The Case of China’s Accession to GATT/WTO

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Introduction

China’s accession into the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO) was arguably the most important and comprehensive foreign economic decision Beijing has made in its reform era. China’s WTO membership signifies China’s full integration into the global economy from a previously isolated and planned economy. The extended negotiation process reflected the difficulties of achieving this transition in China, economically as well as politically. Therefore, a close examination of China’s GATT/WTO decision-making sheds light on the study of China’s current foreign economic policy making. The findings from this chapter show that coordination of ministerial interests plays an important part in the restructuring of Beijing’s foreign economic decision making process. The close linkage and interplay of bureaucratic politics and foreign policy illustrates that the negotiation process was deeply influenced by Beijing’s domestic politics.

This analysis identifies changes in the process of foreign economic policy-making over the course of economic reforms while recognizing areas of consistency with past practices. Specifically it identifies three levels within the decision-making hierarchy as primary factors in explaining China’s decision-making on its GATT/WTO membership. First, vested ministerial interest has been shadowing over the negotiation process, particularly in the 1990s. Second, the evolving patterns of supraministerial policy coordination had a direct effect on China’s negotiation position. Third, paramount leaders continued to play a decisive role in establishing grand strategy and making strategic
decisions. That explains their personal involvement into the negotiation whenever necessary. Together, the analysis illustrates the dynamics of China’s foreign trade policy making.

A case study of China’s GATT/WTO accession negotiation contributes to the overall objective of this volume in several ways. First, it centers on Chinese government’s new policy priority---economic development. Second, China’s GATT/WTO accession negotiation took the longest time on record: while the average length of GATT/WTO accession negotiation is less than two years, China’s accession negotiation took 15 years. The negotiation spanned both the Cold War and the post-Cold War period. Domestically it covered the most period of China’s economic reform and political transition since 1978. With the efforts to join this most important international economic organization, China’s GATT/WTO decision-making mirrored the transformation of China’s foreign trade policymaking process. Third, due to the complex nature of this negotiation, it touched many of the most important and sensitive aspects of Chinese foreign policy goals, including Sino-American relations, Taiwan issue, China’s grand strategy on economic development, etc. In this sense, the case of China’s GATT/WTO accession negotiation goes beyond the trade arena and signifies the broad picture of China’s foreign policy-making.

This chapter considers not only the preferences and choices of Chinese domestic actors, but also the underlying policy process that leads to those choices. It explores the
following theoretical and practical questions: to what degree does the above
generalization about the role of ministerial interests, supraministerial coordination, and
that of paramount leaders applies to the arena of foreign trade policymaking? If the new
changes (i.e. bureaucratic proliferation) and legacies from the past (i.e. central elite has
the absolute power over grand strategy decision) coexist now, then under what
circumstances the central leaders will override the bureaucratic politics and play an
arbitrary role? What are the organizational structure and administrative process for the
interplay between the elite (i.e. central leaders) and subelite (i.e. ministerial level
government officials)? How does bureaucratic structure influence policy making
behaviors? Why do some domestic ministries carry more weight than others in the
making of foreign trade policies?

Literature Review

In the last two decades, the domestic context of Chinese foreign policy has attracted
increasing scholarly interest. We are clearly faced with a system in transition. Compared
to the autarchic nature of policymaking during the Mao era, China’s foreign
policymaking process has gone through dramatic changes driven by four general trends:
professionalization, decentralization, pluralization and globalization. Accordingly,
paramount leaders have become more constrained and have had to consult more broadly
with other domestic actors. As many China specialists already pointed out, the decision-
making process in China was based on extensive consultation and bargaining. It is
widely accepted that during 1980s and 1990s, whereas senior political elite continues to play the decisive role in establishing broad national strategy which demonstrably affects the fundamental interest of the regime, the process of noncrisis, recurrent decisionmaking is more bureaucratic in character and oftentimes involves a broad range of domestic actors.⁴

A rich literature has developed that addresses all aspects of Chinese foreign policymaking. Some influential contributions in the 1980s focus on the configurations of the domestic institutions involved in China’s foreign policymaking process after the country’s thirty-year self-isolation.⁵ Traditionally scholars of Chinese foreign policymaking were more interested in understanding China’s military and security policymaking, China’s arms sale activities,⁶ or the formulation of its Taiwan policy⁷. Starting in the 1990s, the new foreign policy dynamics involving China’s participation in global economic affairs and international organizations has been highlighted.⁸ These works provide us with a useful theoretical framework for understanding the general domestic context of China’s foreign economic policymaking. However, they inadequately analyzed the interministerial and suprministerial levels of decision-making in China, which have undergone significant transformation and become increasingly important in recent years. The objective of this paper is to identify and highlight the vital role played by ministerial level actors in foreign economic decision-making.
Brief Review of Fifteen-Year Negotiation

China’s GATT/WTO accession process has been extremely dynamic and complex, affected by political and economic factors at both the international and domestic levels. To serve the purpose of this book, this chapter will only focus on the dynamics of the domestic level.

China formally applied to rejoin the GATT on July 10th, 1986. The Chinese Ambassador to Geneva Qian Jiadong submitted an application to GATT to resume China’s contracting membership on the Chinese government’s behalf. The initial stage of China’s GATT accession negotiation ran smoothly but was paralyzed by the Tiananmen Square Incident in June 1989. The core negotiation was not resumed until late 1992. But soon the negotiation encountered bottleneck and China missed its self-determined deadline at the end of 1994 and consequently failed to become the founding member of the WTO. The negotiation did not regain its momentum until 1997-8. The bilateral agreement reached between the U.S. and China in November 1999 cleared the biggest obstacle for China to join the WTO. China formally became a member of the WTO in 2001.

For the purpose of explaining the negotiation process, this chapter divides China’s GATT/WTO accession negotiation into three stages: 1986-1989; 1990-1994; 1995-2001. As a
planned economy at that time, China’s initial position was aggressive. China insisted on accession through the normal means of tariff reduction instead of import quotas, which was designed for non-market economies. To begin the process, China submitted a 300-page memorandum on its foreign trade system in February 1987. Then the China Working Party was set up in May 1987 by the GATT Council to examine China’s trade regime. The first session of China Working Party was held in February 1988. Three more sessions were held that year and another two in the first half of 1989. The Working Party launched an investigation into the content of China’s trade regulations, tariff, and non-tariff trade barriers and the way China set prices for export goods under the broad context of the so-called ‘planned commodity economy with China’s characteristics.” During this period China was asked to respond to more than 3,000 inquiries from the GATT contracting parties. After April 1989, the focus of the working party was shifted to protocol drafting. On purely technical criteria, the final protocol on accession could be drafted and endorsed within a year. Undoubtedly Washington’s full support, including drafting China’s accession protocol before the multilateral meeting was held, sped up the negotiation process. It was widely accepted by GATT contracting members that China would receive its membership in the near future.

China’s GATT accession negotiation went into deadlock in June 1989 immediately after the Tiananmen Square Incident. As an important part of economic sanctions, the United States (U.S.), European Union (EU) and Japan suspended bilateral GATT negotiations with China. After the negotiation was finally resumed in October 1992, China noticeably
accelerated the pace of its accession negotiation. Beijing made the commitment to reduce tariffs of agricultural products in line with the negotiating text of the Uruguay Round of global trade liberalization talks. Also, China promised to remove the current dual-track exchange rate system and make it a unified one. However, the U.S.-China bilateral talk faced new difficulties. With the conclusion of the Uruguay Round multilateral negotiation around the corner, the U.S. suddenly raised the bar of entry by bringing to the table a number of new issues on the market access for the U.S. service sectors, including banking, insurance and telecommunication. China was not prepared for these new demands by Washington because they were not included within the GATT framework. Facing mounting pressure from both affected domestic ministries and key GATT members, the central leaders in Beijing was still determined to conclude the negotiation by the end of 1994 in order to be eligible to become a founding member of the WTO, which would replace the GATT on January 1, 1995. For this reason, in 1994 Beijing made concessions on a broad range of protocol issues and industrial sectors. In January Beijing abandoned the import permit and quota management for 283 products, removed 253 regulations published by MOFTEC, and cleaned up 93 foreign trade management regulations. In February, Beijing promulgated the *Measures on Export Goods Quota Bidding* and the *Decisions Regarding the Further Deepening of Foreign Economic and Trade System Reform*. In May Beijing released its first “Foreign Trade Law,” which demonstrated China’s determination to legalize and increase the transparency of its trade management system. In June, Beijing removed non-tariff measures over 208 products. In August, Beijing submitted a new package of tariff reduction plan, committing to
reduce tariffs on all agricultural and industrial products and to remove 90% of the total non-tariff measures. However, the U.S.-China bilateral talks were not going as well as China expected. The strained bilateral political relations were further worsened by the climbing U.S. trade deficit with China. Lacking any political and economic incentive to provide China an ‘easy pass’, the U.S. began to ask for more rigorous terms for China’s entry, insisting that China enter the WTO as a developed country and developing special safeguard protection against the potential market disruption caused by the surge of China’s exports. In addition, the U.S. sought to prevent China from invoking relevant provisions of the Uruguay Round Agreement on Agriculture, compel Beijing to sign the otherwise optional Agreement on Government Procurement and Agreement on Civil Aircraft, pressure China to implement the Trade Related Intellectual Property Agreement (TRIPS) within one year instead of the five years grace period allowed for the developing countries, accept immediately the agreement on investment measures with no phase-in time, apply national treatment unconditionally in the trade in services, creat a special trade dispute mechanism, purely for China, outside the Dispute Settlement Mechanism which will be established in the WTO, and press China to abolish price controls across the board. The Beijing delegation spent 50 days in November and December 1994 in Geneva to conduct negotiation but their efforts were abortive.

China’s failure to be admitted to the GATT in 1994 resulted in another serious negotiation stalemate, which was not broken until 1997. Since then Beijing resumed its active pursuit of its WTO membership. At the second session of the China WTO Working Party
in 1996, China offered to reduce its average tariff level to 15% by 2000 from the previous offer of 17% three years after joining the WTO. At the third session of China WTO Working Party held in March 1997, China announced to abide by TRIPS and grant trading rights to foreign companies. Beijing pledged to sign the WTO’s IPR agreement and provide trading rights to all foreign companies. In October Beijing announced its decision to join the International Telecommunication Accord (ITA), which was optional for WTO members at that time. Besides a new package on market access China submitted another list of tariff reduction on nearly 6,000 products. At the following fourth session of the China working party held in May 1997, China agreed on the principles of judicial review and nondiscrimination. In October 1997 China agreed to abolish agricultural export subsidies. Beijing circulated its long-awaited offer for access of its services sectors in December 1997. In March 1998, China submitted another package of tariff reduction, which included the details on tariff reduction on 5,600 industrial goods on a line-by-line basis that reduced the average tariff level form 15% to 10.8% by 2005. At this point, most WTO agreements-related issues had been resolved and only a handful of most contentious issues were left for the bilateral negotiation between China and its negotiating counterparts, mainly the U.S. and the EU.

As such, China had finished the bulk of the negotiation and was waiting for a good timing to launch its final push for the membership. In November 1998 and February 1999, Clinton wrote two letters to the paramount leader of China, President Jiang Zemin, and expressed his confidence to sign the bilateral agreement during Premier’s visit to the
U.S. in April 1999. Zhu arrived in Washington with a comprehensive package of offers that contained the biggest concessions China had ever made on almost all the contentious issues that lingered for years between the two sides. At the last minute Clinton hesitated and missed this opportunity to wrap up the agreement. The bilateral negotiation continued and finally the bilateral agreement between the U.S. and China was signed in November 1999. The EU and China reached bilateral agreement in May 2000. China formally joined the WTO on December 10, 2001.

**Domestic Political Actors’ Preferences**

The first stage of China’s GATT/WTO negotiation took place during the Cold War period and the second and the third stages took place in the post-Cold War period. If systemic factors were decisive in explaining the smooth nature of China's first stage negotiation, then we need to turn to domestic factors to understand the variation in the negotiation outcome in the second and the third phases. Why did China’s GATT/WTO negotiation fail in 1994 but succeed in 2001? Or why did both China and the West agree to make serious concessions in the late 1990s? Specific to China, did the preferences of domestic actors change over time? To answer these questions, it is important to understand the evolution of domestic actors’ preferences within the context of domestic institutional change.
Which domestic actors were involved in China’s GATT/WTO decision-making? Before we get to this question, it is useful to briefly review the administrative structure of Chinese government. At the apex of the governing regime of the PRC is the Political Bureau (Politburo) of the Chinese Communist Party.

There are two organizational lines. One is the horizontal one operating within the central government: Politburo--- State Council --- leading Small Group (LSG) --- Ministries and Bureaus; the other one is the vertical line representing center-local relations: Center (Beijing) --- Province — prefecture --- county --- township. Once strategic decisions were made by the Standing Committee of the Politburo (the core or elite), the center relies on the relevant ministries and bureaus (subelite) to carry out the policy. In the meantime, decisions made by the elite also rely on the information, analysis and policy suggestions made by the relevant ministries and bureaus. Members of the State Council include the Premier, a variable number of vice premiers (now four), five state councilors (protocol equal of vice premiers but with narrower portfolios), and twenty-nine ministers and heads of State Council commissions. LSGs have become the organ for coordinating the work of several agencies as well as insuring party supervision over government activities. The organizational structure for China’s GATT/WTO decision-making is a miniature of bureaucratic politics for decision-making in China.

Ministerial Preferences and Interests
Identified as a “crucial foreign policy” issue area in the mid-1980s\textsuperscript{17}, China’s GATT application was initially led by the Ministry of Foreign Affairs (MFA). The Ministry of Foreign Economic Relations and Trade (MOFERT) and the Customs General Administration took the complementary and secondary role. As mentioned above, this stage of China’s negotiation was focused on the examination of China’s trade regime reform and tariff reduction package. MOFERT was responsible for preparing answers for the hundreds of questions raised by the China Working Party regarding China’s trade regime. Internationally, the Uruguay Round multilateral negotiation just began and China’s accession obligation was limited to tariff and non-tariff reduction for industrial goods. China still claimed itself to be a “planned commodity economy” at that time and did not intend to move toward a “market economy”. Since many GATT contracting parties believed that the conventional obligations of GATT membership, such as reducing tariffs and eliminating non-tariff barriers to imports, did not have much relevance to a planned economy whose import levels and import prices were determined by state directives,\textsuperscript{18} the tariff reduction package prepared by China’s Customs General Administration was not the focal point of the negotiation. In sum, the involvement of these two domestic agencies was limited to the level of technical support. They had little authority in the negotiations. Under the old regime of planned economy, the fundamental functions and economic interests of the Customs and the MOFERT remained untouched. Therefore, there was no clash of interests or conflict of preferences between them.
However, during the second stage, the international environment of China’s GATT accession negotiation changed and was no longer in favor of Beijing. After the end of the Cold War and the collapse of the Soviet bloc, China became the last major socialist country which was still controlled by a Communist Party. With the conclusion of the Uruguay Round negotiation, beginning in 1994, China made great effort to speed up the pace of its GATT negotiation. Domestically, more ministerial-level actors joined China’s GATT accession decision-making process in this phase, including the Ministry of Finance, the Ministry of Machine Building Industry, People’s Bank of China, the Ministry of Posts and Telecommunications, and the Ministry of Textile Industry, etc.

During the second stage of negotiation, vested ministerial interest in China began to play a key role in influencing the bargaining process. The head of the China delegation in Geneva Gu Yongjiang recalled, “at the end of 1994, negotiation in Geneva was tough. However, I faced more internal pressures. One influential newspaper in Beijing had a series on how our delegation betrayed China’s national interests. It was extremely difficult because I was the head of the delegation and I was responsible for the negotiation outcome.” Ministerial interests represented interests gained by the ministries through the legacy of China’s forty-year planned economy that would inevitably be weakened in the economic liberalization process, most notably shown in two aspects — economic interest and administrative authority. Economic interest mainly refers to the revenues gained from the affiliated enterprises or networking firms. For example, the Ministry of Posts and Telecommunications was the regulator and the owner
of the national monopoly China Telecom Company at the same time. Another example is that every industrial ministry had its own state trading enterprises (STE) which monopolized the import of goods. For example, the Ministry of Chemical Industry owned China Chemical Imports and Exports General Company (CCIEGC) and its numerous local subsidiaries. Administrative authority refers to the administrative power attached to some existing function, e.g., the power to issue trading rights licenses, to approve foreign investment over certain limits, and to set import quotas. In light of the economic benefits and administrative authorities these ministries had enjoyed under planned economy, it was not surprising that many of them were inclined to resist trade liberalization.

That narrow economic and administrative interests of the ministries dictate their positions on China’s GATT decision-making seem to apply to the GATT negotiations in the 1990s. Some scholars emphasize the new change toward professionalism and in particular, the role played by subelite who either have a foreign degree or have working experience in foreign countries or international organizations to sponsor economic trade liberalization in China. It is true that the increasing professionalism of the subelite helps the central leaders to make more informed decisions. However, having foreign background did not certify that they are pro-liberal and would support China’s GATT/WTO membership. Within the context of China’s bureaucratic politics, it appears that ministerial interests largely override this distinction. The extensive interviews with technocrats at various ministries and agencies demonstrate that many of them are strong advocates of
Protectionist policies. MOFTEC (former MOFERT and now Ministry of Commerce) attracted into its ranks had experience abroad and MOFTEC officials have earned the image of the strongest advocates within the government for China’s adoption of international practice. However, different departments within the MOFTEC even held conflicting views toward the bold offers for broad trade liberalization. For example, when Beijing finally decided to grant trading right to all foreign firms and individuals, the Department in charge of issuing trading licenses to the state-owned enterprises strongly opposed this concession.

Protectionist interests ranged across a broad spectrum of Chinese industry, from old, established industries such as machinery and agriculture to growing industries such as automobiles, telecommunications and chemicals and infant industries such as financial services, insurance, retailing, and information. However, different ministries did not enjoy equal power and influence within the central government. Therefore, the degree of protection accorded to each ministry was correlated with the importance of that ministry as perceived by the central government. Generally speaking, growing industries and infant industries bore more strategic importance to China’s economic supremacy and as a result, their protectionist interests were better voiced to the central leaders than those of the old and established industries. For this reason, it was not surprising that Beijing promulgated industrial policies for auto industry in June 1994, when its GATT accession negotiation in Geneva was most intense and the major GATT contracting parties pressed
hard to make China’s domestic industrial market more accessible for foreign competition, particularly in the auto sector.

The level of ministerial involvement and resistance grew hand in hand with the evolution of the negotiating agenda. When the WTO replaced the GATT in January 1995, WTO members immediately opened up a new round of multilateral negotiation and several important agreements on trade in services had been reached. Therefore what characterizes the final stage of negotiation (1995-2001) is that Beijing had to face a much higher bar of entry. By the end of 1994, Beijing was struggling with liberalization of its trade regime, providing national treatment and trading rights to the foreign firms; lowering or eliminating tariff and non-tariff barriers for industrial products. However, since 1997 the substantial areas of negotiation switched to market access offers for agricultural products and service sectors including banking, insurance, telecommunication, distribution, education and transportation; elimination of export subsidies across board; and implementing intellectual property rights protection, etc. For example, in 1994 Beijing refused to make any offer on telecommunication sector since the GATT only covered agreements on trade in goods. With the conclusion of the Uruguay round and continuous multilateral negotiation, several important services agreements inevitably were added to China’s WTO accession negotiation agenda, such as the Information Trade Agreement (ITA) reached in December 1996. As a result of this emphasis on trade in services, accession negotiation began to encounter more difficulties than in the past.
For example, negotiations over market access in telecommunication services became extremely difficult between 1997 and 1999. Telecommunications trade liberalization is inherently difficult both because telecommunication is a distinct sector of economic activity and because it provides a means of supporting other economic activities (such as electronic money transfers). More importantly, it would touch upon Beijing’s deep concern about national security if foreign telecommunications companies were allowed to become basic telecommunication services operator or internet services providers in China. Minister Wu Jichuan of Post and Telecommunications Ministry (MPT) was one of the most active lobbyists for protectionism. Beijing refused to touch the telecommunication sector in 1994. However, when the negotiation resumed in 1996 Beijing had no choice but to offer concessions on market access in service sectors. Due to vehement resistance from MPT and other services ministries including the People’s Bank of China, China Insurance Regulatory Commission, and China Securities Regulatory Commission, Chinese negotiators were unable to bring to the table its services offer as promised in January 1997. Whereas Beijing made progress liberalizing its goods market and trade-related laws and regulations, it could not break the domestic impasse over services issues. Unable to submit the service liberalization package again in the following third and fourth session of the China WTO working party held in March and July respectively, Beijing failed to achieve a major breakthrough as planned during the summit between Chinese president Jiang Zemin and U.S. President Clinton on October 28, 1997. For the same reason, Geneva put off the next round of the China
Working Party slated for early October. Finally, China circulated its long-awaited offer for access of its services sectors in December 1997 which covered almost all services sectors except telecommunications. Even at this point Beijing continued to insist on preventing foreign telecommunication companies from owning or operating networks in the region. Where the U.S.-China bilateral negotiation gained new momentum between April and June before President Clinton made his first official visit to China on June 25, 1998, Beijing’s first offer on basic telecommunication services fell short of the demand of the U.S. and consequently Beijing again missed a good opportunity to wrap up the bilateral agreement. After the direct involvement of the paramount leaders and intensive Politburo meetings, Premier Zhu Rongji brought with him a comprehensive package including basic telecommunication services to Washington in April 1999. Beijing committed to end its ban on foreign direct investment in telecommunications services, phase in 50 percent foreign equity in all services in six years, and allow fifty-one percent foreign ownership for value-added and paging services in four years. While this unexpectedly fantastic offer resulted from the common understanding among the core leaders to wrap up the bilateral agreement with the U.S., it was nevertheless not accepted by the Ministry of Information Industry (MII). As Nicholas Lardy at Brookings Institution observed, “it is no secret that many of the Chinese concessions have been fiercely resisted by vested domestic interests. It will take all of Mr. Zhu's political skills to keep the offer intact.” His worry was soon proved to be correct. Unhappy about the offer of 50 percent
foreign ownership and claiming that the offer “betrayed China’s fundamental national interest,” MII minister Wu Jichuan tendered his resignation even before Zhu went back to Beijing from his U.S.-Canada visit. Facing the humiliation by President Clinton’s refusal and tremendous domestic resistance, Zhu put his political life at stake. When Clinton immediately realized it was a mistake that he walked away from such a lucrative deal and called Zhu to come back to Washington after his following Canada visit, Zhu said “No”. In addition, Zhu stepped back from the offer he made in Washington and claimed that “since the U.S. did not accept the package as a whole, then the individual issue in that package had to be renegotiated one by one.” The most visible withdrawal of concessions was the reduction of the percentage of maximum foreign ownership from 50% to 49%, the latter of which was maintained in the final bilateral agreement between the U.S. and China. At the final days of EU-China bilateral negotiation, the EU demanded 51% foreign ownership for telephone networks. Premier Zhu Ronji frankly told EU Trade Commissioner Mr. Pascal Lamy that “I can’t do that.” In the end, the EU accepted a wide range of compensations from China that included tariff reduction on 150 EU-concerned export goods. This clearly shows how strong the domestic resistance was at the ministerial level toward accession negotiation.

MOFTEC, in particular its GATT/WTO division represented an exception to this ministerial preference to protectionism. The GATT/WTO division under the Department of International Trade and Economic Affairs within MOFTEC was responsible for the daily work on China’s GATT/WTO bid. It was also responsible for conducting both
bilateral trade negotiations with WTO members and multilateral negotiations with China’s GATT/WTO working party in Geneva. While the division received guidelines from MOFTEC, its other duty was to consult China’s negotiation positions with other affected domestic bureaus and industries. The division therefore became the sponsor of many interministerial meetings. MOFTEC (formerly MOFERT and now MOC) have long been seen as the strongest advocate of China’s accession within the Chinese bureaucracy during the 1980s and 1990s. Indeed, through its involvement in bilateral and multilateral negotiations and in the process of handling international trade affairs, some departments and divisions within the MOFERT gradually became the strongest advocates of market economy and globalization. For example, the former chief negotiator and vice minister of MOFTEC Long Yongtu had recently made an argument about China’s auto industry which had invoked extensive discussions on the internet. Specifically, Long stated that “government promotion of an independent national auto industry is unnecessary. China is a winner if it can successfully attract the few big automakers to invest and manufacture parts in China.” As the pro-liberal and pro-globalization unit, WTO division was the constant target for criticism within the Chinese bureaucracy, sometimes within their own ministry, as discussed earlier. In the eyes of other ministries, MOFTEC, and the WTO division in particular, was too pro-Western and was a “traitor of China’s national interest.” Among them, Long Yongtu, as the chief negotiator, was fiercely criticized by representatives from other ministries -- “he considered himself an agent representing the U.S. interest”; “in negotiations he rudely stopped the representative from other ministry and spoke on their behalf”; “he always
revealed China’s bottom line in the first 20 minutes of negotiation and did not have any
negotiating skill”; “he kept revealing our bottom line, so the U.S. kept raising their
demands, and this resulted in negotiation failure”; and “he hinted to the U.S. negotiators
that Premier Zhu recently criticized the Minister of MPI and the Minister of Agriculture,
so that the U.S. knew they could be more demanding on telecommunication and
agriculture”.  Similarly, the WTO division had many complaints about the other
ministries, such as “some representatives from the other ministries brought to the
negotiation table their domestic debate and diffused the priorities,” “they were backseat
drivers,” “their presence was to provide us-- MOFTEC negotiators-- relevant
information, not to express their sentiment and defend their narrow ministerial
interests”.  The above notes quoted from the interviews demonstrate the degree of
preference diversity and hostility between officials from the MOFTEC and some other
ministries on China’s GATT/WTO negotiation.

Facing intensive domestic bargains, the MOFTEC’s role was further weakened by its
limited authority in negotiation. First, it did not have final authority on wrapping up a
negotiation package. The ministry was only responsible for ‘coordinating ministerial
preferences’ and report them to the relevant LSG and State Council. Second, it was not a
negotiating organ of the government. Unlike the USTR in the U.S., the WTO division
was mainly designed as a unit to study and interpret the norms, principles, agreements
and legal issues of the GATT and later the WTO. Whereas officials from the WTO
division served as negotiators in the related GATT/WTO bilateral and multilateral
negotiations, on many occasion representatives from other departments of the MOFTEC and from other ministries and bureaus also participated in the negotiations based on the issues being discussed. For example, when the subject was currency convertibility, the People’s Bank of China would also attend the negotiation. This was also true of the Ministry of Agriculture on market access for agricultural products, the Ministry of Internal Trade for distribution, the MPT for telecommunication, and the Insurance Regulatory Commission for insurance licenses, etc.35 Third, officials at the WTO division did not have enough authority in the negotiations. Negotiators from the MOFTEC were not sanctioned to move beyond the negotiation package they prepared at home. Even the minor changes they had to bring them back home and seek approval.

The WTO division and the MOFTEC asked several times for greater authority over their fellow ministries over negotiation package preparation and more authority and flexibility at the negotiation table. By the end of 1994, Long Yongtu was said to have asked for the authority to negotiate freely with GATT contracting members and report back to the State Council only after the negotiation team has reached a bilateral agreement with any member. But their request was denied and they had to follow exactly the package that was prepared by the affected ministries together and approved by the State Council and the Politburo. When asked about the reasons China had failed to join the GATT at the end of 1994, Long Yongtu recalled in 2001 at the eve of China’s formal admission, “I was trying my best to wrap up a final package. Actually it was not totally impossible to conclude negotiation at that time. Unfortunately we did not win enough support from
other ministries. I failed to make concessions I should have made because I did not have the authority to do so. To a large extent this was why we failed to conclude the negotiation as planned.\textsuperscript{36} During 1998-99 when the negotiation reached the bottleneck, MOFTEC again asked to bypass interministerial coordination and report directly to the State Council. This time MOFTEC was granted the new authority to coordinate and prioritize the concerns raised by other ministries.\textsuperscript{37}

Apparently many ministries had their own preferences and negotiation positions based on their narrow interest consideration. The resistance from some important industrial ministries and the lack of authority of MOFTEC in both domestic coordination and international negotiation together slowed down China’s accession negotiation pace.

**Local Governments’ involvement**

What is the role played by the local governments in China’s GATT/WTO decision-making? Under the general trend of decentralization, provincial and local governments should be more active in decision-making at the center. Or as Pearson puts it, “local governments over time became increasingly active in the negotiations as they grew aware of the potential impact of WTO accession on their economies”.\textsuperscript{38} However, this appears not that obvious in the decision-making process. Instead, more provincial and local actors, at an increasing range of levels in China, have more space in which to affect policy implementation. Provinces sought to achieve their goals by exploiting new
opportunities and maximizing their interests within the broad framework of existing policies of the central government or by taking initiatives to issue their own local policies and maximizing their interests outside the broad framework of existing policies of the central government. The latter has more influence over China’s GATT/WTO negotiations. Policy departure by local governments is a common phenomenon in China. As one popular saying demonstrates, “If the central policy represents a sunny day, at provincial level it turns to cloudy, at the county level it turns to rain and at the town level people are drowning” (Zhongyangzhengcedaqingtian, xiadaodiquqidianyun, chuandaoxianlibianchengyu, luodazhenliyansiren).

Local governments’ move to bypass the existing central policies posed tremendous challenges to China’s WTO negotiators. For instance, one of the substantial issues on the negotiating table was the opening of the retail sector. This issue was charged together by four state council organs: the State Planning Commission, the State Economic and Trade Commission, the Ministry of Internal Trade, and the Ministry of Foreign Trade and Economic Cooperation. Because they only issued permits for 19 domestic companies at that time, Beijing’s offer on this issue was very cautious. Chinese negotiators claimed that Beijing’s economic reform was a gradual one and that they had to open up this sector step by step. What surprised them was that their U.S. counterparts provided them with a long list of 270 Chinese retailing firms approved by the provincial and local governments as evidence that China was ready for an all-out opening of this sector. As one negotiator recalled: “I won’t forget this episode because it really embarrassed us as negotiators. We
tried so hard to bargain with foreign governments and to defend our national interests. However, our local governments boldly bypassed the regulation issued by the charging ministry to pursue narrow local economic interest. They totally disregarded the central government.  

A similar example was paging services. The Ministry of Posts and Telecommunications first insisted that as an infant sector it could not open up to foreign competition and was only operated by the near-monopoly China Telecom. At the negotiation table, American negotiators showed evidence they collected that paging services had already been allowed to operate by private businesses in southern provinces such as Guangdong province. These evidences demonstrate that as a result of decentralization, in particular the national tax division since 1994, local interests and ministerial interests were constantly in conflict and the common practice of the local governments was to issue their own local industrial policies to promote local economic development. They no longer bothered to lobby the central government for “special treatment” or “preferential policy.”

The involvement of provincial level governments in the GATT/WTO decision-making was surprisingly little. Whereas provincial leaders were concerned about the potential impact of China’s entry into the GATT/WTO on their local economy, they had few formal channels to get their voices heard. China is administratively divided into twenty-three provinces, five autonomous regions, four centrally administered municipalities and two
special administrative regions, each of which has a representative office in Beijing. The
main function of these representative offices is to bridge communications between the
central government and provincial level governments. These representative offices were
not aware of the specific commitments negotiators made toward China’s GATT/WTO
membership. Similarly, local organizations and research institutes did numerous analysis
of the potential impact of WTO membership without getting to know much about the
detail of the negotiation process.\textsuperscript{42}

The only exception was Shanghai. Due to its economic importance and close political
connections with the core leaders (both President Jiang Zemin and Premier Zhu Rongji
used to be the mayor of Shanghai), the government of Shanghai shared some authority in
China’s GATT/WTO decision-making. More importantly, the public and private
organizations were very active in studying the norms and legal issues regarding to GATT/
WTO and its impact on Chinese economy. Research institutes such as the Shanghai
Institute of Foreign Trade (now Shanghai University of Foreign Trade) and the WTO
Research Center of Shanghai even prepared briefings for Chinese negotiators before they
left Beijing for Geneva in 1998 and 1999.\textsuperscript{43} A senior international trade specialist at its
WTO center of the University of International Business and Economics also confirmed
the active role played by both the Shanghai government and the official think tanks in
Shanghai.\textsuperscript{44}

\textbf{Central Leaders}
What were the attitude and policy preference of the Chinese leaders toward China’s GATT/WTO accession that would inevitably shape China’s future development and transform China’s economic interactions with the major global economic powers? How did it evolve over the 15-year negotiation period?

Beijing’s decision to reenter the GATT was a voluntary decision based mostly on political consideration. Back in the early- and mid-1980s, China by and large maintained positive political and economic relations with Western countries. Furthermore, international trade did not play a central role in bilateral and multilateral relations. Therefore, China did not face strong international pressure to accede into the GATT. However, Chinese leaders believed that applying for GATT membership was a good posture to show Beijing’s good will to become a “responsible stakeholder” within the international community, a follow-up move after Beijing gained its membership in the United Nations, the World Bank, and the IMF.45 As Swaine correctly points out, within China’s decision-making structure, actors at any level but the highest have very little influence over grand strategy decision.46 From the beginning, the paramount leader, then Secretary General of the communist party Zhao Ziyang played a key role in making this strategic decision. Zhao approved the report sent by MOFERT which suggested that China should start considering its GATT membership.47 On January 10, 1986, Zhao invited Director-General Arthur Dunkel (1980-1993) to visit China and expressed China’s intention to rejoin the GATT.
As international relations theory suggests, foreign policy is constrained by domestic politics and will serve the need of the central leaders’ domestic consideration. After the 1989 Tian’anmen Square Incident, internationally China’s GATT/WTO accession became linked with many sensitive economic and political issues such as Taiwan, human rights, and the U.S. trade deficit with China, etc. Domestically, its decision-making was affected by the overall bureaucratic politics between the conservative and liberal camps, the ebbs and flow of China’s economic reform, and government restructuring, etc. Between 1990 and 1993, the priority of Beijing’s new paramount leader Jiang Zemin was to legitimize his leadership and stabilize domestic politics. Thus China’s GATT accession was not on the top of his agenda. This changed in 1994 when Beijing became determined to gain admission before the WTO superceded the GATT. Besides economic considerations including the lower entry requirements under the GATT framework and the political pride to become a founding membership of the WTO, Beijing also hoped to utilize China’s commitment to trade liberalization to break the economic sanctions and political isolation followed by the Tiananmen Square Incident. However, Beijing’s abortive effort to join the GATT by its internally determined deadline of the end of 1994 created a strong domestic backlash. The pro-liberal leaders became the target of attack by the conservative camp. There was a domestic debate among elites about the pros and cons of China’s WTO membership. Many began to question how much practical benefits this membership would bring to China and some even went as far as to argue that China should try to stay outside this global trade organization as long as possible in order not to
be bound by trade regimes. The guiding principle for China’s accession underwent a subtle change too as the Chinese leadership announced that “China needs the WTO and the WTO needs China as well to be qualified as a ‘world’ trading organization.”

Apparently Beijing was no longer eager to join the WTO after it had missed the 1994 deadline. This policy change suggests that with China’s growing market size and trade volume, Beijing has had enough leverage to wait for the invitation from the WTO. Since 1996 the U.S.-China bilateral political relations improved and several summits were held between the two presidents. With the improvement in U.S.-China relations, China’s WTO accession negotiation regained its momentum. This policy change of renewed interest was well reflected by the change of the general principle summarized by the central leaders to guide Beijing’s negotiation. In early 1999 Jiang Zemin brought up a specific 16-word principle at one of the Central Finance and Economic Leadership Small Group meetings -- have a positive attitude, use flexible methods, be good at negotiating, and don’t be naïve (Taidu Jiji, Fangfa Linghuo, Shanyu Cuoshang, Buke Tianzhen).

Since then, President Jiang and Premier Zhu personally got involved in China’s WTO decision-making. Accession negotiation became the central issue in the Politburo and Central Finance and Economic LSG meetings. Premier Zhu brought with him a package to Washington D.C. DC in April. During the final days of the U.S.-China and EU-China bilateral negotiations, he stepped into the negotiation room, directly talked to the U.S. and EU chief negotiators and made the final concessions on a few most contentious issues so as to bring about the agreements.
Continuing the old practice, preference and sometimes personal involvement of the central leaders were vital for the outcome of international trade negotiations. In the meantime, facing vested ministerial interest, the paramount leaders were forced to consult more broadly. Then under what circumstances will the central leadership override bureaucratic politics and under what circumstances they won’t? The foreign and domestic policy-making processes were intertwined and converging. China’s diplomacy was required to serve the nation’s paramount interest in maintaining a more favorable international environment for its economic development. Unlike the domestic ministries, the Chinese leadership would not only calculate the narrow economic interests of China’s GATT/WTO membership but more importantly, its political implications for China’s integration into the global economy and for Sino-American relations. As a result, state interests would override ministerial interests at key turning points of the negotiation. For example, in 1997 determined to sustain the momentum of improving Sino-American relations, President Jiang announced Beijing’s decision to join the newly created Information Technology Agreement (ITA) under the WTO, an agreement that was not binding to its members and was not a requirement for China’s WTO entry. Chinese leaders’ commitment at the APEC summit to eliminate tariffs for all information technology products by the year 2000 was similarly an unexpected shock back home. Obviously it was not an offer made by general consultation -- few people at the ministerial level knew about this decision, let alone those in the industrial sector.\textsuperscript{51} But it served as a nice surprise for China’s trade partners and effectively helped accelerate the pace of China’s WTO accession negotiation.
Trade has become the center of China’s economic development strategy. Decisions on trade disputes and trade negotiation will continue to be made at the level of central leaders. Similarly, bilateral/multilateral trade will remain the hot topics on many summit between Chinese leaders and its trade partners.

**Interministerial and Suprministerial Coordination**

A member of the Politburo Standing Committee conducts direct sectoral supervision through an institutionalized body such as a committee or a nonstanding organ such as a leading small group (LSG). Among the most important such organs are the CCP Central Military Commission (CMC) for military affairs, the CCP Central Political and Legal Affairs Committee for legal affairs, the Central Financial and Economic Affairs LSG, and the Central Foreign Affairs LSG. This system of sectoral division for management, though as an internal mechanism that does not appear on any formal organizational charts of the party or government, allows the CCP Politburo Standing Committee to exercise centralized control over the policy-making processes. The Central Financial and Economic Affairs LSG has always been the most important organ in economic decision-making. It has become an important locus for making, coordinating, and implementing foreign economic policy, including the responsibility to supervise China’s GATT/WTO decision-making. However, it was the State Council that was charged with the day-to-day policy coordination of ministerial interests.
In 1986, China established a GATT policy coordination body, namely the State Council Interministerial Coordination Group on GATT Negotiations (Guowuyuan GuanShui Ji Maoyi Zong Xieding Tanpan Buji Xietiao Xiaozu). State Councilor Zhang Jingfu was the first director of this group. The Vice directors included the minister of foreign trade, the minister of foreign affairs, and the general director of the China Customs. The job division was clear. MOFERT was responsible for preparing the memorandum on China’s trade regime; the Customs Tariff Commission was charged with preparing a list of tariff reduction. More importantly, at this stage the issues under negotiation were about the limited reform of China’s foreign trade regime to make it more explicable and transparent to foreign countries and generally shied away from fundamental reform of China’s trade regime. The policy coordination was uncomplicated during this period as it was a foreign policy issues prioritized by the paramount leader. In addition, the involvement of only three units had minimal impact on ministerial interests and this helped to smooth the process of harmonization.

In 1988 the GATT policy coordination body was renamed the ‘State Council Committee on Interministerial Coordination on GATT”, with Vice Premier Tian Jiyun as chairman. It also included several vice-chairman-level agencies such as the State Development Planning Commission and the State Economic and Trade Commission. The member agencies of this committee included 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 Imports and Exports of Mechanical and Electronic Products and others. According to its mandate, the mission of this interministerial coordination committee was to coordinate policy on issues related to GATT accession negotiations. However, some negotiators I interviewed, not only those from MOFTEC but also those from other ministries, complained that the committee malfunctioned. The reasons were multiple. First, it was not a standing agency. It only served as a temporary platform for consultation with no permanent staff. Second, all members were vice ministers from different ministries and MOFERT was in an equal position. The meetings turned out to be unproductive since every member spoke for his or her own ministry. Therefore, the pros and cons of an issue were well summarized by the relevant ministry but policy coordination was difficult. Each ministry had its own channel (every vice premier supervise several ministries) to report their views to the politburo members who were supervising that ministry. If there existed too much conflicting interests on one contentious issue, the central leaders would step in and interfere. But that happened rarely. In most cases that issue would be put away for further consensus building and policy coordination at the ministerial level. Each new package of concessions was the result of prolonged discussion and bargaining at the ministerial level and the state Council level before it was submitted for approval at the politburo meetings. In this way, Beijing’s negotiating team lost not only efficiency but also flexibility since with limited authority they could not be responsive to the plan the foreign negotiators suggested if it differed from what they were advised from home.54
The interministerial coordination became more and more difficult as the agriculture and service sectors were added to the negotiation agenda since 1995 and more ministries participated in China’s WTO decision making. The new service sectors included banking, insurance, telecommunication, distribution, education, tourism, film industry, transportation, retailing, and wholesales, etc. The interministerial coordination started to encounter considerable difficulty at this stage. The ministries always bypassed this interministerial process and reported directly to the vice premier/politburo member who directly supervised them. In 1998 the State Council Committee on Interministerial Coordination on WTO was dissolved. A new WTO negotiation LSG was established and State Councilor Wu Yi became the head of this new interministerial coordination agency. The fundamental change was that MOFTEC was granted more authority to coordinate and directly report to the State Council. By this way MOFTEC had more influence relative to other ministries on WTO negotiation issues. As one trade official commented: “after this new arrangement, MOFTEC was in a more advantageous position to coordinate different ministerial interests domestically and negotiate with more flexible strategies externally.”

In the second half of the 1990s, the number of agencies participating in the negotiation process increased, as did the number of domestic constituencies with a perceived stake in decisions. This new development required the central leadership to expend a great amount of energy to reconcile divergent interests and to bring into line (xiетiao) various government organizations. At the same time, as the decision became more complex and
technical, central leaders relied on the respective ministries to receive objective analysis and reliable policy recommendations to evaluate and formulate policy. This was a supraministerial coordination dilemma facing the central leaders in China in the second half of the 1990s.

Organizational proliferation in policymaking increased the difficulty of interagency coordination to a great extent. As a result, consensus-building has become prolonged and, in many cases, futile efforts. In order to change this decision-making dilemma, Premier Zhu Rongji proposed the most ambitious government restructuring in 20 years. This restructuring also played a positive role in boosting China’s WTO accession negotiation by easing the pressure of ministerial interests. In March 1998, the proposal was approved by the Ninth National People’s Congress. The plan was to cut fifteen government ministries and commissions and cut the jobs of up to four million communist bureaucrats. It helped to clear the way for China’s WTO negotiation in the sense that it weakened the authority of some previously powerful agencies that were left from the planned economy or downgraded some ministries into bureaus. For example, the State Planning Commission, which once controlled the overall economic planning of the country, was expected to lose most of its power. In the new government structure, the State Planning Commission’s 1,200 member staff would be cut to 300. It would no longer set production quotas for large- and medium-sized state-owned enterprises, and some of its functions and staff would be transferred to an expanded Economic and Trade Commission. Nor would its approval have to be sought by foreign investors pushing for
large projects. Instead it would primarily serve as a think-tank in the name of the National Development Planning Commission, which would draw up macroeconomic policy proposals. Another example was that the Ministry of Machinery Industry (MMI), the government’s organ in charge of auto industry, was dissolved. It was replaced by the State Administration of Machinery Industry (SAMI), which had only 95 staff instead of 400 in the old MMI. The Ministry of Posts and Telecommunications was replaced by Ministry of Information and the near monopoly China Telecom was divided into three companies -- China Telecom, China Mobile, and China Satellite. The Ministry of Electromechanical Products was replaced by Department of Import and Export of Electromechanical products under MOFTEC. The restructuring provided a loose environment for WTO decision making specific in these industrial sectors. Consequently, in the final accession protocol Beijing made relatively more concessions, noticeably in the areas of agriculture, textile, chemical products, electromechanical products, and auto industry etc.  

In order to better integrate itself into the international community, the Chinese have created new organizations or granted new authority to existing organizations. For example, within the new government structure, the Economic and Trade Commission was further empowered to formulate long-term strategic plans. It would also take up responsibility for drawing up policies for the metallurgy, chemicals, textiles, domestic trade, coal, machine-building and light-industry sectors as the respective ministries were to be downgraded into bureaus. Within the MOFTEC, the WTO Division was separated
from the Department of international Trade and Economic Affairs and upgraded to the Department of WTO affairs. A new office fashioned after the USTR, Office of the Representative for International Trade Negotiation, was created to specialize in trade negotiations.

As the dynamics of China’s domestic and foreign policy change, some domestic constituencies assumed new roles in foreign economic interaction, whereas others have been abolished, and additional agencies have been created to accommodate changed circumstances. This 1998 government restructuring was mainly driven by domestic politics, but the reduction of domestic actors at the ministerial level --- the result from ‘lean government’--- eased the domestic bargain process for China’s WTO decision-making and empowered the pro-liberal constituencies with more authority in both domestic policy coordination and in international negotiations.

**Conclusion**

China’s GATT/WTO decision-making, undoubtedly, was an important and complex one. This chapter highlights the active involvement of the ministerial interest in the decision-making process and its implication on the negotiation process. That current Chinese foreign policy-making has increasingly incorporated multiple voices has been captured by China watchers, but the expansion of the range of voices to the degree that occurred in a strategic decision like China’s GATT/WTO accession was absolutely a new
development. The center of decision-making has grown larger and the degree to which
the top leaders can impose their policy preferences on final policy outcome has
diminished. Top leaders increasingly had to share power with high-level central organs
and government ministries, even for the most strategic decisions. This is a mixed
blessing. On the one hand, paramount leaders received more inputs from various
industries and sectors and would be able to make more informed decision. On the other
hand, it directly resulted in prolonged negotiation time, unproductive negotiation process,
and frequent negotiation stalemates. The whole process was characterized by extensive
domestic bargaining and coordination. Efforts to gain consensus dominated but in most
cases they were futile. Paramount leaders had to step into the negotiations regularly to
assure it was moving toward the result they wanted. Each ministry and agency had
command over some resources and was charged with a specific mission that gave it a
substantial degree of autonomy. At the same time, each unit was part of a particular
functional hierarchy. Consequently decision-making by consensus becomes vital.
1 see WTO’s official website http://www.wto.org, the section on accession negotiation.


7 For example, Robert G. Sutter and William R. Johnson, eds., Taiwan in World Affairs ( Boulder, Colo.: Westview, 1994).


9 Interviews with MOFTEC trade officials, August 2001.

10 Ibid.

11 Interview with MOFTEC officials, November 2000.


16 see http://www.state.gov.cn

17 Interview with MFA officials, December 2000.


19 Yang Jufang, “ Shiwunian de Rushi Zhilu” (Fifteen Years to Knock at the Door of WTO), Beijing Youth Daily, November 10, 20001, p.1.


23 Interview, November 2000.


25 Wei Liang, p.703.


27 Testimony of USTR Charlene Barshefsky on the Renewal of Normal Trade Relations with China, Senate Committee on Finance, July 9, 1998.


30 Pearson p.347.


32 Interviews, November 2000.


34 Ibid.


37 Interview, August 2000.

38 Pearson, p.351.


40 Interview with MOFTEC official, March 2001.

41 Since 1994, China has practiced a financial system based on separate tax system. As a result, it has divided the financial revenue of the central and local administrations, levied separately by two sets of taxation institutions.

42 Interview, January 2001.

43 Interviews, December 2000.

44 Interview, October 2000.
45 Interview, November 2000.
46 Swaine, p. 28.
48 Interview, August 2000.
50 Interview, Winter 2000.
51 Ibid.
53 Interview with MOFTEC official, January 2001.
54 Wei Liang, p.704.
55 Wei Liang p.717.
56 Interview, spring 2001.