

## ARTICLE

# Essence of Trade Negotiation: A Study on China's Entry for WTO

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### Introduction

China's formal entry to the World Trade Organization (WTO) is the subject of this study. The integration of China into the global market economy is immensely important because of China's sheer scale. The People's Republic of China is the world's most populated nation with 1.2 billion people, which comprise roughly 20% of the world's population. It is not simply the largest potential market but already the tenth largest trading nation and the world's 7<sup>th</sup> largest exporter after the U.S., Germany, Japan, France, Britain, Italy, Canada, and the Netherlands. China's gross national product is the seventh largest in the world and is still growing with incredible pace of 7 to 8% annually.

China's WTO entry is undoubtedly significant because along with Russia, China is also, a keystone of successful transition of the command economies of former and current socialist states to market economies. The failure of integration of those nations into the global economy may not only disrupt the stability and smooth growth of world economy but also may pose serious security challenges to world peace. Equipped with a right of veto, China is one of five permanent members of UN Security Council. It is also a strong nuclear weapon state. China's People's Liberation Army is the largest in the world, at least in its size, and its military budget is steadily growing against the global trend of disarmament. Whether China becomes a trustful trade partner is a real issue especially for East Asian nations because of geographical reasons and the answer to the question is probably more important than remaining old Cold War security issues such as the Taiwan and North Korean problems.

China's application to be a formal contracting party was originally submitted to the secretariat of the General Agreement on Tariffs and Trade (GATT), a preceding agency of the WTO, in 1986. According to the practice of trade organization, consent of the contracting parties with whom an applying nation has large trade relationships is necessary to be a formal member of the organization. Especially agreement with the largest trading partner is indispensable, because this consent will constitute a solid base to earn a two third majority of WTO contracting parties agreeing to multilateral general

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protocol, which is a legal requirement to be a new member.<sup>1</sup> For China, the United States is the largest trading partner.

However, after 15 years from application and the same length of toil and bearing for negotiations, China's entry is still pending at the end of 2000. The long and winding negotiations have implanted suspicion and hatred between China and contemporary contracting parties of WTO. Especially relations between China and the United States, have turned sour. In fact, the long and unprecedented postponement of China's entry were mainly brought out by the fact that the two nations found it impossible to conclude a bilateral agreement for China's entry into the WTO until November 15<sup>th</sup>, 1999.

The main focus of this paper will be, thus, to examine the bilateral negotiations between the United States and China. In addition, the author will also pay a great amount of attention to opinions and actions of other Asia-Pacific nations because these nations also have large stakes on their giant neighbor's WTO membership by not only economic but also security reasons.

If China continues to be thus, an important engine for the growth of global economy for a considerable length of time ahead and also one of key nations for sustaining global peace, the reasons of long postponement into the WTO should be clarified. Because, for the above two reasons, integration of China into the global community, in which WTO constitutes an important part, is indispensable. Accordingly, whether the delay was an economically rational decision or not will also be discussed. It is also significant to make clear whether the delay was brought out by economic reasons alone or by other reasons also.

Hence, this research constitutes a study of political economy. Politics and economy often intermingle by following three reasons. First, the reality of economic situations are usually complicated and uncertain. Therefore it is not easy for economists and policy-makers to comprehend the situation properly and write a correct prescription. Thus, as it is well known, their opinions are often divided. Here, policy-makers' ideological preferences, and political ambitions intrude when they make economic policy.

Second reason of mixture between politics and economy in the real world is necessity for political support. In order to implement any policy, one needs a solid and stable support to overcome opposition. Unless one acquires enough support, indecision will often result. Even if necessary support comes from bureaucrats, cabinet members, congress, and/or public opinions, one often has to compromise to turn the tide in one's favor. Thus eventual policy will many times avert from economic rationality. When it comes to governmental decisions, political feasibility counts often more than economic rationality.

The third reason is the positive and negative influence of other issues. Bilateral foreign relations, for example, usually include a wide variety of issues such as security, economic, and cultural problems. One issue does not usually stand-alone. In some cases, it contradicts with other issues, and may complement them on other occasions. One should point out, however, that the influence of external issues on economic policy is often inevitable.

Based on the above historical and theoretical arguments, our story shall start by introducing opinions and actions of Asia-Pacific nations concerning China's entry into the WTO.

### **Asia-Pacific nations work for China's entry**

From the beginning, China's entry into the WTO appeared to be a shared goal of Asia-Pacific nations. In a major speech about China before his meeting with Chinese Premier Zhu Rongji on April 7<sup>th</sup> in 1999, President Bill Clinton declared that "if China is willing to play by the global rules of trade, it would be an inexplicable mistake for the United States to say no".<sup>2</sup> Indeed as early as January 1992, according to Chinese authority, the United States had made a commitment to work "constructively with the Chinese Government" to "reach an agreement on an acceptable protocol" for China's admission to the world trade body, then called GATT.<sup>3</sup>

One of the earnest supporters for China's entry is undoubtedly Japan. At the Group of Seven industrialized countries meeting in Lyon, France in June 1996, Japanese Prime Minister Ryutaro Hashimoto pressed other leaders to admit China into the World Trade Organization.<sup>4</sup> Tokyo insisted that China's participation in international organizations such as WTO would help to improve Asia's regional security. "China's joining the WTO would be an important step for it to become a constructive partner in the international community," said Deputy Foreign Minister Shunji Yanai.<sup>5</sup> Even before the Hashimoto move, the Foreign Ministry of Japan started its groundwork to promote the China's entry into the WTO. At the Uruguay Round cabinet level conference in Morocco in April 1994, the Foreign Ministry's senior officials appealed that the "integration of China in international market economy structure accelerates the reform in China."<sup>6</sup> An editorial of *Asahi*, a leading newspaper in Japan, contended that it was only Japan who can persuade China to play by WTO rules and influence member nations to admit its entry.<sup>7</sup>

A report published by the Ministry of International Trade and Industry (MITI) in 1997 made an interesting plea to accelerate China's admission negotiation. The report argued that the only way smaller countries in Asia and elsewhere could achieve bargaining power with China on trade issues would be through the WTO. A senior MITI official said that, at present, only the US and Japan had a "bargaining positions" with China because of their economic strength, whereas any country would be able to raise their grievances to the WTO once China was admitted. This argument referred to the possible enhancement of political positions of developing nations rather than the direct economic merits of China being a member of WTO. The MITI report, of course, added economic reasoning also, Should China fail to accede to membership of the WTO, this would "seriously damage the credibility of the Chinese economy. Trade and investment from the rest of the world that are essential for China's further development will also suffer".<sup>8</sup>

The view of Japanese Government gained currency in many other Asia-Pacific countries. For example, reporting back from his meeting in China with Vice-Premier Zhu Rongji and Foreign Trade Minister Wu Yi, Australian Trade Minister Tim Fischer told on September 17 in 1997: "The sooner we have China satisfactorily in the WTO, the better for the momentum of further trade liberalisation progress."<sup>9</sup>

Singapore's Prime Minister Goh Chok Tong argued that entry into the WTO would "accelerate China's ability and willingness to play by global rules". Again, this argument did not indicate any direct economic benefits but rather emphasized that the expected law-

abiding attitude of China was an important prerequisite for stable economic and diplomatic relations between China and rest of the world.

On July 5 1996, Singapore's Ambassador to the United States said that "Europe and Japan can play a very major role to get China into the WTO." He also emphasized that, "It is impractical to leave out one of the largest economies in the world from the WTO," that counted 134 member countries.<sup>10</sup> Indeed, by the year 1997, China's gross national product had reached the seventh largest in the world.<sup>11</sup> China, the world's most populous country, also became the 10<sup>th</sup> largest exporter, following the U.S., Germany, Japan, France, Britain, Italy, Canada, The Netherlands and Hong Kong with exports worth \$180 billion constituting close to 3 percent of global trade.<sup>12</sup> For Japan, China is the second biggest trading partner, only after to the United States.<sup>13</sup> For the U.S., China ranked 5<sup>th</sup> trading partner after Canada, Japan, Mexico and Germany in 1997.<sup>14</sup>

At the International Chamber of Commerce's 35<sup>th</sup> Congress in Shanghai in April 1997, Singaporean Trade Minister George Yeo warned of the negative effects of China's exclusion. He said that delays were fostering disaffection among a generation of young and politically influential Chinese officials and politicians. Rather menacingly, he likened the situation facing China to that confronting Japan during 1930s as it struggled to build an industrial base in the face of hostility from the West to its economic development. The Trade Minister said the result of the West's opposition was the rise of Japanese nationalism that spawned World War II.<sup>15</sup> Possible negative effects on China's domestic politics and Asia-Pacific security if it is not admitted were extended here again to support economic negotiations for China's WTO entry.

While Mr. Yeo used a scare tactic, the Hong Kong government was more statistical. The Hong Kong Trade Development Council chairman Victor Fung presented a report to GATT director-general Peter Sutherland on October 5 1994, that claimed China's import liberalization had added \$36 billion annually to other countries' exports to China over the past eight years. The report predicted that admission to the WTO would boost China's purchasing power and its imports, which was predicted to exceed \$1 trillion soon after 2000. Also, according to the report, "In terms of imports as a proportion of the country's GDP, China is now at least twice as open as India and Brazil, and significantly more open than the United States and Japan." Imports were equivalent to 19 per cent of China's GDP in 1993, compared with 10 per cent in India and the US and six percent in Japan and Brazil.<sup>16</sup>

Assistance to the Hong Kong report came from an unexpected quarter. On September 18 1997, the World Bank forecasted on the occasion of launch of its China 2020 report, that China's share in world trade would triple over the next 25 years to 10 per cent, making it "a major engine of growth for world trade". It also predicted that benefits to China alone would be US\$116 billion a year by 2005, with closer global integration bringing rising wages for both industrialized and developing nations.<sup>17</sup>

Thus, many Asia-Pacific nations believed that the China's entry would vastly promote regional interests. Economically, the market of China is incredibly promising domestically as well as for neighboring countries and its inclusion for the trade body seemingly would make market-oriented reforms of China irreversible. In addition, there would be external

benefits. China's participation, they maintained, will positively contribute to regional security and enhance bargaining positions of the region's developing partners in their trade negotiations with China. Governments of many Asia-Pacific nations thus considered that the economic merits of China's WTO entry would bring about favorable political effects. In short, they perceived that China's entry would lead to a win-win situation while effects of its exclusion would be destructive for both China and Asian neighbors. Former Prime Minister Lee Kuan Yew of Singapore aptly explained the sentiment by saying, "For reasons of peace and stability, integrating China into an international framework is not a question of choice, but of necessity."<sup>18</sup>

Not only many Asia-Pacific nations shared a supporting idea for China's entry into the WTO but APEC forums became an institution that provided occasions and opportunities for promoting the entry. Utilizing the occasion of the annual conference of Asia-Pacific Economic Cooperation forum held at Osaka in November 1995, China canvassed the officials of member economies for support for her bid to join the World Trade Organization. One of its efforts was a meeting of Chinese Minister of Foreign Trade and Economic Cooperation, Wu Yi with Japanese Prime Minister Hashimoto.<sup>19</sup> The informal APEC Summit Conference in Osaka responded to the Chinese plea by issuing a declaration that indirectly supported the China's entry.<sup>20</sup>

The Asian financial and monetary crisis since 1997 compelled an APEC-affiliated informal non-governmental organization to take action. Early in 1999, the Pacific Economic Co-operation Council (PECC), consisting of business leaders, government officials and academics, that report to APEC, declared that China's membership to the WTO was critical to sustain recovery and growth in the Asia-Pacific region.<sup>21</sup>

Indeed, until the end of 1999, the APEC forum provided five occasions and led to two more opportunities for bilateral summit conferences between President Bill Clinton and President Jiang Zemin of China. The first summit between the two leaders was held at Seattle in November 1993. The second opportunity was at Bogor in Indonesia in November 1994. Though they were unable to meet at Osaka in 1995, they met again at Manila in 1996. At the Manila conference, the two leaders announced an exchange of state visits in two years time. Observing the commitment, Jiang Zemin's state visit to the U.S. was realized in October 1997. Within a month, they met again at the APEC forum in Vancouver. In June of 1998, Clinton returned a state visit to China.<sup>22</sup> Clinton did not visit Kuala Lumpur in 1998 and thus they did not meet at the APEC forum, but they enjoyed a reunion in New Zealand at the Auckland APEC summit in 1999. Apart from APEC, the two leaders met one more time in New York at the occasion of the 50<sup>th</sup> anniversary celebration of the United Nations on October 25 in 1995.<sup>23</sup>

So far we have confirmed that many Asia-Pacific nations have shared a positive view for China's entry into the WTO and that the APEC forum became an institution that provided opportunities and occasions to enhance understanding among Asia-Pacific nations on the issue. The Forum especially assisted discussion between the United States and China. What about more concrete actions of APEC member economies to promote

### China's entry?

Five times from 1995 through 1999 at quadrilateral conferences of Trade Ministers among Japan, the United States, Canada and the European Union, the Japanese government pushed the United States to take a more flexible attitude toward China's entry.<sup>24</sup> At the Kobe conference in 1996, after intensive debate, the participants agreed that it was essential to open WTO to the entry of economically meaningful markets and took a step forward to admit China with certain conditions.<sup>25</sup> At the Versailles meeting in 1998, Japanese government requested that China should be allowed to join the World Trade Organization by 2000.<sup>26</sup> The Tokyo conference of 1999 issued a following statement. "We welcomed progress made in respect to the admission of China and will continue our respective discussions with a view to completing these admission negotiations prior to the Seattle ministerial meeting to enable China to participate in the next round as a WTO member."<sup>27</sup>

From October 24 through 25 1996, the Japan Institute of International Affairs, an affiliate organ of the Japanese Foreign Ministry, organized a seminar during which some 30 government officials, academics and businessmen brainstormed problems concerning China's stalled WTO entry. Prime Minister Hashimoto directed the Foreign Ministry to arrange the seminar to give fresh impetus to China's WTO membership bid before the world body's ministerial meeting in Singapore in December of the same year.<sup>28</sup> Two weeks later, China adopted an idea floated at the seminar by pledging at the Working Party meeting on China's WTO entry a "standstill" on any new laws or policies that were inconsistent with WTO principles.<sup>29</sup>

Finally, on July 8 in 1999 during a state visit of Prime Minister Keizo Obuchi, Japan and China concluded bilateral negotiations on China's accession to the World Trade Organization. With the signing of the WTO entry agreement, Japan became the first country of seven industrialized nations to officially approve Beijing's 13 year long bid. "We hope the Japan-China WTO accord will spur others to speed up their efforts as China's entry into the WTO is beneficial to global trade." A Japanese senior official said in an obvious reference to the stalemate in China-US, China-EU WTO negotiations.<sup>30</sup> The conclusion of the bilateral agreement did not therefore simply reflect a compromise reached between the two nations but Japan undoubtedly aimed to increase the diplomatic and political support for China's WTO entry by the action.

On July 13, Australia followed Japan's action by concluding her own bilateral accord for China's entry. The two nations agreed on both service and goods trades.<sup>31</sup> Indeed, cooperation had existed between Japan and Australia ever since Prime Minister Hashimoto proposed on November 22 in 1996 to Australian Prime Minister John Howard that they work together to promote China's WTO access.<sup>32</sup> The agreement by the Australian government within a week after the Japan-China agreement may possibly be interpreted as an important part of joint coalition-building actions on the issue. In fact, a couple years before Japan and Australia, New Zealand and South Korea had already reached trade agreements with China.<sup>33</sup> Therefore, it was predictable that other Asian nations followed suit. But it was not clear whether the US would take similar action, because Deputy US Trade Representative Richard Fischer told the press that there was

not a meaningful result in the Japan-China agreement and it left a hard work for the US to open China's market further.<sup>34</sup> Therefore, the only evident fact was that China's entry was not allowed even after 13 years' toil. Why was it taking so long despite collaborative statements and actions by many Asia-Pacific nations?

### **Causes of Delays**

As previously described, China formerly submitted an application to be a member of the General Agreement on Tariffs and Trade in 1986. Next year, the GATT set up a working party, which would negotiate with China on a general protocol. However, the smooth proceeding of the negotiation was severely disrupted by the Tiananmen Square incident, which took place in 1989. The massacre of democratic activists by the Chinese authorities seriously deteriorated the gradually enhanced reputation China had enjoyed since the start of opening policy in 1978. The GATT negotiation naturally stopped and China had to wait until 1992 to resume negotiations.<sup>35</sup> Since the Tiananmen Square incident, negotiations for China's entry became a political issue and could no longer be called a genuine trade matter. In terms of US-China relations, it was the annual extension of Most Favored Nation (MFN) treatment for China, not WTO entry that logically meant permanent provision of MFN treatment, which the most US could debate in public and offer after the Tiananmen Square incident. Human rights groups and their sympathizers in Congress seriously criticized even one-year extensions of MFN.

However, on November 13 1994, on the eve of APEC forum in Indonesia, The New York Times reported that the United States and China were entering into a final phase of long and heated negotiation over the terms for Beijing's entry into the World Trade Organization. The organization was to succeed the GATT on the New Year's day of 1995. Thus, December 31 was considered the deadline for China to be a founding member of the new international trade body. In a summit meeting in Jakarta on November 12<sup>th</sup> with President Jiang Zemin, President Clinton reiterated that the U.S. government wanted China to be admitted to the accord, but that Beijing first must take further steps to open its markets.<sup>36</sup> Washington complained that China's tariffs remained too high and too numerous. It also pressed the Beijing authorities to dismantle trade barriers in the banking and finance sectors. Beijing's industrial policies, which focused on assisting essential industries like automobiles, telecommunications and petrochemicals, were criticized and questions were raised to whether the Communist leadership will adhere to commitments on market access. Most of all, It was strongly demanded that China government commitment to protecting intellectual property rights such as computer software, videos, and compact disks was strongly demanded.<sup>37</sup> Indeed, during this period, an intense trade friction over the piracy problem was going on between the two countries. US Trade Representative Mickey Kantor repeatedly warned that unless Chinese piracy of American intellectual property rights was stopped, Washington would enforce sanctions and would not support China's membership for the WTO.<sup>38</sup> An important international economic background of the negotiations was that the service trade and protection of intellectual property became important negotiation agenda for the on-going Uruguay

round session and conditions for China's entry became apparently heightened, for example, compared to 1986 because of the influence of the round negotiation. A more direct point of consideration for the Clinton administration was that the US trade deficit with China was sharply rising from \$18 billion in 1992, \$23 billion in 1993 and \$30 billion in 1994 according to some US statistics.<sup>39</sup> Indeed the figure was approaching nearly half the size of trade deficit with Japan.<sup>40</sup>

Responding to the America's attitude, China's Trade Minister Wu Yi bluntly accused at a news conference the United States of violating the "most important commitment" in the 1992 accord, which called on Washington to staunchly support China's bid to join the GATT.<sup>41</sup> Despite the protest, China missed to be a founding member of WTO. The two governments however concluded an agreement over the protection of intellectual property rights on February 26 in 1995 and WTO entry negotiation anyhow resumed.<sup>42</sup>

An issue external of trade, however, soon surfaced to disrupt negotiations once again. The US government allowed Taiwanese President Lee Teng-hui to pay a private visit to the United States in early June.<sup>43</sup> Protesting that the visit constituted a break with Washington's 'one China' policy, Beijing recalled its Ambassador to the US.<sup>44</sup> In addition, an American human rights advocate, Harry Wu was jailed and convicted of stealing state secrets by the Chinese authorities. The accident naturally aroused an outburst of protest by human rights organizations in the United States. Although on October 24 Clinton and Jiang were able to meet in New York at the occasion of UN 50<sup>th</sup> anniversary celebrations, the most they could do was to repair strained bilateral relations and naturally WTO entry issue was hardly discussed.<sup>45</sup>

The atmosphere for the negotiation worsened when China conducted a missile exercise near the water of Taiwan to discourage Taiwanese moves for independence. US Trade Representative Mickey Kantor testified at Congress that negotiations had indeed become delicate and difficult because of the missile exercises and human rights situation in China.<sup>46</sup> Chinese Foreign Trade Minister, Wu Yi, shot back, saying "If some countries try to block China WTO accession on the basis of the military exercises, that will not be popular and will fail to win the support of other countries."<sup>47</sup> Thus Madam Wu Yi protested the intrusion of political issues in economic negotiation.

Meanwhile human rights violations seemingly continued in China. For example, Beijing sentenced a prominent dissident, Wang Dan, to a lengthy prison term in October 1996. Although the Clinton administration formerly separated human rights from provision of Most Favored Nation's Treatment since 1994, an official acknowledged after Wang's sentencing, "it's painful to reward that kind of behavior with talk of letting China into the ultimate club of trading nations." In fact, even after 1994, many Congressmen did not abandon the linkage. There were rumblings from some Democrats and Republicans that any United States decision to agree to Chinese entry should be subject to Congressional approval.<sup>48</sup> Indeed Clinton had to continue delicate political maneuvering from the spring of the Presidential Election year. The most he could do was to avert taking a possible political risk by agreeing China's WTO entry.

Moreover, opinions within the administration were also divided. While many State Department officials viewed China's entry into the World Trade Organization as a concrete



example of how the two powers could work together on economic disputes and hoped to reach an agreement in 1997, the United States Trade Representative's office tended to take a far more hawkish view. It insisted that China should take radical steps to open its economy on what it called "commercially meaningful terms."<sup>49</sup> The Government reported that the trade deficit with China rose in September to another record. The figure with China was \$4.73 billion and \$1 billion higher than the September deficit with Japan. For the second consecutive month and the third time in 1996, the deficit with China was larger than any other nations.<sup>50</sup> Therefore it appeared for the President that there weren't enough supporting political forces for his decision to let China in the trade club.

Indeed there were even suggestions that Clinton should not meet with Jiang alone at the APEC forum in the Philippines because of human rights problems.<sup>51</sup> Saying, "We're doing the right thing to have this meeting," Clinton refused the suggestions. Jiang responded, saying to journalists that the timing of the meeting just after Clinton's reelection gave it special importance. They met at the Central Bank of Manila on November 25 in 1996. The two leaders, however, made little substantive progress, but agreed to exchange state visits over the next two years.<sup>52</sup>

After the summit, however, the Chinese government became more active in seeking its entry for the WTO. "They didn't think we were serious about it last year (1996) because of the election," a senior official of US government explained. "I think they now believe that we will not stand in the way of their entry to the W.T.O. on political grounds if their offer is sufficient."<sup>53</sup> Indeed, in late January 1997, China made a new offer to abandon many of its largest trade barriers. Among the list of concessions, there were such proposals as the gradual elimination of export requirement for foreign companies in China, the reduction of local content requirement levels, and the scrapping of laws that bar many foreign companies from trading in China.<sup>54</sup>

Despite the Presidential Election year being over, politics was, however, not entirely dissipated. On March 20, with two other leading Democrats, Representative Richard A. Gephardt of Missouri, the House minority leader, introduced legislation that would require a Congressional vote before the Administration could agree to let China join the World Trade Organization. Gephardt claimed, "There are enormous implications of how this is done, for every worker in America and every major company in America."<sup>55</sup> Here, not only human rights but also labor unions' interests were at stake. Labor unions had been concerned with a possible flood of labor-intensive products from China, such as textiles, toys, and footwear, after WTO entry and its effects on the job situation in the United States. Here human rights are connected with job problems.

The Republicans followed the Democrats' lead. The House Speaker, Newt Gingrich, warned on April 30 that China's favorable trading status depended upon how Beijing would handle the British colony's transition to Chinese rule, that was scheduled in July. Indeed Economic statistics clearly indicated how Hong Kong was important. Hong Kong was the economic gate way to the unrivaled potential of the Chinese market. Already 40,000 Americans lived there and more than 1,000 American companies employed about 10 percent of Hong Kong's work force. With 6.5 million people, Hong Kong was the world's eighth-largest trading economy and America's 11th-largest export market.<sup>56</sup>

But what Gingrich and many other Congressmen in the United States had in mind were not simply concrete economic interests in Hong Kong. They have rather questioned how trustful a partner China could be in the international community. If Beijing did not live up to its commitments to preserve democracy, human rights and a market economy in Hong Kong, Gingrich said, “there would be serious long-term damage to our relations” and China’s relation with the rest of the world.<sup>57</sup>

To some extent, the Clinton administration, especially the US Trade Representative office, shared with the Congressional leaders an idea to use the WTO entry as a diplomatic tool, not only to improve the market access but also to enforce political and social change in China. In public, Washington cast demands in purely economic terms, declaring that China must join the WTO on “commercially acceptable terms”, like every other nation. As Mickey Kantor said as he left the post of Commerce Secretary: “In fact, we are using all of these tools to try to open up societies.”<sup>58</sup> After having denied that there was any basis for allegations that the Clinton Administration’s policies toward China had been influenced by Asian business contributions to the President’s 1996 campaign, Laura D’Andrea Tyson, the President’s former economic aid, wrote in *New York Times* that, “China’s admission to the World Trade Organization — on commercially acceptable conditions — was probably our single most effective means of shaping more open market-oriented China.”<sup>59</sup>

Things, however, moved contrary to what Kantor, Tyson and others expected. In the summer of 1997, many South East Asian nations fell into a contagious currency crisis and China became increasingly alarmed by its spreading pace. Vice Premier Zhu Rongji said on September 23 that he planned to move cautiously in opening the nation’s markets and exposing its sclerotic state-owned enterprises to foreign competition. The *China Daily* reported on the same day that Liu Jibin, Vice Minister of Finance, was backing away from any quick move to make the Chinese currency fully convertible into dollars, and vice versa. Liu was quoted as saying that the Southeast Asia crisis had sent “a warning signal” to other developing nations about the dangers of surrendering control of their currencies to speculators and investors.<sup>60</sup> Under the situation, President Jiang Zemin journeyed to the United States and the two Presidents met on October 29th. Unfortunately, despite the fact it was the first state visit of a Chinese leader in a dozen years, they made little progress in narrowing differences over the terms for China’s entry into the World Trade Organization.<sup>61</sup> The only tangible exception was that China made a purchasing order for 50 Boeing commercial airplanes for \$3 billion that would somewhat reduce US trade deficit with China. In fact, the spotlight was stolen from the summit conference by the gyrations in Southeast Asia and in China’s new special administrative zone, Hong Kong.<sup>62</sup> At the press conference, the two leaders twice touched on the financial turmoil in Asia, and Jiang went to some lengths to argue that the underlying condition of Hong Kong was solid. The two Presidents agreed that Secretary of Treasury, Robert E. Rubin and Zhu Rongji should work together to “promote financial stability in Asia.”<sup>63</sup> It was clear that caution for financial crisis restrained China to take a more bold trade policy.

The financial crisis continued to 1998, even as the date of Clinton’s state visit to China approached. As for its macro policy, Treasury Secretary Robert E. Rubin praised China for maintaining the value of its currency and called it “an important island of stability” in a

financially turbulent Asia.<sup>64</sup> But, when it came to trade policies and domestic economic reforms, China was not ready to make the changes necessary to join the World Trade Organization. Charlene Barshefsky, United States Trade Representative, said so on June 20 after two days of talks with Chinese officials.<sup>65</sup> In addition to the Asian financial crisis, China was in the midst of a politically risky revamping of state enterprises, which had raised unemployment. Some ministries and industries in what remains a largely state-run, bureaucratic economy worried about the rapid opening of ailing domestic industries to foreign competition, and an end to the monopoly positions of state-run commodity traders as well as banks, insurance companies and other service sectors.<sup>66</sup> Indeed domestic politics in China influenced negotiation attitude of Ministry of Foreign Trade and Economic Cooperation (MOFTEC). Because the financial crisis obviously strengthened the political position of opposing forces to economic reforms and speedy opening of China's market.

Although China did not suffer as much as many Southeast Asian nations, the US Commerce Department reported that exports to China sharply slowed and imports of Chinese products exploded, as the country desperately sought to sell goods in the US that would ordinarily be sold elsewhere in Asia. According to the report, the US trade deficit in August widened to \$16.77 billion and surprisingly more than a third of the entire deficit was with China.<sup>67</sup> Since the Chinese were in no mood to hurry the WTO agreement, during his nine-day state visit to China from late July, President Clinton could not do much but to reiterate in his address that "China's economy still is burdened with complicated and overlapping barriers." He cited the problems of inefficient state monopolies, weak legal and regulatory systems, wasteful and polluting energy patterns, corruption, closed markets and poor supervision of the nation's banks. Clinton then said he hoped that Beijing would make the difficult decisions needed to bring China into the World Trade Organization.<sup>68</sup> The point of argument was not simply a request for more liberalized trade policy but the President demanded drastic reform to establish a rule-oriented holistic economic regime in China.

For those decisions, China obviously needed time to wait until Asian financial crisis blew over. But, they knew they did not have time. On a bitterly cold day in Beijing in early January in 1999, Zhu Rongji, the Chinese Premier, delivered Alan Greenspan, the chairman of the Federal Reserve, a startling message. Zhu said that China was finally ready to offer huge opening of its markets — in telecommunications, banking, insurance and agriculture — in return for membership into the World Trade Organization.<sup>69</sup> Soon, the formal bilateral negotiations resumed and it culminated in Barshefsky's visit to Beijing in early March. "The Chinese Government has exhibited a very serious attitude and strength of purpose that has helped to make this week particularly productive," said the Trade Representative after her two-hour talk with Premier Zhu.<sup>70</sup> A senior researcher for the central Government's Development and Research Center, Ji Chongwei explained the background. "If China doesn't become a member before the Seattle meeting later this year; the issue will drag on for years."<sup>71</sup> The next round of global trade talks was scheduled to open on November 30 in Seattle and it was believed that conditions for entry would be tougher at the new round.<sup>72</sup> In addition, the year 2000 was a US Presidential Election year and predictably candidates would vie each other in showing how tough they could treat

China. Therefore, there was a possibility that China had intended to conclude the WTO agreement during the scheduled Premier Zhu's trip to the US in April. However, despite of his high reputation as an economic reformer, Zhu was not quite welcomed in the United States.

On March 6, The New York Times reported that American security officials believed that in the 1980's Chinese spies had learned the American design of an advanced, small nuclear warhead, used for hitting multiple targets with a single rocket.<sup>73</sup> Reflecting Congressional anger over the suspicion toward China, Jesse Helms, a North Carolina Republican, and Ernest F. Hollings, a South Carolina Democrat, said they would move to stop any effort by the White House to help China become a member of the WTO.<sup>74</sup> Becoming concerned with assertions that China stole nuclear secrets, its questionable campaign contributions to President Clinton's 1996 re-election and worsening political repression in China, the Senate majority leader, Trent Lott said on April 7, "Letting China into the W.T.O. at this time shows how far this Administration is willing to go in an effort to salvage its failed policy of strategic partnership with China." Lott also argued that he was skeptical that even with its WTO entry, China would end what he said were its "predatory" trade practices.<sup>75</sup>

After some hesitation to whether he should postpone a visit or not, Premier Zhu Rongji decided to go to the United States. Although the Chinese Prime Minister showed his courage, his counterpart did not. President Clinton, who had repeatedly made commercial diplomacy the centerpiece of his foreign policy, backed away. Distracted by Kosovo, he did not give clear instruction to his trade negotiators until very late in the talks about how much he wanted an agreement.<sup>76</sup> So, in the end, the WTO entry agreement was not concluded between the two Governments. Some officials expressed fears that any deal involving China would further divide Democrats, enrage labor unions and end up in a huge battle on Capitol Hill that the President would most likely lose.<sup>77</sup> Zhu also blamed US domestic politics for his failure to seal an accord with President Clinton.<sup>78</sup> A Hong Kong based newspaper, South China Morning Post, named a feature article of the summit; "Beijing-bashers stopped pact."<sup>79</sup>

But a strong pressure for the Clinton administration came from a different quarter. As details of the concessions by China became disclosed, business executives began a campaign of E-mails and phone calls about how to make Clinton quickly finish the accord. Then came the news of failure to reach a trade agreement. Many businessmen became furious. Maurice Greenberg, the chairman of the American International Group, complained to Treasury Secretary Rubin that the Administration "had missed the train."<sup>80</sup> When the White House set up a briefing about the trade deal, the Administration encountered what one participant called "a firestorm." Robert Kapp, the president of the U.S.-China Business Council, nearly shouted Gene Sperling, the President's top economic adviser, that the White House had shrunk from a deal that would bring billions of dollars to American businesses, simply because it feared an ugly fight on Capitol Hill. Sperling urged patience, saying that the President would wait for the right deal and concluded, "we're all in agreement here." "No we're not!" Kapp and several other executives yelled back.<sup>81</sup> Indeed, the release of 17-page document on the China's boldest trade concession

helped galvanize support for its WTO membership. Same Robert Kapp said, "It had an electrifying effect, not only on business, but on many in Congress."<sup>82</sup>

Chinese officials became not only indignant that the United States had snubbed China's trade concessions but also irritated that Washington had released the results of the negotiations midstream, and not in the context of a completed agreement. On May 7<sup>th</sup>, the New China News Agency even denied the authenticity of the document, "The so-called 'list of agreements' the U.S. side unilaterally publicized in newspapers and on the Internet does not accord with what actually happened."<sup>83</sup> Indeed political repercussion in China was so intense on the Prime Minister's failed trip despite his seemingly excessive compromises that Zhu Rongji was said to have offered his resignation upon his return to Beijing.<sup>84</sup> Key opponents of reaching an agreement are the Ministry of Information Industry, which maintains China's telecommunications monopoly; agricultural interests; big state-owned enterprises, and some of the country's poorer, inland provinces, which all stand to suffer from trade liberalization in the short run.<sup>85</sup> In addition, a sudden accident of the NATO bombing of China's embassy in Belgrade on May 7 worsened the situation and US-China trade talks stalled indefinitely.

Both sides were, however, searching for a reason to resume talks, because a new round of WTO trade negotiations was supposed to begin on November 30<sup>th</sup> in Seattle. Clinton also regretted that the negotiation had stalled because of his indecision and knew the period before the next Presidential Campaign started would be the final moment for him to achieve an agreement. On July 16, China suddenly told U.S. officials that it was ready to hold bilateral trade discussions in Beijing.<sup>86</sup> Beijing was able to take the action because the United States deposited \$4.5 million in a Chinese bank account as part of compensation to the families of three Chinese killed during the NATO bombing.<sup>87</sup> On September 11<sup>th</sup>, President Clinton and Chinese counterpart Jiang met face to face once again at the occasion of the APEC summit conference in Auckland, New Zealand. The meeting was held to end the chilled U.S.-China relations and confirmed the immediate and serious resumption of WTO entry talks.<sup>88</sup> Through the phone and Treasury Secretary Lawrence H. Summers' trip to China, Clinton repeated to Jiang and Zhu his serious intention to reach an agreement.<sup>89</sup> Finally on November 15<sup>th</sup>, U.S. and Chinese negotiators agreed on the terms for Beijing's entry into the World Trade Organization and a signing ceremony was held at the Ministry of Foreign Trade and Economic Cooperation in Beijing.<sup>90</sup> Our story clearly showed that strong political will of leaders of both sides was the key to conclude the bilateral economic negotiations.

The Washington Post Editorial once exaggeratedly argued that China's accession to the world trading community could be the largest bridge between East Asia and the West since Marco Polo's voyages.<sup>91</sup> However, if China's entry was actually realized, it will certainly be the biggest step forward for China's integration into the global community since its return as a permanent member of the UN Security Council.

## **Conclusion**

Most Asia-Pacific nations believed that the China's WTO entry would promote

regional economic interests and its inclusion into the trade body would make market-oriented reforms in China irreversible. An important assumption in this argument was that China would play by the rules once it was allowed to enter. The possibility of external benefits also played a significant role in Asia-Pacific nations sympathizing with the Chinese side. The China's participation, they maintained, would positively contribute to the regional security and enhance bargaining positions of the region's developing partners in their trade negotiations with China. In short, they perceived that the China's entry would bring about a win-win situation while effects of its exclusion would be destructive for both China and Asian neighbors.

In my limited research, however, there was no evidence that the US government cared a great deal about the ideas and supporting actions of many Asia-Pacific nations. Partly because it has always been an old practice of GATT/WTO that consent of the largest trading partner was necessary for any applying nation to be a formal member and therefore the U.S. felt it did not need to bow to pressure from other Asia-Pacific nations. This practice appears to be against an important WTO principle of multilateralism, because theoretically speaking, bilateral negotiations between an applying nation and its biggest trading partner will always be a significant key in new membership discussions. However, this practice can be justified that unless there is an agreement from the largest trading partner, any trade rules regarding a new member can not smoothly be practiced in real trading. But here an intrusion of political power relations will take place regardless of economic rationality. Especially peculiarities of U.S.-China relations complicated China's WTO entry bid and became a reason of long postponement.

Contrary to many other Asia-Pacific nations, the US, especially Congress and the Trade Representative office, argued in a very pessimistic way. They considered that China should not be allowed, or at least be postponed membership to the WTO, because its economic practices were not rule and market-oriented enough. In addition, China was deemed a security risk for the international community and a negative reputation in terms of human rights could not be easily refuted. Therefore, in the United States' view, it could not be trusted as a partner of the international trade body. WTO access should thus be fully used before, not after, entry as a diplomatic means to promote democracy and economic reforms in China. They also believed that unless China changed sufficiently, its entry would disrupt the smooth flow of international trade and might even undermine the WTO completely because of its scale. A delegate for the International Chamber of Commerce's 35<sup>th</sup> Congress put the sentiment aptly, "When you go fishing you want to be sure that you don't catch a shark which will destroy your net."<sup>92</sup> In short, this paper has clearly shown that perceptions of interests were entirely at odds between many Asia-Pacific nations and the United States.

The APEC forum has been an important instrument for providing five occasions and led to two more opportunities for bilateral summit conferences between President Clinton and President Jiang Zemin. However, this research clarified that providing opportunities was not enough. Each time they met, the two leaders were inescapably influenced by

problems external to trade, namely a US visit by Lee Teng-hui, arrests of Chinese dissidents, China's missile exercise near Taiwan, the campaign contribution problem by Chinese businessmen, the 1996 Presidential Election, and the return of Hong Kong to Chinese rule. So called Beijing bashers in the United States mixed these issues with pure trade negotiations.

Chinese piracy of intellectual property rights was a trade issue. But it also had deep relations with the social fabric of China and American perception of Chinese society. In short, it was more than an economic issue. The currency and financial crisis of 1997 onward was an economic issue too, but, politically using the issue, China's old guard whose major power base includes state industries, slowed down the liberalization of China's economy. More than in China, domestic opinions in the United States were seriously divided and therefore for the President to make important decisions regarding China inevitably meant to make many enemies. Lack of political consensus at home compelled Clinton to continue an indecisive attitude regardless of economic rationality. In short, domestic politics of both nations, especially that of US, are major causes of delays. Indeed there has been a paradox between the necessity of top leaders' decisions for an agreement on this scale and the inevitability of domestic political influence on those top leaders.

After all the fuss over the China's entry, the U.S. and China concluded a bilateral agreement on November 15<sup>th</sup> 1999. However, a general protocol, which requires a two third majority vote of WTO members, has yet to be agreed and is not yet concluded at the moment of publication of this paper. Therefore China's long march to the world trade system still continues.

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## 貿易交渉の本質

### 中国のWTO加盟に関する一研究

1978年からの改革開放政策開始以来、中国外交は外向きな姿勢を継続し86年にはGATT（後にWTOに改組）加盟を申請するに至った。しかし、申請から15年を経た2000年末段階でも中国のWTO加盟は実現していない。加盟が延期されてきた最大の理由は米国との二国間交渉が1999年11月まで妥結しなかったことにある。WTO加盟のためには申請国が自らの最大貿易相手国（中国の場合は米国）から了承を得ることが慣例となっており、それが得られなかったのである。原則的に中国のWTO加盟を望ましいこととしてきた米国が、実際にはなぜ長年加盟を了承してこなかったのであろうか。それは貿易障壁の撤廃と中国市場の開放を実施するという加盟の経済的条件が満たされなかったからだけであらうか。それとも、人権・台湾・武器移転・献金疑惑・スパイ事件等の経済以外の外部問題が関係したのであろうか。本研究では貿易交渉について政治経済学的分析を試みる。