China’s Foreign Trade Policy
The new constituencies

Edited by
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1 Introduction

Ka Zeng and Andrew Mertha

In the last two decades China has claimed its place as a major center of trade and manufacturing activities in the world. The Chinese economy has demonstrated unprecedented growth through its national policy of reform and opening up to the outside world following Maoist isolationism and disarray stemming from the Cultural Revolution. But while this has led to tremendous social welfare gains in China and has contributed to global trade in significant ways, Chinese manufacturers have also had to confront its trading partners in the advanced industrialized world over a mounting range of causes of trade friction. For example, not only were Chinese manufacturers and authorities increasingly presented with antidumping suits initiated by China’s major trading partners, they also have had to respond to Washington’s pressure to revalue the Chinese currency, the RMB, and have clashed head to head with the United States over its protective duties on products such as furniture, semiconductors, and automobile parts. The tone and genre of US trade relations with China seem to have harkened back to the height of US–Japan trade relations in the 1980s. It is not an exaggeration to say that China has become one of the main rivals of the United States in the area of trade policy and that China is likely to remain at the center of US trade policy in the years to come. These growing causes of trade friction between China and the US raise important questions both about the sources of these conflicts and the future orientation of US–China trade relations. They also raise questions about the process of trade policymaking in China which, up until now, has remained rather opaque to outside observers.

Existing studies of China’s interactions with its major trading partners have examined how China bargained with the US on the basis of the assumption of a unitary actor (e.g., Mertha and Pahre, 2005). They have also treated Chinese foreign trade policy as a case study of the making of Chinese foreign policy in general or focused on the implications of China’s accession into the World Trade Organization (WTO) for the Chinese economy and society. Relatively little scholarly attention has been devoted to the domestic politics behind China’s behavior in the world trading system. This question is nevertheless of vital importance as it directly bears on the future of China’s role in regional and global trade relations. It is therefore important to address this lacuna in order to understand how China does and will continue to respond to trade challenges from abroad.
This volume represents a collective effort to unpack the domestic politics of trade policymaking in China and tackles questions about the emerging forces shaping China’s foreign trade policy. Its emphasis on how domestic actors shape China’s behavior in the international trade realm promises to offer a novel perspective on China’s international economic relations. Specifically, this project addresses the following questions:

- What is the domestic political process of trade policymaking in China? Is it changing? If so, in what ways?
- What kind of formal institutional changes have been necessary for a formerly centrally planned economy such as that of China to make such a transition?
- What is the changing pattern of trade policy lobbying in China?
- How did institutional reforms such as decentralization and administrative reorganization affect China’s trade policymaking process and outcomes?
- To what extent does domestic politics in China influence the outcome of China’s bilateral disputes and China’s activities in the rules-based international trading system?

While the processes and changes described in this book are still tentative and ongoing, they nevertheless capture major dimensions of the making of trade policy in China and provide us with a first cut into this important issue.

**Review of the literature**

Existing studies have not explicitly focused on China’s foreign trade policy. As discussed below, studies of Chinese foreign policy tend to pay marginal attention to trade policy, in particular the domestic politics underlying the agenda setting and outcome of trade negotiations and the implementation of trade agreements. Another body of the literature discusses the effect of China’s WTO membership on the Chinese economy and society. In addition, while there is a rich literature on the political economy of trade, scholars of China and its trade relations have yet to engage in this literature.

In the first place, one strand of the literature focuses on China’s foreign policymaking process or on the impact of China’s integration into the international system on the country’s foreign policy behavior (e.g. Economy and Okenson, 1999; Hamrin and Zhao, 1995; Jacobson and Okenson, 1990; Johnston and Ross, 1999; Lampton, 2001; Libenthal, 2004; Lu, 1997). While these works have provided in-depth analysis of foreign policymaking institutions, structures and processes, they have either shied away from discussion of foreign trade policy or have treated it as a case study of the making of Chinese foreign policy in general. This work fills this gap in the literature and seeks to more systematically investigate the process of decision-making behind China’s bilateral and multilateral trade disputes.

Second, another strand of the literature (Abbott, 1998; Cass, Williams and Barker, 2003; Panitchpakdi and Clifford, 2002; Alexandroff, Ostry and Gomez,
2003; Lardy, 2002; Drysdale and Song, 2003) focuses on the implications of China’s entry into the world economy for Chinese society and economy. These works engage in an assessment of the WTO membership in terms of such issues as income disparity, social welfare and industrial development in China. None of these works has specifically addressed the evolution of China’s foreign trade policy in the shadow of the WTO membership. The above works therefore differ substantially from this project in terms of their substantive focus.

Finally, there is a substantial body of work3 that deals with the political economy of trade policy in open economies. In terms of the demand side of trade policy, these works emphasize the importance of such factors as the electoral system, the party system, macroeconomic cycles, interest group pressure, political institutions or geographical concentration on trade policy. They also assess the influence of industry versus class conflicts on trade policy, the influence of asset specificity on the choice between alternative models, and avenues of interest group lobbying on trade policy. In terms of the supply side of trade policy, the literature emphasizes the different consequences that electoral systems, party systems, and regime type may have on trade policy and how political institutions privilege the interests of certain political actors rather than others. Despite the proliferation of literature on China and the WTO, there is nevertheless an unfortunate lack of attention to the process of trade policymaking in China.

Do models of trade policy derived from studies of open economies apply to a transitional economy such as China? How relevant is this body of literature for our understanding of China’s trade policy? This volume seeks to broaden our understanding of the evolving nature of China’s trade policy as that nation adapts to the requirements of the World Trade Organization. As relatively little is known about the trade policymaking process in a transitional economy such as China and the applicability of standard models of trade policy to the Chinese context, it is necessary, perhaps even imperative, for us to engage in a more detailed analysis of China’s foreign trade policy as that country becomes a more active member of the world trading system. The findings yielded by this volume are apt to be tentative, yet they should represent a first step in our understanding of Chinese behavior in the realm of trade policy.

Themes of this volume

The chapters in this volume point to a number of common and interrelated themes that have been ignored, or, at the very least, unexplored, by the existing literature. First, given the fact that the WTO is understood as being a liberal institution, to what extent has China become more liberal in its trading regime? Second, given the rhetoric in the United States about “the China threat”, to what degree does China actually “threaten” the US, and, by extension, to the norms of free trade ostensibly espoused by the WTO? Finally, to what extent are China’s strengths simultaneously its principal weaknesses when it comes to Beijing’s ability to compete in this more liberal trading order?
Internalization of the WTO’s liberal norms

On the first dimension – to what degree China has internalized the liberal norms of the WTO – the answer is, not surprisingly, complex and in flux. China’s accession into the WTO in 2001 has prompted debate about China’s behavior in the multilateral trading system. Just as in the area of security affairs, scholars of China’s behavior in the international economic system have asked questions such as whether China is a status quo power or a revisionist power.

In examining the initial years of China’s presence in Geneva, Margaret Pearson (2006), for example, argues that Beijing is far from a revisionist power and has instead been a cooperative player under the WTO’s institutional rubric. Citing China’s support for the trade liberalization agenda of the Doha Round of multilateral trade negotiations and China’s broad adherence to the rules of the organization, Pearson contends that with the exception of Chinese behavior on Taiwan, there is little indication that Beijing is challenging the rules and norms of the WTO organization. Robert Lawrence (2006) analyzes China’s participation in the WTO (including the terms of its accession, current trade regime, and China’s participation in the Doha Round negotiations and the institution’s regular activities) and Chinese initiatives with regard to Free Trade Agreements (FTAs), concluding that China’s trade policies are by and large supportive of a rules-based multilateral trading system.

Revisionist accounts of China’s behavior in the international economic system, however, postulate that China’s membership in the WTO could potentially weaken the rules-based international system. Mallon and Whalley (2004), for example, raise the concern that as China is not yet a full market economy, it could resort to protectionist policy instruments that threaten to substantially increase the number of trade disputes for the WTO’s dispute settlement mechanism (DSM), forcing other members to choose between the undesirable alternatives of neglect, which would promise to undermine the rule of law upon which the WTO operates, and trade retaliation designed to induce Chinese compliance. Related is the concern that once a WTO member, China would seek to expand its influence and to change the rules of the WTO. Critics worry that as a large developing country, China would take up the leadership role in attempts to scale back the limitations faced by developing countries.

One approach to assessing the above debate about China’s commitment to WTO rules and norms is to examine reputational concerns in Beijing’s foreign trade policy. Indeed, the institutional changes that have taken place in China’s foreign trade policy may help to shed light on this issue. During the pre-reform era, trade policy was centrally controlled just as were other areas of economic policy. The Ministry of Foreign Trade and Economic Cooperation (MOFTEC, previously MOFERT, the Ministry of Foreign Relations and Trade), which has now been transformed into the Ministry of Commerce (MoC), was the primary bureaucratic institution responsible for designing China’s foreign trade and economic aid strategies under the guidelines established by the central leadership. As one of the institutions that operated independently in foreign affairs beneath the structure at the
apex of political power, MOFTEC engaged in top-down decision-making in the fashion of the model of “fragmented authoritarianism”.

In the model of “fragmented authoritarianism” (e.g. Lieberthal, 2004) which has often been used to describe China’s decision-making process, emphasis was placed on achieving consensus and narrowing the divergent policy goals of different ministries and agencies. Decisions are made in a top-down manner where the relevant bureaucracies and interests oftentimes engage in extensive bargaining and coordination. While the Standing Committee of the Politburo sets the basic policy orientation and direction, China’s equivalent of the cabinet, the State Council, is charged with policy implementation. In this framework, a set of organizations serve to ensure the attainment of the policy objectives set by the central core. The combination of organizations involved in a particular issue in part affects the specific focus of decision-making. Since various bureaucratic ministries with vested interests in a given issue were often involved in the decision-making process and their policy objectives oftentimes diverge, such a policymaking process is often considered to have contributed to policy gridlock, yielding a tendency to push the most important decisions to the top. Given the centrality of bureaucratic agencies in a decision-making process like this, societal actors possessed very little ability to influence policy direction. In terms of trade policymaking, MOFTEC enjoyed a higher degree of control over the policymaking process than other bureaucratic actors, as trade and economic relations were considered to be less sensitive politically than most other policy issues.

China’s Communist system has had to expend extra efforts to adapt to the changing environment of the international economy. In addition to the more subtle changes in China’s policymaking process described later that would make China’s policymaking process similar to that of a “normal” trading state, a series of formal institutional changes have taken place to make China’s formal institutions for trade policymaking more transparent, streamlined and professional. Importantly, two waves of government restructuring have substantially streamlined the process of trade policymaking in China.

First, in 2001, in anticipation of China’s entry into the World Trade Organization (WTO), the Department of WTO Affairs was established, the specific mission of which was to handle issues related to the China’s WTO membership. In subsequent years more new departments were created. For example, the Bureau of Fair Trade for Imports and Exports, the Bureau of Industry Injury Investigation, and the Department of IT and E-Commerce were created to deal with new trade issues such as antidumping, countervailing duties and subsidies, and so on. Second, in 2003, China’s state agencies underwent significant reorganization and a number of new institutions were created. In this government restructuring, the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), which used to be in charge of issues related to China’s foreign trade relations, was absorbed into the Ministry of Commerce (MoC). The State Economic and Trade Commission (SETC), which used to have control over China’s internal trade, was dismantled. The SETC’s former functions of industrial injury investigation in the trade remedy process and domestic trade policymaking were shifted to the newly established Ministry of
Commerce headed first by Mr. Lu Fuyuan and then by Mr. Bo Xilai, a former governor of Liaoning Province in China. The government restructuring described above has substantially strengthened the institutional capacity of China’s trade policymaking apparatus.

What do these institutional changes suggest with regard to China’s commitment to WTO rules and norms more generally? One illuminating dimension is that of reputation. China’s concern about reputation is another theme that emerges from the discussions of China’s trade policy. Kennedy, for example, notes that China’s adoption of the regime is motivated by a desire to acquire a trade policy instrument available to most major trading states. Like most other developing countries, which perceive that they have been unfairly targeted by the antidumping (AD) actions of their counterparts in the industrialized countries, China started to view AD as “an equal opportunity weapon” and a legitimate right under the WTO system. Prompted by a desire to acquire a policy instrument to defend against unfair trade practices, Chinese firms have not only started to challenge foreign AD actions against Chinese firms, but have also more actively developed China’s own AD regime. In this sense, concerns about reputation and the legitimate rights of China have influenced the evolution of China’s AD regime.

Similarly, in her study of China’s response to the WTO dispute initiated by the United States against China’s value-added tax (VAT) rebate policy for the semiconductor industry, Liang finds that China’s WTO commitment, especially the WTO-plus rules designed for transition economies, places a significant constraint on Beijing’s policy. Concerns that reneging on China’s international legal commitments may be reputation costly in part help to explain why China chose to make concessions to the United States during the bilateral consultations, without escalating the dispute to the establishment of a panel. Hence the norms embedded in the international trade regime have had a constraining effect on Chinese behavior.

A China “threat”? Are we justified in painting China as a threat? This answer depends on a number of dimensions by which we define the notion of a “threat” as well as what the potential targets of such a threat actually are. The more “hawkish” interpretation is that China can be seen as being frustrated with the status quo. The PRC was not a founding member of the WTO, and, as Liang argues, this led to Beijing’s temporary suspension of its willingness to join at the earliest possible time. This, coupled with China’s traditional suspicion of the international order – by which it was seen as being victimized during its “century of humiliation” – suggests that China is less invested in the status quo than its US, European or Japanese trading partners. One conclusion is that once China is able to leverage the size of its economy and “seduce” its trading partners by holding out the potential of its vast, untapped market, it will engage in rewriting the rules and altering the very norms of the WTO and of international liberal trade more generally.

The more benign view is that China is attempting the update its economic and (to a lesser degree) its political institutions in order to provide a more seamless
interface with WTO rules and norms. Once it has done so, according to this view, China will emerge as a formidable competitor. If we invoke neoclassical assumptions to argue that each member of the WTO trade regime is acting in its own self-interest, then the outcome will be a more efficient international trade regime. According to this more “doveish” interpretation, China’s increasing ability to compete will strengthen the existing international trading regime, although it will inevitably force other WTO members to undertake structural change in order to successfully compete in this new liberal trading order.

Obviously, these are ideal types, and it is still early on in a process that will take decades to unfold. The evidence presented in this book suggests that a dichotomous account of China’s behavior in the international trading system may be misplaced. Predictions of Chinese behavior based on a unitary actor assumption without considering domestic politics may be problematic. For those embracing the view that China is by and large a cooperative actor, the non-unitary aspect of China should sound a cautionary note to China’s future role in the world trading system. For those viewing China as a revisionist power seeking to challenge the rules of the organization, the complication of domestic politics may paint an even more bleak picture of Chinese behavior. In either case, the chapters collectively suggest that a simple dichotomous view of China as either a benign or a malignant actor is overly simplified. Instead, one has to grapple with the importance of domestic political forces in shaping the future trajectory of China in the world trading system. This section outlines several areas in which domestic politics may complicate the notion that China will be a cooperative player in the world trading system, which, in turn, may provide fodder for both interpretations.

Local government behavior

Mertha’s study suggests that optimism about China’s cooperative behavior in the international system may be unwarranted. As the priority that local governments place on economic development often diverge from the goal of protecting intellectual property rights, local governments could engage in ambiguous and untargeted threats against foreign firms invested in China so as to prevent the latter from raising their concerns about China’s lax IPR enforcement in the US trade policy agenda-setting process. Such transnational deterrence threats often prevented US actors from raising their legitimate concerns through trade policy. As local governments pursue economic interests and engage in behavior that contradicts central injunctions, one could witness mercantilist and potentially predatory behavior on the part of local governments in China.

Compliance

In examining the turf battles between the MII and other related bureaucracies, Yuka Kobayashi suggests that the turf battles among bureaucratic agencies have dimmed the prospect of China’s compliance with its WTO commitments. The MOFTEDC has come into increasing conflict with the MII, with an interest in
protecting the home industry. The conflicts between MOFTEC and the MII have therefore substantially reduced the prospect of China complying with its obligations in the rules-based system. Indeed, the possibility that China’s lack of institutional capacity may complicate its compliance with international agreements has not been ignored by China scholars. China’s recent compliance records also raise cause for concern. For example, the United States Trade Representative (USTR) publishes an annual report on China’s compliance with its WTO commitments and recent reports point to numerous areas of compliance failure that are of concern to the US business community.

For instance, while the most recent USTR report (2005) notes China’s progress towards compliance, it nevertheless raises serious concerns about China’s lack of protection for intellectual property rights, regulatory measures that favor domestic enterprises, and the continued use of industrial policy in sectors such as auto-parts, steel, and high-tech sectors, and so on. To the extent that bureaucratic turf battles are exacerbated by China’s entry into the WTO, this bodes ill for China’s compliance with its WTO commitments.

Market surges and the potential for a protectionist backlash

The findings from this project about the influence of sectoral interests in China suggest that business associations and industry actors in China are increasingly important actors in China’s foreign trade policy. In particular, sectors that face strong important competition and declining profitability are likely to become more vocal in pushing for their interests. The cases indicate that such sectors have pushed for the use of AD duties and other legal trade remedies. Industry pressure for protection could heighten in the event that Chinese industries experience a loss of competitiveness in its products. As Robert Lawrence (2006) pointed out, while China’s competitiveness in the traded goods sector has facilitated its adjustments to the requirements of the WTO membership, trade liberalization has nevertheless led to substantial dislocation. If the current political pressure over the appreciation of the Chinese currency, the RMB, were to lead Chinese leaders to undertake more drastic measures to revalue the currency, this could potentially result in China’s loss of competitiveness in the international market, which could in turn heighten pressure from industries adversely affected by the market trends. The increasingly open nature of the trade policymaking process could potentially make it more difficult for the Chinese leadership to contain such a fallout.

Alternatively, in the event that Chinese products become more competitive, with the potential of increasing China’s exports and its bilateral trade deficit with the United States even further, this may prompt China’s trading partners to adopt temporary trade restrictions against Chinese products through such measures as safeguards. In such a scenario, Chinese export-oriented producers may potentially lobby for trade protection measures that would advance the entry of export-oriented Chinese producers into the world market, with the possibility of provoking a costly tit-for-tat trade war. This was in part illustrated by Chinese
producers’ reactions to the safeguard measure that Japan imposes on Chinese agricultural and textile products.

In either of the above scenarios, business interests that are already more vocal in China’s trade policy process may react to the erection of trade barriers abroad by calling for comparable measures at home. The growing participation of domestic players in the policy process may therefore render China’s trade policy more conflictual than proponents of either the cooperative or the confrontational view of China would allow for.

In sum, the above discussion suggests that a dichotomous view of China as either a benign or a non-status quo power in the international economic system may be oversimplified. The reality is more complex and can only be understood if we invoke the third broad theme of this volume: China’s weaknesses as strengths (or vice versa).

**China’s strengths as weaknesses**

The preceding discussion notes that China’s political and economic institutions remain fragmented and that decision-making, particularly about compliance, is often decentralized. Again, this can be interpreted in a number of ways, often focusing on the idea of intentionality. On the one hand, does China’s “misbehavior” (noncompliance) stem from strategic decisions, or is it a result of structural conditions owing to China’s weak institutions? The easy answer is that it is due to some degree to both. Moreover, one is tempted to use this as a default interpretation because intentionality is so difficult for outsiders to identify accurately and convincingly.

Perhaps another way of looking at this dichotomy is to recast this as, starting with the status quo as a baseline, China’s movement in one direction has the potential of undermining its advantage in another. How can Beijing convince other Chinese actors to give up short-term gain in order to maximize economic efficiencies and social welfare? One way of getting at this answer is by identifying instances where China is – or individual actors within China are – being strategic versus simply being opportunistic. For example, even though Mertha’s chapter paints China as perhaps being somewhat underhand in its manipulation of the US trade agenda, it is by no means certain that this is a strategic choice on the part of Beijing. Of course, Beijing may be aware of what is going on and it may certainly strengthen its bargaining position vis-à-vis the United States, but it is not policy. Rather, he argues, this is merely an opportunistic response to opportunities afforded local governments by the fragmentation of the Chinese political and economic system. However, to rein in these same actors robs Beijing of a potentially useful bargaining tool.

Formal institutional changes were accompanied by concrete changes in the substance of trade policymaking in China. The various chapters in this volume assess the role of business actors, regions, sectoral interests and transnational actors in shaping China’s foreign trade policy through a series of case studies, including US–China negotiations over China’s accession into the WTO, US–China negotiations over intellectual property rights, Sino-Japanese trade disputes
between 1970 and 2003, China’s antidumping actions and its use of legal trade remedies as well as China’s activities in Geneva.

As the chapters in this volume make clear, China’s foreign trade policy formulation is becoming increasingly pluralized, more interest-based and more transparent. Instead of being confined to the government bureaucracy, the decision-making process has become more open to the lobbying of business leaders, sectoral interests, regional interests, and to some extent transnational business groups. As trade policymaking in that country becomes more open, porous and reflective of business realities, one may argue that the trade policymaking process in China has been transformed to such an extent that it is increasingly reflective of business realities. Indeed, domestic political actors have become more heavily involved in China’s external trade relations than in the past. On the other hand, institutional drag, path dependency and political imperatives nonaligned with trade underscore how fragile some of these changes actually are.

The findings from several episodes of trade policymaking in China, summarized in the following section, suggest that domestic political forces not only drive the outcome of China’s bilateral trade negotiations, but they are also increasingly important in shaping China’s approach toward the WTO’s rules-based international trading system.

Interests

The various chapters in this volume emphasize the growing influence of both sectoral and regional interests on China’s foreign trade policy. For example, the chapter by Ka Zeng on China’s use of legal trade remedies assesses the influence of sectoral interests on China’s utilization of legal trade remedies. The legal trade remedies this chapter focuses on include not only the rules of the World Trade Organization, but also China’s domestic legal trade rules such as antidumping and safeguards. This chapter shows that even though the Chinese state has actively promoted the use of legal trade remedies, domestic industries have largely shaped the pattern in which such remedies were employed. On the basis of careful studies of China’s antidumping regime, the China–Japan safeguard trade disputes over agricultural and textile products, and China’s more recent responses to the US steel safeguard measures, this chapter argues that the Chinese government is increasingly resorting to legal trade remedies both as a sword to open foreign markets and as a shield to protect China’s import-competing industries from the forces of foreign competition. Industries such as chemicals and steel have driven the use of China’s antidumping and safeguard measures and the use of such trade instruments will be more frequent in the future. Moreover, legal trade remedies have been employed to constrain the unilateral exercise of power by the United States. China’s subtle shift from a diplomacy-power-oriented negotiation approach to “aggressive multilateralism” therefore has its roots in domestic considerations. This chapter also assesses the extent to which China’s emerging legal trade strategy has succeeded in advancing Chinese interests. This chapter therefore paints a picture of the new openness in China’s foreign trade policy.
At the same time, these positive changes also underscore the rift between China’s ability to utilize the international legal infrastructure for trade dispute resolution and its own weak and tenuous legal apparatus. That is, China has the trappings of a mature legal system on paper, but its actual institutions for enforcing these laws and mediating disputes within its domestic jurisdictions remain weak and largely ineffective. Of course, the Chinese—and increasingly, foreign actors—are able to use the back door and rely on informal personal and institutional arrangements to address their claims. And, indeed, one can argue that this provides the requisite degree of “maneuverable space” that allows for such dramatic economic development without having to be burdened by bureaucratic and other institutional checks and balances. However, as this rift continues to grow, the contradictions between China’s utilization of international legal remedies and its own supine legal infrastructure will only continue to grow and potentially keep China from progressing to the next stage.

Similarly, in examining the US–China semiconductor trade disputes, Liang finds that China’s semiconductor industry has worked closely with the Chinese government in the formulation of policy. The semiconductor trade dispute represents the first WTO case filed by any member of the World Trade Organization against China. In March 2004 the Bush administration filed a complaint with the WTO against China’s controversial value-added tax on semiconductors. The dispute was resolved in July 2004 through bilateral negotiations, in the absence of the formation of a panel. This chapter examines the origins, the process of bilateral negotiation, and final resolution of China’s first WTO dispute, focusing in particular on the process of policy formation in this case. Specifically, this chapter attempts to draw out the role of Chinese industries along with that of trade and industrial bureaucracies in China’s dispute activities. In the past, the private sector has largely been excluded from the policymaking process. Domestic enterprises were invited to several meetings for policy consultation. However, in this case, Chinese semiconductor manufacturers were not the proponents of the VAT rebate policy as the proposed VAT policy does not confer substantial benefits to Chinese producers. Not only were many smaller enterprises not even eligible for tax rebate, but also the benefits larger companies stand to accrue from the tax rebate are minimal compared to their total revenue. Moreover, the Chinese enterprises were hoping to substitute “the VAT rebate policy with other WTO-compliant government policies that can benefit the semiconductor as a whole” (Liang: p. 00). The lack of resistance by the domestic semiconductor industry helped to facilitate the conclusion of the negotiation. The main role of the semiconductor manufacturers in this case was to provide policy suggestions and policy alternatives. However, this relationship, as Kennedy makes clear, is anything but institutionalized, and, thus, remains fragile. And the ability of these associations to influence policy when they are not allied with the government against an external opponent remains unclear.

Additionally, contributing authors have noted the growing influence of regional interests on China’s foreign trade policy. The deepening of economic reform has been accompanied by the progressive delegation of power to local authorities so
that over time, localities have become increasingly important agents in China’s economic policymaking. This is not only increasingly evident in China’s domestic economic policymaking, but also in trade policymaking as well. The chapter on China–Japan trade disputes assesses how ongoing processes of decentralization in a developing country such as China affect trade negotiation outcomes. It argues that the devolution of power from the center to the localities in China has increased local governments’ stake in foreign economic policy and made certain trade policy instruments for the central government. Through case studies of Sino-Japanese negotiations over specific commodities between the 1970s and 2003, Naoi advances the novel hypothesis that the combination of the degree of government centralization and that of geographical concentration is an important factor explaining why some of the trade disputes between Japan and China were settled via the use of bilateral voluntary export restraint (VER) negotiations, while others have resulted in the use of legal trade remedies such as antidumping and safeguard measures. She hypothesizes that China is more likely to resort to safeguard measures when export administration is decentralized and industry is dispersed. This is because decentralization of export administration, which devolves greater responsibilities to local foreign trade corporations (FTC) and empowered local authorities in export regulation, have enhanced the incentives of local actors in export promotion.

Naoi further argues that the effect of export decentralization is compounded by the degree of geographical concentration. Industry-level VER negotiation is difficult to achieve and often requires a government’s intervention, as the more dispersed the production and export activities across a few different provinces, the more likely it is that local FTCs and producers will compete to promote export and secure higher market shares abroad. It is also more difficult for local governments to engage in collective action and cooperate to achieve effective enforcement of VERs when the industry is dispersed. Conversely, a high degree of geographical concentration, combined with government decentralization, ought to more likely result in attempts to resort to bilateral VERs. The seaweed and tatami cases best illustrate these dynamics. Thus, overall, this chapter suggests that fiscal decentralization in China has lengthened the duration of disputes, decreased the use of voluntary export restraints, and increased the two countries’ reliance on GATT/WTO instruments. In sum, this chapter finds that the combination of geographical concentration and industry concentration is a key factor in an industry’s choice of the use of safeguards versus voluntary export restraints (VERs).

Another example of local governments’ influence over trade policy can be found in Liang’s chapter on China’s WTO accession negotiations. Waves of decentralization have increased the stakes of local governments in economic policy and increased their incentives for promoting local economic interests. Liang suggests that rather than playing an important role in influencing the actual negotiations, local governments have constrained the central government’s negotiation authority through the implementation of policy. On a few occasions the central negotiation authority’s position was often undermined by moves by local governments for more policy autonomy. In contrast to the study by Pearson (2001), Liang’s chapter suggests that with the exception of Shanghai, most local governments were
not actively involved in the negotiations, nor were they aware of the negotiation
details. More research could be done on this topic to systematically assess the relative
role of the local governments in the trade policy decision-making process.

The strategic benefits provided by decentralization also point to the more
general contradiction between the costs versus the benefits to Beijing of economic
and political decentralization over the course of the reform era. In recent years,
Beijing has attempted to rein in the degree of such decentralization, but is finding it
difficult to put the decentralization genie (or elements of it) back into the bottle.
This is further complicated by the notion that insofar as those more domestically
problematic elements of decentralization actually help strengthen Beijing’s hand
at the negotiating table, it creates conflicting incentives for Beijing to move away
from the status quo. For example, Andrew Mertha examines how local govern-
ments’ retaliatory threats against foreign firms have had the effect of deterring
foreign firms operating within their borders from voicing their dissatisfaction with
their home governments. Using intellectual property rights as an example, Mertha
shows that in investment disputes, foreign companies with operations in China are
often constrained by the Chinese government’s explicit or implicit threat to inflict
damage on their local operations from raising the issue with their home govern-
ments. As Mertha explains, local governments not only possess the capability, and
hence credibility, to inflict pain on foreign firms, they are also able to “strategically
manipulate information and maximize ambiguity to minimize accurate knowledge
about its retaliatory capabilities”. While the transnational deterrence threat does
not necessarily stem from intentional behavior of local governments, it does reflect
local governments’ increasing ability to deviate from central policy and the
inability of the center to discipline such behavior.

Institutions

In addition to the growing influence of regional interests on China’s trade policy,
contributing authors also note how bureaucratic agencies can influence China’s
trade negotiations and its implementation of trade agreements. In her chapter on the
process of negotiations leading to China’s entry into the WTO, Wei Liang illustrates
how local industries, bureaucratic agencies and provincial interests concerned with
the potential impact of WTO entry on their interests have asserted themselves in the
process of China’s negotiations with the United States over China’s WTO accession.
During the negotiations, the Ministry of Commerce had to coordinate and reconcile
the divergent interests of various governmental and societal organizations to a much
greater extent than it had in the past. This has in turn accentuated the need for both
ministerial and supraministerial coordination. Moreover, lobbying by governmental
and societal interests significantly influences the ebb and flow of the negotiation
process. It explains not only why negotiations sometimes broke down in the way
they did, but also the specific designs of the deal that negotiators eventually signed
on to. The process of trade policymaking depicted in this chapter is therefore one that
is considerably more plural, fluid and vulnerable to the jockeying for power by
various bureaucratic actors.
Specifically, in terms of the impact of bureaucratic actors on the policymaking process, Liang suggests that compared to the past, bureaucratic interests have more often intruded in the decision-making process and such bureaucratic involvement has at times slowed down the process of negotiation. Protectionist ministerial interests, including not only those that have traditionally enjoyed support from the Chinese state but also those charged with supervising China’s emerging and infant industries, have voiced their opposition to China’s market liberalization offers. Opposition from a wide range of bureaucratic actors has therefore resulted in significant deadlock in the negotiation process. For example, while Beijing was able to make reasonable progress liberalizing its goods market and trade-related laws and regulations, it could neither break the policy logjam in the sensitive telecommunications sector nor make market access offers in services negotiations in 1997 due to strong resistance from the Ministry of Post and Telecommunications and ministries charged with the services sector such as the People’s Bank of China, China Insurance Regulatory Commission, and China Securities Regulatory Commission.

The ability of status quo oriented agencies to penetrate the decision-making process could in turn be explained by the institutional weaknesses of the GATT/WTO Division under the Department of International Trade and Economic Affairs, the agency within MOFTEC which oversaw China’s GATT/WTO negotiations. While the GATT/WTO Division was the strongest advocate of liberal trade policy, its influence was nevertheless limited as it lacked final negotiation authority and frequently had to seek approval from a higher level negotiation authority. The insufficient negotiation authority of the WTO Affairs Division thus provided room for protectionist bureaus to flex their muscles.

The increasing involvement of bureaucratic actors in China’s decision-making process also elevated the importance of interministerial coordination in the policy outcome. Liang shows, for instance, that the difficulty in achieving coordinated bureaucratic positions and action has substantially slowed down the progress of negotiations. In 1986, the State Council Interministerial Coordination Group was established to engage in interministerial coordination on issues related to China’s GATT/WTO accession negotiation. However, this Interministerial Coordination Committee did not function smoothly both because it only served as a temporary platform for consultation and also because all of its members were vice-ministers of different ministries enjoying an equal standing with MOFERT and, as a result, each ministry had spoken out for its own interests. The difficulty of policy coordination was compounded by the inclusion of more ministries and sectors into the negotiations in the mid-1990s. It was not until 1998 when one of the most comprehensive government restructurings was undertaken that the difficulty of interministerial coordination was eased. By weakening the authority of some previously powerful agencies and downgrading some ministries into bureaus, this restructuring significantly eased the burden of interministerial coordination, making it possible for Beijing to make relatively more concessions in the final negotiation protocol. The government restructuring implemented in 1998 thus provides an example of how the difficulties involved in interministerial coordination could complicate the negotiation process.
The chapter by Yuka Kobayashi reinforces the finding about the increasing involvement of bureaucratic actors in the decision-making process. She finds that bureaucratic actors have been more heavily involved in the pre-WTO negotiation process as well as the post-implementation and compliance stage. Before China’s entry into the WTO, bureaucratic actors were barely involved in China’s trade policymaking. But this has been undergoing transformation since China became a member of that organization. In particular, the information ministry which used to be in charge of trade policymaking in China has become more heavily involved in the decision-making process. While the ministry in charge of the telecommunications industry and other non-state entities were largely irrelevant to trade policymaking prior to China’s entry into the WTO, their increasing involvement and diverging preferences have bred turf battles that led to near breaches of China’s WTO commitments. This chapter thus highlights how growing bureaucratic tussles may present a major impediment to China’s compliance with its WTO commitments.

Additionally, these chapters point to the fact that institutional remedies for coordinating this growing universe of interests remain unable to keep up with the pace of change. As Mertha (2005) has argued elsewhere, coordination mechanisms suffer from low administrative rank and from insufficient staffing and budgetary funds. The more successful coordinating mechanisms have relied on personal and other information power dynamics rather than any recognized institutional mandate, and thus remain institutionally weak.

Cross-border linkages
Standard accounts of trade policy typically focus on the influence of the domestic lobby instead of the foreign lobby. But as Scott Kennedy’s chapter shows, transnational actors have been influential even in the case of China. Through an examination of China’s antidumping actions, Kennedy shows that transnational alliances can act as a counterweight to protectionist interests and hence constitute a source of openness in economic policy. For example, even though antidumping duties have been imposed on most of the cases in which antidumping petitions were filed, there nevertheless existed substantial variation in the extent to which foreign actors were able to achieve a policy outcome in their favor. More specifically, foreigners have managed to gain victory in a surprising number of cases. This chapter explains the unexpected success of foreign firms in terms of the joint lobbying by the foreign respondents accused of dumping and their Chinese customers. Chinese downstream users of those foreign products accused of dumping resulted in substantially lower dumping margins and in the more speedy removal of the duties imposed. This case study of China’s antidumping regime therefore highlights the growing ability of transnational business actors to influence the policy outcome. This study utilizes original data from in-depth interviews with company executives, association representatives, lawyers and government officials directly involved in these cases. Its findings suggest that analyses focusing solely on the domestic sources of trade policy may no longer be sufficient. Instead, it may also be necessary for us to take
into consideration the transnational alliance between Chinese downstream users and their foreign counterparts.

The subtext of this argument, however, is that foreign actors are able to take advantage of institutional weaknesses in China to influence the outcomes of antidumping negotiations. The opposite side of the coin is that these institutional weaknesses – such as those wrought by decentralization – provide the opportunity of domestic political actors to pursue their own interests in ways that flaunt the laws of the land. Mertha, for instance, suggests that the physical investment by foreign producers increases their vulnerability to local Chinese governments’ threat to inflict pain on their operations if they engage in activities that contradict the goals of local authorities. Such cross-border linkages therefore alter the dynamics of bargaining between foreign investors and their local hosts. In doing so, Mertha has identified an important dynamics of disputes involving foreign direct investment.

Mertha’s finding is not entirely synchronous with the findings from the chapters on China’s antidumping actions, which suggest that foreign producers with substantial investment in the Chinese market may have greater influence over China’s AD decisions. In the AD cases, foreign investors that are significant to the Chinese economy possess more bargaining power with Chinese authorities. While they do not directly influence the case outcome, they do affect the timing of the AD decisions.

Finally, Zeng’s chapter on Beijing’s AD decisions suggests that enterprises engaging in export processing and hence exempt from the AD duties tend to be agnostic about the AD decisions and have therefore led the AD duties to have minimal effect on market conditions. All of these findings suggest that one has to take into account the linkages created by China’s integration into the world market in analyzing China’s trade policy.

Each of these dimensions underscores a profound irony in our understanding of China: those same dimensions that have been the most effective handmaidens to China’s spectacular economic growth can also potentially prevent China from moving to the next stage of establishing its economic infrastructure and, thus, its ability to maintain its trajectory as a mature global trading partner.

### Methods and rationale for case selection

Most chapters in this project utilize the single case study method to support their arguments. While these chapters each focus on a distinctive issue area, collectively they are aimed at illuminating the forces shaping China’s foreign policy and the changing pattern of trade policy lobbying in China. In other words, even though these chapters may differ from one another in their substantive and analytic focus, they are all organized around the central theme that China’s foreign trade policy-making is undergoing a fundamental transformation to become more open to the influence of bureaucratic, sectoral and regional interests in a way that more closely resemble the pattern observed for advanced industrial states. As such, these case studies should not be viewed as disparate analyses of China’s foreign trade policy;
they all aim to shed light on the key research questions that drive this project: what are the forces driving China’s foreign trade policymaking? Is China’s foreign trade policymaking changing? If so, how do we best characterize China’s foreign trade policymaking process?

Contributions

As the above analysis makes clear, China’s foreign economic policy has undergone a transformation to become more porous, more pluralized and more transparent. Lobbying patterns in China are becoming increasingly similar to those observed for advanced industrialized states, with ranked agencies, ministries, sectional interests, and even transnational actors becoming increasingly able to influence both the possibility that China will reach a trade agreement with its trading partner and the terms of such agreements.

In addition to influencing the outcomes of China’s bilateral and multilateral trade disputes, domestic political considerations increasingly drive China’s behavior within the multilateral trade institutions. Just as other countries in East Asia, such as Japan which has more recently started to embrace the WTO and legal trade remedies in a more aggressive manner, China seems to be actively engaged with the rules of the WTO in an attempt to advance its key trade interests. These findings ought to have important implications for China’s trading partners such as the United States in dealing with growing trade challenges from China.

This project makes several important contributions to existing literature on China and international political economy. Above all, it makes up for our lack of understanding of China’s foreign policymaking process. As mentioned earlier, in spite of the proliferation of recent studies dealing with China’s foreign policy, our understanding of the forces shaping China’s foreign trade and economic policy unfortunately remains rudimentary and incomplete. This book provides a detailed account of the forces shaping China’s foreign trade policy and systematically teases out the role of sectoral interest, bureaucratic actors, and regional interests in China’s bilateral and multilateral trade activities. The findings of this research suggest that just as in other areas of decision-making in China, trade policymaking has indeed become more open, decentralized and plural. Consequently, China has increasingly come to resemble a “normal” trading state, with various societal interests asserting greater influence in the decision-making process.

Second, the findings of this chapter also contribute to the broader literature on international political economy and on trade policy. Recent scholarly works on the nexus between domestic politics and international behavior (e.g. Putnam, 1993) have sought to develop more systematic analyses of the domestic politics behind international trade policy outcomes. Yet attempts to develop such systematic analyses also hinge on our understanding of the internal political dynamics in individual countries and on evidence from primary research. The findings yielded by this research therefore ought to broaden our understanding of the process of trade policymaking in non-Western, authoritarian states such as China and promise to enrich the literature on comparative trade policy.
Finally, this study should also be of interest to the policy community in its efforts to integrate China into the world community. The changes taking place in China’s foreign trade policy described above should provide western policy and business communities with a roadmap for dealing with that country over economic issues. In addition to allowing for a more sophisticated understanding of the successes and failures of the West’s bilateral or multilateral negotiations with China, they should help to illuminate choices over future negotiation approaches with that country.

Notes
1 For an exception, see, for example, Zeng (2004).
2 See the concluding chapter for a more detailed survey of this literature.
3 See the Kennedy chapter in this volume.
4 For studies that address the question of whether Beijing is genuinely “learning” global norms and values or simply engaging in tactical “adaptation” of global norms out of narrow self-interest, see, for example, Christensen, 1996; Johnston, 2003.

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