining the extent and possibility of international cooperation. Starting from a standard game of bargaining between two countries, she disaggregates the

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<sup>9</sup>Pearson, "The Case of China's Accession to GATT/WTO," 353-56.



domestic ratification process of one side by looking closely at the preferences of the executive, the legislature, and societal interest groups. In this complicated two-level game, the executive negotiates with a foreign country an agreement that would be either ratified or rejected by the legislature. Societal interest groups influence negotiations primarily by affecting the preferences of political actors.

A central finding of Milner's study is that when there is more than one player at home that can veto a deal, the need for ratification by the hawkish player within a state (i.e., those whose preferences are further apart from those of the foreign country) places important constraints on the dovish player who is inclined to enter into cooperative agreements with the foreign country, thus diminishing the prospects for international cooperation. The possibility for cooperation further declines and the likelihood of ratification failure increases as the policy differences between the two actors increase, because the doves are now increasingly forced to accede to the terms favored by the hawks. The possibility of cooperation also declines when the more hawkish actor holds greater internal influence. In short, Milner's findings are pessimistic: domestic politics makes cooperation less likely and changes the terms of the agreement that could be made. Even realists may have overestimated the likelihood that states will cooperate with one another.<sup>10</sup>

Even though Milner's model does not leave much room for international cooperation, she does specify conditions under which societal groups and political leaders will be inclined toward cooperation. For example, she argues that international cooperation will be more likely when political leaders view cooperation as an opportunity to overcome opposition to their domestic policies or when more dovish actors (the actors whose preferences are closer to those of the foreign government) hold greater internal decision-making power.<sup>11</sup> The negotiations over China's WTO member-

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<sup>10</sup>See Helen V. Milner, *Interests, Institutions, and Information: Domestic Politics and International Politics* (Princeton, N.J.: Princeton University Press, 1997), 37-43. According to Milner (pp. 16-17), the structure of domestic preferences refers to the "relative positions of the preferences of important domestic actors on the issues at hand," particularly those of the political executive, the legislature, and interest groups.

<sup>11</sup>*Ibid.*, 17.

ship illustrate the importance of these conditions to understanding international cooperation, even though the actors who played key roles in influencing policy in the two countries differed.

Domestic politics in the United States over Chinese entry into the WTO broadly reflects the usual pattern of coalition building in pluralist societies over trade policy. In the United States, two factors strengthened the hand of free trade-oriented actors relative to that of the hawk. First, the U.S. Congress, the institution with a more hawkish attitude on China trade issues, rather than enjoying formal ratification power over China's WTO membership, only had the power to subsequently approve China's permanent normal trading rights (PNTR). The concentration of initiation and agenda-setting power in the executive branch ensured that the executive's ideal policy outcome, which has traditionally been more pro-free-trade, would dominate the policy process. Second, as a trade liberalization agreement that promised substantial market-opening outcomes for export-oriented interests in the United States, the WTO deal substantially reduced the costs of collective action for American exporters across the spectrum, thus allowing the preferences of internationalist interests to prevail over those of the protectionist-human rights coalition. Moreover, the WTO deal enjoyed enthusiastic support from importers and retailers of labor-intensive products made in China. This large import constituency had played an important role in the past in opposing U.S. trade sanction threats against China for fear of losing access to inexpensive Chinese supplies. However, as the WTO agreement did not contain any terms that would adversely impinge on their access to Chinese imports, these import users broadly endorsed the agreement, further strengthening the hands of exporters and investors in the negotiation process.

Domestic politics in China demonstrates a slightly different pattern from that described above. Milner's analysis focuses exclusively on democracies where the rules of political contestation are stable and transparent, yet does not mention whether or how her insights can be extended to the nondemocratic context.<sup>12</sup> Milner does acknowledge that authoritar-

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<sup>12</sup>Ibid.

ian states have domestic politics as well. So, we may adapt Milner's analysis to an authoritarian state such as China if we conceive of the key domestic struggle as being waged among the political elite at the top echelon of power, rather than between formal institutions such as the executive and the legislature in a democracy. As formal institutional procedures matter far less in nondemocratic states, focusing on the different policy preferences and orientations of political leaders, which bear importantly on the outcomes of domestic issues and international negotiations alike, is more fruitful. In terms of international negotiations, a political elite may have either more hawkish or dovish policy preferences depending on the degree to which those preferences are close to those of the foreign country. Even though not having formal ratification power over an international deal, hawks do have the ability to modify or obstruct any agreement doves intend to enter into with a foreign country. In this sense, the conflict between doves and hawks within the top leadership figures prominently in understanding the pattern of domestic politics that influences international negotiations in an authoritarian state such as China.

One could further argue that even though interest groups that freely associate to influence policy do not exist in China, key economic players, through their representatives in functional bureaucracies and regional-level governments, are able to voice their interests through both formal and informal channels, in the process shaping the negotiation priorities and preferences of political leaders. However, while bureaucratic actors and regional governments do serve as conduits for industry interests, they do not dictate policy outcomes. Indeed, when the political elite with predominantly pro-cooperation preferences were committed to an international agreement, they were able to push aside resistance coming from industrial ministries, local governments, and the public opinion more broadly in order to forge a deal. Thus, to draw an analogy with Milner's analysis of executive-legislative relations, the more divergent the policy preferences between the doves and the hawks, the less likely international cooperation will occur. Cooperation is likely, however, when the doves hold greater internal decision-making power.

As China's accession effort demonstrates, conflicts among the political elite, rather than those between executive and legislative branches or

those among societal actors, proved particularly important in understanding the conclusion of the agreement. Indeed, when the political elite at the apex of power with predominantly pro-cooperation preferences were able to control the course of events, bureaucratic and societal opposition to agreement became by and large irrelevant. As we shall see, despite substantial opposition to WTO accession emanating from various state-owned industries and bureaucracies, conflict between the reform-oriented and the conservative leaders is the key to understanding the patterns of negotiation. In particular, the ability of the reformist leadership to prevail over a loose coalition composed of conservative leaders at the center, bureaucrats in charge of state-owned industries, and industrialists with vested interests in state protection suggests that when the doves within the top echelon can dominate the policy process, international cooperation is possible even in the face of substantial domestic opposition.

Thus, U.S.-China negotiations over China's entry into the WTO direct us to examine more closely the policy preferences of the political elite in China. The negotiations support the arguments that international cooperation is possible when pro-free-trade forces in one or both countries hold greater internal decision-making power and that domestic politics may not necessarily be an impediment to international cooperation. The remainder of this paper will provide support to these arguments by examining the process of U.S.-China negotiations over China's WTO admission.

### **China's WTO Bid**

With the U.S.-China bilateral agreement on the terms of China's entry into the WTO concluded in November 1999 and a second agreement reached by the two sides in June 2001,<sup>13</sup> China's WTO membership is finally in sight. These recent agreements are the product of fifteen years of

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<sup>13</sup>This second agreement resolved the remaining issues obstructing China's WTO entry, particularly China's refusal to join the organization as a developed country, with correspondingly low farm subsidies.

protracted negotiations. Ironically, the Nationalist regime in Taiwan was one of the twenty-three countries that founded the WTO's precursor, the General Agreement on Tariffs and Trade (GATT) in 1948, withdrawing in 1950 after the establishment of the People's Republic of China (PRC). It was not until 1986 that leaders of the PRC formally applied for membership in the GATT as part of China's program of reform and opening up. Negotiations over the PRC's entry began with the first meeting of the Working Party for China in February 1988. Subsequent negotiations stalled, however, due to disagreements over a number of political and economic issues, including how to accommodate a nonmarket economy in a liberal trading system, whether China should participate in the organization as a developing country or a developed country, and how to resolve Beijing's insistence on accession prior to that of Taipei.<sup>14</sup>

With the events in Tiananmen having dampened the momentum of Beijing's GATT bid, China only resumed the accession effort in earnest during the mid-1990s. China's stepped-up accession effort reflected, in part, Beijing's desire to become a founding member of the World Trade Organization, when that organization succeeded the GATT on January 1, 1995. Bilateral negotiations with the United States were necessary because, as the most influential GATT/WTO contracting country, the United States had the ability to make or break China's accession effort. A U.S.-China agreement on the terms of China's entry into the organization was essential for China to proceed to bilateral negotiations with other GATT contracting members. For much of the 1990s, the United States successfully blocked China's application on the grounds that China still maintained substantial nontariff trade barriers incompatible with the rules of the world trade regime.<sup>15</sup> While bitterly condemning the U.S. move, Beijing countered with a series of tariff reductions designed to win U.S. support for membership in the organization. In 1995, China adopted its most comprehensive trade liberalization package in sixteen years, a package which, among

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<sup>14</sup>Nicholas R. Lardy, *China in the World Economy* (Washington, D.C.: Institute for International Economics, 1994), 45-46.

<sup>15</sup>Denny Roy, *China's Foreign Relations* (Lanham, Md.: Rowman & Littlefield, 1998), 93-94.

other things, promised to cut tariffs by as much as 30 percent.<sup>16</sup> In early 1998, China went further to offer a detailed summary of tariff reductions. The United States and other nations again deemed the plan inadequate, insisting that China open its doors wider to foreign products and services. By late 1998 and early 1999, however, the Clinton administration came to see Chinese membership in the WTO as a policy instrument useful to open the Chinese market and to add to the Clinton administration's record in market-opening talks globally.

### Chinese Domestic Politics and the WTO Agreement

During a visit to the United States in April 1999, PRC Premier Zhu Rongji defied the most powerful interest groups in China in the hope of forging an agreement with Washington. When Zhu Rongji first took over as premier, he did not seem to have as strong an interest in China's WTO entry as either President Jiang Zemin or Vice-Premier Li Lanqing (李嵐清), who held primary responsibility for China's WTO entry at that time. Concentrating on reforms of the SOEs at home, Zhu felt that it was too early to subject domestic industries to the pressure of international competition.<sup>17</sup> Consequently, the Chinese side did not present an offer that would be acceptable to U.S. officials prior to President Clinton's visit in 1998.

President Clinton's visit to China in June 1998 helped to repair the damage done to the bilateral relationship by the 1995-96 Taiwan Strait crisis.<sup>18</sup> With both sides talking in terms of building a "strategic cooperative partnership," prospects for the resumption of serious negotiations improved considerably. At the same time, Premier Zhu Rongji's position toward the WTO seemed to have undergone substantial changes. As his ef-

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<sup>16</sup>China Online at <<http://www.chinaonline.com/issues/wto/wto.asp>>.

<sup>17</sup>Joseph Fewsmith, "The Politics of China's Accession to the WTO," *Current History* 99, no. 638 (September 2000): 269.

<sup>18</sup>In response to the "private" visit by ROC President Lee Teng-hui (李登輝) to Cornell University, Beijing carried out military exercises against Taiwan in 1995-96. The crisis strained U.S.-China relations and precluded the possibility of serious negotiations over China's WTO entry.

forts to restructure the domestic economy encountered serious difficulties, especially in the aftermath of the Asian financial crisis, Zhu appeared to have come to view international influence as being useful in pressuring SOEs to make the necessary reforms to become more competitive.<sup>19</sup> Zhu's desire to use WTO entry to boost exports and to shore up the credibility of Chinese reform gained further impetus by a series of signals from Washington indicating a U.S. desire for accelerated negotiations. By January 1999, China's position on WTO entry had changed enough so that the Chinese leadership began to talk about the possibility of concluding a deal on Zhu's upcoming visit to the United States in April 1999.

Beneath the veneer of an apparent consensus to move closer to a deal existed strong differences both among the various bureaucracies and within the top leadership. The reformist leadership went ahead with the bilateral talks despite an increasingly vocal and sophisticated domestic opposition prior to Zhu's April 1999 visit. True, some bureaucracies muted their opposition in light of Jiang Zemin's support for accession immediately after Zhu's visit; that opposition would, however, soon become large and vocal enough to threaten to derail bilateral talks.

#### *Domestic Backlash against Zhu's April 1999 Offer*

When Zhu Rongji went home empty-handed in April 1999, he found himself on the defensive against powerful domestic interests. The U.S. refusal to accept Zhu's offer, coupled with the release on the Internet of the terms of the agreement that had been kept out of the public eye so far, provoked a strong backlash against him. As the fallout of these events created serious difficulties for the resumption of negotiations, the reformist leadership under Jiang Zemin and Zhu Rongji needed to expend considerable political capital in order to hold the pro-WTO coalition together.

As China's policymaking process (especially in the realm of economic policy) became more pluralized under reform, the number of actors actively seeking to influence policy—as well as their ability to do so—grew significantly. Opposition to WTO entry was found not only in a wide

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<sup>19</sup>Nicholas R. Lardy, "Permanent Normal Trade Relations for China," *Brookings Institution Policy Brief #58* (May 2000).



range of industries and the ministries that represented them, but also in local governments and the public more broadly. The strongest opposition to the deal came from uncompetitive sectors such as heavy industry (most notably automobiles, electronics, machine tools, petroleum refining, and instruments), service industries (including domestic distribution, banking, insurance, and telecommunications), and agriculture. These three areas had all along enjoyed the benefits of state protection and would thus be among those hardest hit by the WTO agreement. Many SOEs in these sectors were inefficient compared to their foreign competitors and, as a result, would likely be forced out of business if left to fend for themselves. These groups couched their opposition on the grounds that China had managed to maintain rapid growth rates in the past fifteen years without joining the world trade club and that, in view of the surge in unemployment or even bankruptcy that could result from the WTO membership, WTO accession was both unnecessary and premature.<sup>20</sup> In addition, some Chinese officials were resentful of perceived American hostility and were reluctant to accede to rules created by a "hegemon."<sup>21</sup>

Zhu's April 1999 offer alarmed these heavily protected industrial interests, causing their lobbies to intensify and to become more overt. Even those officials who had previously been supportive of China's accession became more skeptical of the terms of entry. Reports held that officials from the Ministry of Agriculture (MOA) and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) had engaged in open conflict over Zhu's offer on agriculture during his April visit to the United States. MOA officials grilled MOFTEC officials about the likely impact on key agricultural areas in China from the opening of the Chinese market to wheat from the U.S. Northwest Pacific states, arguing that a more open market would exacerbate existing problems of widespread rural unrest, stagnation of farmer incomes, and the closure of many rural factories.<sup>22</sup>

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<sup>20</sup>*Asian Wall Street Journal*, October 13, 1999.

<sup>21</sup>Margaret M. Pearson, "The Major Multilateral Economic Institutions Engage China," in *Engaging China: The Management of an Emerging Power*, ed. Alastair Iain Johnston and Robert S. Ross (London: Routledge, 1999), 220-21.

<sup>22</sup>Yongzheng Yang, "China's WTO Accession: The Economics and Politics," *Journal of World Trade* 34, no. 4 (August 2000): 88.

Farmers in Heilongjiang province (黑龍江省), one of the key agricultural areas in northeastern China, similarly voiced objections to the terms of the agreement.<sup>23</sup>

One of China's largest and strongest auto manufacturers, the First Auto Works based in Changchun (長春), argued that tariffs were necessary for the auto industry as a whole to remain viable. The National Machinery Bureau, with primary responsibility for the auto sector, similarly stated the need for continued protection for the auto industry.<sup>24</sup> A diverse range of other big state companies ranging from Capitol Iron and Steel, one of China's largest steel makers, to Hongta Tobacco, China's leading cigarette maker, viewed competition as a threat to business and jobs.<sup>25</sup>

New industries had a similar protective bent. China's most vocal opponent to market openings, Information Industry Minister Wu Jichuan (吳基傳), had presided over explosive growth in China's telecommunications industry. Wu was, however, intent on shielding China's budding telecommunications industry from foreign competition by limiting foreign investment in Internet-related ventures.<sup>26</sup> Upon learning that Zhu's April 1999 offer would open the telecommunications sector wider to foreign competition and ownership, Wu reportedly submitted his resignation in protest. Moreover, opposition came from the financial sector as well. China's "big four" state-owned banks (the Bank of China, the Agricultural Bank of China, China Construction Bank, and the Industrial and Commercial Bank of China), which were technically insolvent, raised the familiar argument that Chinese financial institutions were not yet ready for international competition and went even further to demand favorable treatment in the event that any agreement was to be forged.

The potential negative impact of WTO membership brought industrial bureaus and ministries into the fray. As actors with concentrated power in their respective jurisdictions, these institutions were often in-

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<sup>23</sup>*Financial Times* (London), April 10, 1999, 4.

<sup>24</sup>*South China Morning Post* (Hong Kong), July 21, 1999, 8.

<sup>25</sup>See note 23 above.

<sup>26</sup>*Business Week*, November 22, 1999, 60-61.

timately involved in negotiations and coordinating meetings. They conducted detailed analyses of the ramifications of WTO entry on Chinese industries, were among the first to review and evaluate Washington's offers, and lost no time in voicing their opposition when it became certain that negotiations had negatively affected their narrow institutional interests.<sup>27</sup> Even local officials, many of whom had benefited from reform policies and had thus been a tacit ally of the internationally-oriented interests in China, raised fears about the deal. Xie Yutang, mayor of Jinan, capital of Shandong province (山東省濟南市長謝玉堂), voiced concerns that sharp tariff reductions would result in loss of market share and would cause substantial difficulties to traditionally protected industries in China.<sup>28</sup>

While Chinese interest group lobbying in the past had been covert, the open posting of Chinese concessions on the Internet gave large enterprises and provinces full access to the package that had been put together, allowing for individual impact assessments. These groups subsequently strengthened their lobbying efforts via both formal and informal channels such as directly participating in negotiations, conducting frequent meetings with MOFTEC officials, securing support from key ministers who could channel their concerns to the State Council, and drawing on personal connections to central leaders in an attempt to influence policy. As Pearson pointed out, "trade politics in China seems to have been nearly as porous and subject to competing interests during this period as U.S. and European trade policymaking,"<sup>29</sup> even though bureaucratic and other institutional actors, rather than private interests, were the most prominent participants in this process.

Negative reactions from industrialists and bureaucrats were compounded by increasingly negative public opinion on the issue, as seen in the sharp criticisms of Premier Zhu Rongji from discussion groups on the Internet. Despite MOFTEC's concerted effort to mold public opinion through highly publicized education sessions designed to stimulate consumer and

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<sup>27</sup>Pearson, "The Case of China's Accession to GATT/WTO," 350.

<sup>28</sup>See note 24 above.

<sup>29</sup>Pearson, "The Case of China's Accession to GATT/WTO," 352.

urban group support for WTO entry, the high publicity given to WTO backfired as consumers and trade-oriented industrial groups learned more about the negative impact of WTO entry and hence changed their position in the direction opposite of that desired by MOFTEC officials. In subsequent meetings with firms from various industries held to explain the benefits of WTO entry, MOFTEC officials were grilled by audiences critical of the agreement, repeatedly hearing charges that China had given away too much and that the challenges of membership far outweighed the opportunities. Industrial groups also rallied support from the conservative camp, leveling highly acerbic criticisms against Premier Zhu.

In the wake of this rising tide of hostility, MOFTEC Minister Shi Guangsheng (石廣生) declared that the concessions listed by the U.S. Trade Representative were "inaccurate."<sup>30</sup> Jiang Zemin reportedly stated at an internal meeting that China had waited thirteen years to join the GATT/WTO and could wait another thirteen years. Even State Councilor Wu Yi (吳儀), who had helped put together the WTO deal, appeared to back off, telling reporters that the government might need to solicit opinions from various big enterprises such as China Telecom. She went further and hinted that the government might give up the idea if public opposition to the deal became insurmountable.<sup>31</sup> Premier Zhu had been placed at the center of all this internal dissention. Having already made a sizable number of enemies among China's bureaucrats as he moved to restructure the government and industry, Zhu became the scapegoat for discontent with Jiang Zemin's policy decisions. China's most conservative organizations, including the military and the National People's Congress (NPC) under the leadership of Li Peng (李鵬), began to use the opportunity to direct criticism at Zhu. Under intense pressure, Zhu reportedly offered his resignation to Jiang Zemin following his trip to the United States. Zhu's failure to conclude a deal in April 1999 made him and reformers in general vulnerable to swings in public opinion. Only considerable determination, political capital, and skill could now put the talks back on track.

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<sup>30</sup>*South China Morning Post*, May 7, 1997, 7.

<sup>31</sup>*Strait Times* (Singapore), June 14, 1999, 34.

*Reformers' Comeback*

Despite the domestic backlash against Zhu's April 1999 trip to Washington, reformers within the Chinese leadership clearly were intent on concluding the deal. From the point of view of the reformist leadership, the benefits of China's WTO accession seemed too important to forego. As the reform program that had started in the early 1980s hit a plateau in the mid-1980s, WTO entry was considered a necessary policy measure to lock in the trade liberalization strategy that previously had been undertaken unilaterally, thereby both increasing the credibility and effectiveness of the reformers' policy moves and revitalizing the economy and political fortunes of the ruling party.<sup>32</sup>

Reforms to "open up China to the outside world" initiated in the late 1970s and early 1980s had enmeshed China in the world economy by the end of the 1990s. Growing interactions with the world market not only had produced an impressive economic growth rate, but also had created local interests strongly supporting the further opening of the Chinese economy. Between the initiation of economic reform in the late 1970s and the mid-1990s, the PRC's share of world trade increased from 0.6 percent to 4.9 percent, making China the world's eighth largest trading nation.<sup>33</sup> The share of foreign trade in China's gross domestic product (GDP), measured in nominal dollars, had tripled from just 13 percent in 1980 to 40 percent in the late 1990s. China attracted US\$269 billion in utilized foreign investment between 1979 and 1998.<sup>34</sup> The United States, in particular, had come to play an increasingly important role in China's drive for economic growth. Chinese exports to the United States took up over 20 percent of China's total exports, providing China with roughly US\$40 billion in hard currency. In 1998, utilized U.S. investment in China exceeded US\$21

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<sup>32</sup>William R. Feeney, "China and the Multilateral Economic Institutions," in *China and the World: Chinese Foreign Policy Faces the New Millennium*, ed. Samuel S. Kim, fourth edition (Boulder, Colo.: Westview Press, 1998), 258-59.

<sup>33</sup>Marcus Noland, "U.S.-China Economic Relations," in *After the Cold War: Domestic Factors and U.S.-China Relations*, ed. Robert S. Ross (Armonk, N.Y.: M.E. Sharpe, 1998), 111.

<sup>34</sup>Thomas G. Moore, "China and Globalization," in *East Asia and Globalization*, ed. Samuel S. Kim (Lanham, Md.: Rowman & Littlefield, 2000), 107-8.

billion.<sup>35</sup>

Increasing international interdependence has had a visible influence on the policy preferences of the Chinese political elite, altering their cost-benefit calculation of WTO admission for China. This change in elite preferences was clearly reflected in the reformers' determined drive to revive talks over WTO entry in the latter half of 1999. Specifically, the leadership seemed to see several benefits in China's accession to the WTO:

First, the ruling elite saw WTO membership as the logical extension of the economic liberalization process that China had embarked on since the late 1970s. As Beijing has postponed the most difficult component of economic reform—reform of SOEs—and as the Chinese economy experienced a slowdown in the late 1990s (induced in part by the slowdown in foreign trade and investment), reform-minded leaders in Beijing came to see international competition as a crucial step in deepening domestic economic reform.<sup>36</sup> Specifically, the Chinese leadership hoped that linking domestic reform to external reforms could achieve a more efficient allocation of resources, foster competition by lifting the restrictions that had previously constrained the private sector of the economy, push through difficult and controversial institutional reforms over the objections of increasingly powerful and vocal domestic opposition, and overcome the dual structure of the Chinese economy. In other words, the reformist leadership clearly viewed WTO membership as a useful policy instrument that would provide them with enhanced legitimacy and a coherent framework for the next phase of reform. Thus, the search for a "new growth paradigm" provided an important motivation for Chinese leaders to seek participation in the WTO.<sup>37</sup>

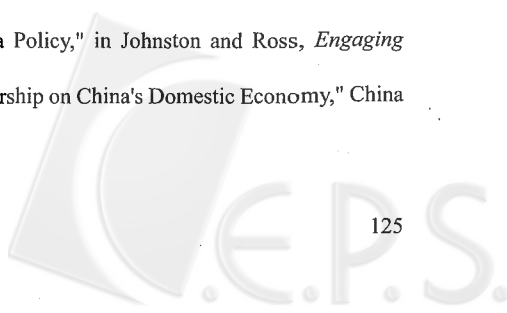
Second, Beijing saw membership in international organizations as useful to enhance China's global posture. In the past, China had sought active participation in international economic institutions such as the World

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<sup>35</sup>Robert S. Ross, "Engagement in U.S. China Policy," in Johnston and Ross, *Engaging China*, 190-91.

<sup>36</sup>Pieter Bottelier, "The Impact of WTO Membership on China's Domestic Economy," China Online, January 3, 2001.

<sup>37</sup>See note 19 above.



Bank, the International Monetary Fund (IMF), and the Asian Development Bank (ADB). For leaders such as Jiang Zemin, WTO membership would allow China a greater say in shaping the rules governing the world economy and would place China in the league of great powers.

Third, WTO membership might help the Chinese leadership to achieve their other foreign policy objectives. Economically, such participation would enable Beijing to evade unilateral trade pressure from the United States by bringing bilateral disputes under the jurisdiction of dispute settlement mechanisms of the WTO. Politically, by obtaining permanent normal trading rights (PNTR), Beijing might no longer need to be concerned about the political implications of the annual congressional debate over China's MFN status. From Beijing's point of view, the annual MFN debate in the United States had constrained Beijing's room for maneuver in such issue-areas as Taiwan and arms sales. Congressional approval of PNTR would thus provide the leadership with a freer hand in pursuing China's foreign policy objectives.

Fourth, Beijing desires to play a greater role in the formulation of global trade rules. In particular, with the Millennium Round of global trade talks looming on the horizon, China's hope was to join the talks from the very beginning and to play an important role in discussions of rule-oriented issues in areas ranging from services to telecommunications.<sup>38</sup>

While one could add to the above list a host of other reasons for why Beijing was interested in joining the WTO, the desire of Zhu and other reformers to use foreign competition for domestic economic restructuring provided the key impetus for the negotiations. As mentioned earlier, Beijing had professed a willingness to be part of the world trade body in the early and mid-1990s; in the absence of a strong push from the top leadership, however, negotiations had proceeded slowly and without a decisive breakthrough. In the aftermath of the Asian financial crisis, the Chinese leadership had vainly tried to reinvigorate economic growth through short-term fiscal stimuli. The inability of these short-term measures led the leadership to conclude that the key to long-term, sustained economic

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<sup>38</sup>See note 30 above.



growth resided not in a high rate of investment, but in the efficient allocation of resources by relaxing the restrictions that had previously been placed on private economic activities.<sup>39</sup> Further integration into the world economy had in turn been considered an integral part of such an endeavor. Given the emphasis the reformers placed on reform from the outside, that they would push through the agreement despite domestic opposition is unsurprising.

With Premier Zhu Rongji's position weakened by the April 1999 debacle, and given the desire of the Zhu-Jiang coalition to push through the deal, President Jiang Zemin played an important role in thwarting the conservative counterattack and in advancing the negotiation agenda. In doing so, Jiang adopted a three-pronged strategy designed to resuscitate the talks. First, he urged the White House to convince Congress, with its hawkish outlook on China trade issues, to support Beijing's entry. During his meeting with President Clinton at the APEC (Asia-Pacific Economic Cooperation) meeting in Auckland, Jiang hinted to Clinton that he faced domestic opposition to a WTO deal and that the Clinton administration's support for WTO entry would be vital for Chinese entry. In October 1999, after Clinton broke the ice by making a phone call to Jiang Zemin, Premier Zhu Rongji met with U.S. Treasury Secretary Lawrence Summers in Lanzhou (蘭州) to try to narrow bilateral differences over the terms of accession.<sup>40</sup>

Second, Jiang worked behind the scenes to scale down the SOE reform program spearheaded by Zhu in order to alleviate the potentially disruptive problem of unemployment and to assure ministries and industries of the necessity and benefits of WTO entry.<sup>41</sup> Third, through state-controlled newspapers, Jiang and other trade officials revived efforts to propagandize in favor of WTO entry (an effort that had lost momentum after the embassy bombing) by portraying admission as in keeping with the trend of economic globalization. The government-run newspaper *People's Daily* (人民日報), insisted that, instead of being considered as "conces-

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<sup>39</sup>See note 19 above.

<sup>40</sup>*Denver News*, November 4, 1999, 47A.

<sup>41</sup>*Straits Times*, October 10, 1999, 42-43.



sions," the changes China would undertake to make in order to gain WTO membership were indispensable for "reform and opening up to enter a new stage" and for China "to become an organic part of the world economy."<sup>42</sup>

With his deft political maneuvering, Jiang Zemin was able to quickly restore the political balance, even though Premier Zhu Rongji faced continued difficulties reasserting his authority. Having no way to address the problem of the large and inefficient SOE sector, Jiang was forced to embark on a high-level effort to win over his opponents and reassure the Chinese public that a WTO deal would not require too big a sacrifice.

In part because of the all-out effort of reformers to win WTO entry, conservative leaders within the Chinese leadership seemed outflanked by this point. NPC Standing Committee Chairman Li Peng, the key figure seeking to block China's entry into the organization, continued to oppose the agreement to the last moment. When Jiang reportedly called a formal vote of the Politburo Standing Committee, a rarity in China's political system, six voted in favor and one, Li Peng, voted against the measure.<sup>43</sup> The vote brought to an end six grueling days of negotiation in Beijing, allowing Charlene Barshefsky and Shi Guangsheng to sign the historic agreement.

Thus, even as China's economic policymaking process was becoming increasingly open and porous, the political elite seemed to have retained the ability to swing policy decisively, even in the presence of substantial bureaucratic and societal opposition. True, China's decision-making process in the reform era afforded interested bureaus and ministries the opportunities to voice their policy preferences (as Margaret Pearson described in detail); intervention by leaders at the apex of power—who had both a strong interest in the WTO and the ability to circumvent bureaucratic and societal opposition—was what ultimately broke the logjam, thereby allowing an agreement to come into existence.<sup>44</sup> The above analysis suggests

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<sup>42</sup>*Renmin ribao* (People's Daily), November 17, 1999, in *FBIS-CHI-1999-1117*.

<sup>43</sup>See note 17 above.

<sup>44</sup>As Margaret Pearson has said, "opposition within China was not won over, ... but rather run over" and that "many of expectations as to the process and structure" of decision-making "were in the end thrown aside in favor of elite preference and authority." See Pearson, "The Case of China's Accession to GATT/WTO," 346, 374.

that when elite preferences in an authoritarian state such as China strongly favor international cooperation, not only is cooperation possible, but the resulting terms of the agreement will also most likely favor the partner country.

## **American Politics and China's Entry into the WTO**

### *Initiation and Zhu's Failed April 1999 Visit*

By January 1999, China's position on WTO had changed enough to permit the reopening of bilateral talks. At the same time, the Clinton administration came to see WTO as an instrument with the potential both to influence Chinese policy and to consummate Clinton's record in negotiating trade liberalization agreements. On November 6, 1998, President Clinton reportedly wrote a letter to Jiang Zemin indicating a desire to resolve the WTO issue in early 1999. In early February 1999, Clinton wrote two more letters to Jiang expressing his hope that the two sides could conclude the deal during Premier Zhu Rongji's visit to the United States.<sup>45</sup> Between January and March 1999, senior officials of the two countries held a series of high-level talks that helped to close the gaps on a wide range of issues, raising hopes for a possible agreement during Zhu's scheduled visit to the United States in April.

Amid this atmosphere of heightened hopes, Premier Zhu flew into Washington in search of a bilateral agreement. After landing in the United States, Zhu quickly realized, however, that he had overestimated the willingness of the Americans to reach an agreement. Although talks with Clinton went smoothly and the Chinese side offered sweeping concessions, Clinton eventually adopted the advice coming from his political advisors and backed away from the deal.

One important reason for the Clinton administration's temporization was that Zhu's package had caught the Americans by surprise. The interest groups in favor of the agreement consisted primarily of American exporters

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<sup>45</sup>Ibid.

and investors in China (particularly those in high-tech industries such as aircraft manufacturing, telecommunications, and computers) who did not have time to organize concerted lobbying efforts both in the White House and on Capitol Hill. Thus, political concerns and protectionist sentiments instead came to dominate the administration's calculations. Second, the White House was still undecided on the desirability of an agreement. For one thing, President Clinton was not yet convinced that this was the best deal that the United States could extract from the Chinese, holding out the hope of more Chinese concessions down the road. For another, U.S.-China relations were becoming vulnerable to the rising anti-China mood on Capitol Hill resulting from allegations that China had stolen nuclear secrets from the United States and had made illegal contributions to Democratic political campaigns. Faced with strong opposition from Republicans and from a majority of liberal Democratic lawmakers with close ties to human rights groups and to labor unions, President Clinton decided that it would be politically difficult for him to come up with a coherent political strategy to strike a WTO deal that would be approved by Congress.

Thus, even though a few of Clinton's advisors—including both National Security Advisor Sandy Berger, Secretary of State Madeleine Albright, and USTR Charlene Barshefsky—were advising Clinton to accept the terms Zhu was offering, Clinton instead heeded the advice coming from his other top aides, including Treasury Secretary Robert E. Rubin, White House Chief of Staff John Podesta, National Economic Council Chairman Gene Sperling, and Commerce Secretary William Daley. This latter group of officials, wary of the anti-China mood on Capitol Hill, judged that the moment was inopportune for a China deal because of resistance that would likely come from Congress.<sup>46</sup> Clinton subsequently delayed the decision on a U.S.-China WTO agreement, opting instead to release a summary of Zhu's offer on the Internet in an attempt to gauge both business and congressional reactions.

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<sup>46</sup>Jim Mann, "Clinton Set to Allow China Entry into WTO," *Los Angeles Times*, September 8, 1999, A5; Steven Mufson and Robert Kaiser, "Missed U.S.-China Deal Looms Large," *Washington Post*, November 10, 1999, A1.

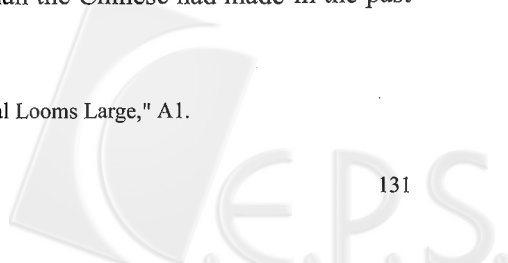
Clinton would come to regret his decision later. Premier Zhu Rongji, who had overcome resistance from the most powerful and entrenched interest groups in China in order to present his offer to the United States, also was deeply disappointed. Despite Zhu's last-minute pitches to both the White House and the business community, the White House remained adamant in its decision. At a meeting with President Clinton, Premier Zhu sought one last opportunity to save the deal. At the time, Clinton reportedly put his arm around Zhu and asked him: "If you really need this now, we can do it. Do you really need it now?" Zhu, dismayed but unwilling to appear to be a supplicant, replied that he did not.<sup>47</sup> Clinton would have second thoughts just a few days later. Under the prodding of the business community, Clinton realized that he had missed a golden opportunity and thus tried to salvage the deal while Zhu was still in the United States. The door was closed, however. Clinton's refusal and the public release of the terms of the agreement immediately provoked a conservative backlash against Zhu at home and substantially reduced the premier's negotiating authority, precluding the possibility of an agreement while Zhu was on his trip. It would take both the American business community and the pro-liberalization leaders within China considerable political skill and capital to bring about an agreement.

*The Rocky Road to an Agreement: The Role of Interest Groups*

In the United States, business interests played a key role in revitalizing the stalled negotiations. Shortly after Zhu's fruitless trip to America, events transpired that halted U.S.-China WTO talks. In particular, the U.S. bombing of the Chinese embassy in Belgrade in May 1999 plunged U.S.-China relations into a deep freeze, precluding the resumption of serious talks on China's WTO entry. Having been informed of the scope of Chinese concessions through the public release provided by the USTR, the U.S. business community—particularly exporters and investors—criticized the shortsightedness of the president and his advisors for turning down a deal containing much more concessions than the Chinese had made in the past

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<sup>47</sup>Mufson and Kaiser, "Missed U.S.-China Deal Looms Large," A1.



thirteen years. The deal, promising a wide range of benefits for American exporters and investors across the board, energized these actors, whose past lobbying efforts had been tepid at best, to launch a more aggressive and coordinated campaign designed to convince the administration and Congress to accept the deal.

As in many past U.S.-China trade conflicts, exporter and investor support for China's WTO bid was balanced by resistance from both protectionist forces and conservative groups in the United States. However, the pattern of business activities over the WTO issue differed from past U.S.-China trade conflicts in two important ways. First, as a trade liberalization agreement, the WTO agreement, if passed, would substantially improve market access for a broad range of American business groups, instead of merely for just a targeted business group. By providing clear and concentrated benefits to exporters across the spectrum, this agreement motivated these groups to conduct a more focused lobbying campaign than they had hitherto undertaken. Second, U.S.-China conflicts in the past were often over pure trade issues where importers and retailers of labor-intensive products in China (such as apparel, footwear, and toys) opposed trade sanctions that would restrict their access to cheap Chinese-made products unless China agreed to market-opening measures. Here, however, the WTO negotiations did not contain measures that would negatively affect the interests of this large import constituency, and thus did not engender their active opposition. Endorsement of the deal by these import interests, a large constituency given the highly complementary nature of U.S.-China trade, further strengthened the hands of exporters vis-à-vis protectionist industries, allowing exporters to exert considerable influence over both the congressional orientation and the administrative negotiation agenda. This facilitated the conclusion of the U.S.-China agreement.

Having the most to gain from China's entry into the WTO were American exporters and investors, including not only those in high-tech industries and the agriculture sector with a traditional interest in exporting to China, but also those in industries with previously limited investment opportunities in China (such as services and information technology). Exporters across the board were enthusiastic about the prospect of gaining a strong foothold in the Chinese market and hopeful that China would be

bound by the formal dispute settlement mechanisms of international institutions.<sup>48</sup> Four business associations representing export-oriented interests—the Emergency Committee for American Trade, the U.S. Chamber of Commerce, the Business Roundtable, and the U.S.-China Business Council—formed an umbrella organization called the Business Coalition for U.S.-China Trade in order to coordinate lobbying efforts for China's accession to the WTO.<sup>49</sup> The Business Coalition spent large sums of money and produced a series of literature to educate both the executive and legislative branches about the substantial benefits that American farmers, manufacturers, and service providers could derive from enhanced market access in China.

Individual companies expecting to benefit from the China deal actively supported the campaign. Traditional supporters of the China trade, including aircraft manufacturers (such as Boeing), telecommunications companies (including Motorola, Lucent Technologies, and AT&T), and various IPR industries contributed to and joined the lobby. This collection of interested parties went to great length to explain the benefits of the China deal to congressional members.<sup>50</sup> Farmers, lured by the prospect of a huge China market that promised to constitute nearly 40 percent of the future growth of U.S. agricultural exports,<sup>51</sup> took pains to launch a grass-roots lobby, brought in assembly-line workers and small subcontractors to make their own visits and phone calls to congressional offices, and argued that China's membership in the WTO and subsequent opening of Chinese markets to foreign products would constitute "the largest market access agreement for American agriculture in history."<sup>52</sup> Groups with an interest in insurance and service industries in China urged the Clinton administra-

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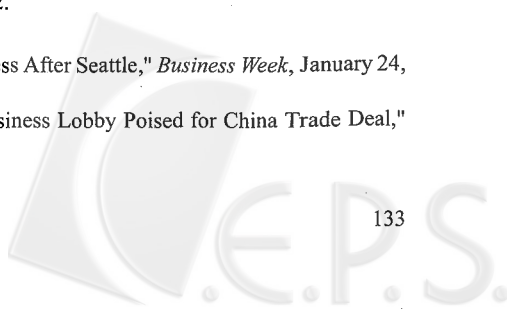
<sup>48</sup>Shawn W. Crispin and Bruce Gilley, "Wide Open," *Far Eastern Economic Review*, April 22, 1999, 64-66.

<sup>49</sup>Bob Davis and Jeffrey Taylor, "China WTO Pact to See Improved Chances in Congress," *Wall Street Journal*, November 16, 1999, A32.

<sup>50</sup>See note 48 above.

<sup>51</sup>Paul Magnusson and Dexter Roberts, "Sleepless After Seattle," *Business Week*, January 24, 2000, 122-28.

<sup>52</sup>Robert Kaiser and Steven Mufson, "U.S. Business Lobby Poised for China Trade Deal," *Washington Post*, November 14, 1999, A1.





tion to complete the deal that would admit China into the WTO. As one example, insurers, represented by the American Insurance Association and the International Insurance Council, wrote a joint letter to USTR Charlene Barshefsky expressing strong support for the April agreement.<sup>53</sup>

Of course, the WTO deal had opponents as well. Critics of China's membership in the WTO formed a coalition consisting of trade unions and industries concerned about the competition that low-wage Chinese products posed for American workers on the one hand, and conservatives and human rights advocates who argued that China's domestic policies and practices did not justify its membership in the world trade body on the other.

Import-competing industries, especially textile manufacturers, were outspoken opponents of the WTO deal. China is the world's largest producer of apparel and has the world's largest capacity for textile production. Therefore, the substantial reduction in America's textile quotas against Chinese imports that could be expected as a result of China's WTO membership would pose a significant threat to the textile industry in general and, as the textile unions joined in pointing out, specifically to jobs in the textile industry. Thus, prior to the signing of the WTO agreement in November, the American Textile Manufacturers Institute (ATMI) released a report laying out the cost of the WTO deal for the textile industry.<sup>54</sup> The ATMI lobbied lawmakers from textile-producing states in the South to prevent the deal from gaining passage in Congress. Likewise, the steel industry—another industry that faced decline at home and could be hurt by greater competition induced by China's WTO entry—argued against China's entry into the world trade body.<sup>55</sup>

This protectionist trade lobby, with close ties to organizations such as the AFL-CIO and pro-union lawmakers who had opposed the North

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<sup>53</sup>Steven Brostoff, "U.S. Insurers Push Clinton to Get China Into WTO," *National Underwriter* 103, no. 38 (September 20, 1999).

<sup>54</sup>According to the report, the deal would cost American textile and apparel industries up to US\$12 billion and could result in as many as 154,500 job losses. See Kit Marlow, "China Undeserving of Favorable Concessions, Says U.S. Textile Group," China Online at <<http://www.chinaonline.com/issues/wto/currentnews/secure/c9111632.asp>>.

<sup>55</sup>See note 48 above.

American Free Trade Agreement (NAFTA) in 1993, was determined to prevent the passage of the agreement, issuing a statement calling the deal a "grave mistake."<sup>56</sup> The lobby justified its complaints on the grounds that the United States lacked a transparent and reliable mechanism to ensure that China abided by its promises, further arguing that bringing China into the WTO would complicate the effort to get labor and environmental standards incorporated into global trade rules. Organizations such as the AFL-CIO went so far as to consider the fight over China's trade status as a proxy for their concerns about globalization in general.

If timorous lobbying by export-oriented business interests had contributed to Congress' failure to sign onto the China deal in the past, the better-organized lobbying effort by exporters this time around had a noticeable impact on the attitudes of lawmakers. The active support of this lobby helped overcome both legislator wariness toward China and concern over the possible job losses in the United States that might result from Chinese membership. Senate Majority Leader Trent Lott and Senate Agriculture Committee Chairman Richard Lugar, both of whom had been critical of efforts to bring China into the WTO in the past, now voiced their support for the WTO deal.<sup>57</sup> The sea change in attitude among a majority of lawmakers that resulted from highly active business lobby created a favorable political environment conducive to the conclusion of trade agreements.

Amid such strong support and intense lobbying by U.S. business interests, the Clinton administration reoriented its negotiation strategies and made the resumption of talks with the Chinese a top priority. In June 1999, bilateral negotiations reopened but did not produce a breakthrough, as China remained unconvinced of the U.S. explanation that the bombing of the Chinese embassy was an accident. In September, Jiang Zemin and Clinton held a summit meeting during the APEC annual conference. The meeting reversed the downward trend in U.S.-China relations by allowing the two sides to avail of the opportunity of China's WTO accession as a

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<sup>56</sup>Edwin Chen, "Entry Likely to Be an Issue in U.S. Elections Next Year," *Los Angeles Times*, November 16, 1999, A10.

<sup>57</sup>*Business Times*, June 18, 1999, 6.



means of repairing the damaged U.S.-China relationship. By early November, Clinton and Jiang had switched their roles in WTO talks. Now Clinton was the supplicant desperately in need of an agreement to appease the business community. After speaking by phone with Jiang, Clinton sent USTR Charlene Barshefsky and the head of the National Economic Council Gene Sperling to Beijing to wrap up a deal before the upcoming round of WTO talks at the end of the year. A flurry of actions on the part of American negotiators eventually brought the Chinese back to the negotiation table, enabling a resuscitation of the deal that was reached seven months earlier. The eagerness of doves in both countries to clinch a deal and their ability to outmaneuver actors with more hawkish preferences eventually helped to bring about the conclusion of the bilateral agreement on November 15, 1999.

### *Business, Congress, and the PNTR Vote*

In order to validate the deal that was struck, Congress had to approve China's PNTR. As mentioned earlier, a negative vote in Congress would have had no impact on China's entry into the WTO, but would have meant that U.S. companies would not be able to enjoy some of the most important commitments that China had made in order to become a member of the WTO. The vote on Capitol Hill was thus crucial for American business to reap the full benefits of China's WTO accession.

The pattern of interest group lobbying for the congressional PNTR vote was broadly similar to that leading to the WTO agreement at the end of 1999. To ensure a positive vote in Congress, export-oriented interests quickly mobilized a vast national campaign to persuade Congress to enact the necessary legislation. A few organizations—including the Business Roundtable, the U.S. Chamber of Commerce, and the Emergency Committee for American Trade—again spearheaded the campaign. As the deal was seen as overwhelmingly advantageous to the United States, farm groups and executives from such companies as Boeing, General Electric, Motorola, and Kodak joined the fray and pressed hard, indeed desperately, for congressional approval. This approval, they argued, was necessary for American companies to fully capture the benefits that would come with China's entry into the WTO. As traditional supporters of the China trade,

these groups contended that a positive vote would help to considerably expand one of their largest export markets. Insurance providers, the information technology sector, and companies with investment in China such as General Motors favored a positive vote on PNTR for China.

American importers and retailers of Chinese products, who had in the past successfully blocked attempts by the administration to cut imports from China in punishment for the PRC's restrictive domestic practices, simply had no reason to oppose the WTO deal that did not affect Chinese exports to the United States in any way. American importers of textile and apparel, represented by the U.S. Association of Importers of Textiles and Apparel, welcomed the agreement which, among other things, promised the elimination of textile and apparel quotas by the year 2005.<sup>58</sup> Importers and retailers have remained remarkably reticent in the fight, broadly endorsing exporter interests in free trade.

Opposition to PNTR for China came primarily from labor, environmental, anti-free trade, and some human rights groups on the progressive side, and from socially conservative and anticommunist groups on the right.<sup>59</sup> Labor was one of the groups with an economic interest in the China vote. Industries competing with inexpensive Chinese imports were primarily concerned about the loss in production and jobs that could result from the surge of cheap Chinese imports and, as a result, urged Congress to block the PNTR vote. In testimony before Congress, the American Textile Manufacturers Institute argued that Congress ought to send the proposal back to the administration to be negotiated on terms "more equitable to U.S. firms and workers."<sup>60</sup> Together with its strongest supporter, the AFL-CIO, the textile industry launched a campaign to defeat the initiative that, in their view, gave Chinese exporters "preferential treatment" to enter the U.S. market.<sup>61</sup>

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<sup>58</sup>John McCurry, "U.S., China Agree on WTO," *Textile World*, December 1999, 17.

<sup>59</sup>Tom Barry, "WTO in Focus," *Foreign Policy in Focus: Internet Gateway to Global Affairs*, 2000.

<sup>60</sup>John McCurry, "Congress Urged to Block China from WTO," *Textile World*, March 2000, 18.

<sup>61</sup>"United States: Prepare for Fireworks," *The Economist*, January 22, 2000, 31.

Efforts by the anti-PNTR deal culminated in April 2000 when over fifteen thousand protestors staged a protest on Capitol Hill in the hope of influencing undecided legislators during the upcoming congressional vote on China's PNTR status. The protests were spearheaded by the AFL-CIO and by a coalition called the Mobilization for Global Justice composed of many of the same groups that had disrupted the WTO meetings in December 1999.<sup>62</sup> The protestors hoped to use the opportunity to draw attention to what they see as the negative effects of global trade, including human rights violations, lower standards of labor and of working conditions, and threats to the environment. They also hoped to mobilize sympathetic Democratic legislators to block the measure in the House.

Exporters and investors apparently gained the upper hand over protectionist interests in influencing the White House and congressional strategy over Chinese entry into the WTO. Under intense pressure from business, the White House changed its stance from lukewarm to all-out support for China's entry into the WTO and adopted a two-pronged strategy designed to ensure congressional approval. First, Clinton and his aides undertook an all-out, "campaign-style" effort to convince congressmen of the importance of reaping the full benefits of China's accession into the WTO, availing of occasions such as his state-of-the-union message to highlight the importance of the China deal.<sup>63</sup> Second, the administration sought to address China's human rights abuses by other means to prevent the bundling of trade and human rights issues.

Aggressive lobbying by exporters and the White House paid off. The lobbying helped to convince a large number of congressional Democrats—especially those who were critical either of Beijing's human rights record or of China's rising trade surpluses with the United States—that the deal represented a win-win situation for both the United States and China. During the final vote on China's PNTR, Congress came out in favor of China's entry into the organization, thus ensuring that the business community would be able to enjoy the full benefits of China's entry into the WTO.

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<sup>62</sup>William J. McMahon, "China Trade Protests Heat Up Capitol Hill," China Online, April 12, 2000.

<sup>63</sup>See note 51 above.



## **Conclusion**

The negotiation over China's entry into the WTO offers a case study of the conditions under which countries willingly enter into cooperative agreement. Two arguments have been emphasized throughout this analysis: first, increasing international interdependence ought to produce leaders more inclined toward coordinated international action; second, conflicts between political elites, rather than those between the executive and legislative branches that characterize democratic societies, broadly shape patterns of negotiations in China. In contrast with other studies of international cooperation that focus on the role of formal political institutions and ratification procedures, this research has emphasized the role of political elites in framing negotiation objectives. Consistent with the cooperation literature, however, this paper underscores the importance of the conflict between hawkish and dovish leaders in shaping policy output, showing that cooperation is possible when the dove is able to control the negotiation agenda.

In terms of domestic politics in China, the ability of the leadership to initiate and push through negotiations proved particularly important. Their desire to forge an agreement can in turn be explained by China's increasing integration into the international economy and by the opportunity that further integration provides for China's domestic economic reform agenda.

As some previous studies have pointed out, the Chinese leadership delayed the most crucial yet potentially disruptive part of their hitherto successful reform program—the restructuring of the inefficient, but politically powerful state-owned sector. The reformist leadership realized, however, that in order to promote sustained, long-term development, creating a competitive environment and subjecting SOEs to market forces would be necessary as well. The slowdown in exports and foreign direct investment in the aftermath of the Asian financial crisis further convinced Chinese leaders of the necessity of using the forces of international integration to address the most difficult problems at home. Thus, Premier Zhu Rongji, who had initially attached little importance to China's participation in multilateral economic institutions such as the WTO, soon became favorably disposed to this participation. Together with Jiang Zemin, Zhu played an

important role in resuming serious WTO negotiations starting in late 1998. In doing so, Zhu and Jiang by and large excluded the bureaucracy and most important interest groups from the negotiation process, thus minimizing domestic opposition. Following his failed visit to the United States in April 1999, Zhu, with the adroit maneuvering of Jiang, was able to quickly restore his power and to revitalize the talks that had been stalled by downturns in bilateral relations and by opposition at home. Without a leadership committed to participation in the world economy, Beijing would most likely not have been as forthcoming to American demands as they had been during the talks. The fact that Beijing twice offered to make sweeping market-opening policy changes in 1999 reflected the centrality that the reformist leadership attached to WTO entry for China's sustained economic growth and vitality. In contrast to democratic societies where interest group activities by and large frame the choices available to negotiators, the political elite in an authoritarian state such as China could nevertheless draw on their political skill and capital to circumscribe domestic opposition, thereby bringing about an eventual agreement.

In the United States, the agreement united major domestic actors. Once the scope of Chinese concessions had become public, exporters across the board organized a high-profile campaign supporting China's entry into the WTO. In contrast to patterns of interest group involvement that had characterized U.S.-China trade conflicts in the past, import industries, a large constituency that had become dependent on Chinese labor-intensive products made in China, did not actively involve themselves in the processes. They now had nothing to lose from an agreement. The main opponents of China's WTO entry consisted of import-competing industries such as textile manufacturers (which were in decline domestically), human rights groups concerned about political developments in China, and groups opposed to globalization in general. This anti-WTO coalition did not match the pro-WTO coalition, whose internationally-oriented interests coincided with the executive's focus on trade liberalization. American exporters, lured by the prospect of substantially improved market access in China, added considerable momentum to their timorous lobbying in the past, successfully driving home the point that the agreement was a deal that the United States could not afford to lose.



The fact that dovish actors in both countries held greater internal decision-making power further marginalized the influence of hawks opposed to an agreement. In the United States, congressional ratification was not necessary for China's accession into the WTO but was required for American business to be able to enjoy the full benefits of China's WTO entry. Thus, the power of the hawkish Congress to block the agreement was further reduced. In China, the dovish, reform-minded leaders within the Chinese government were able to outmaneuver the more inward-looking and conservative leadership, thus taking full control of the negotiation agenda and facilitating the conclusion of agreement despite domestic opposition.

In short, U.S.-China negotiations over WTO suggest that domestic politics may not get in the way of international cooperation at all times. Instead, international cooperation is particularly likely if dovish leaders and groups within both polities perceive concentrated benefits from cooperation and if their policy preferences can prevail over those of the hawks. The evidence presented above by no means constitutes a test of this argument, but ought to shed some light on the domestic conditions that facilitate international cooperation.

The argument about the conditions under which leaders may be willing to initiate international cooperation may help us understand the emergence of such regional trade agreements as the NAFTA or the APEC. The above analysis also may provide us with some clue as to what might happen with Russia's efforts to seek accession into the WTO, directing us to examine more closely the policy preferences of the elite in that country in the accession negotiations. If China's story is any guide, as Russia's market economic reforms began to create stronger ties between the the Russian economy and the rest of the world, we will likely witness changes in the policy preferences of the Russian elite in favor of international integration. Even though such an attempt may at times encounter strong resistance from entrenched domestic interests, the force of the international market may nevertheless produce political leaders who are determined enough to overcome such resistance in order to gain entry into the world trade body.

