

CHINA'S ACCESSION INTO THE WORLD TRADE ORGANIZATION

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Abstract: This paper outlines the process of China's accession into the World Trade Organization (WTO) with special focus given to the negotiations between the United States and China, and the European Union (EU) and China. Various economic and political issues behind the scene explain why the US refused to accept China into the WTO for the last 14 years. The economic and political changes in America coupled with the economic and political changes in China placed the two countries in a position where a U.S-China bilateral agreement could be made. The EU acted as a free rider in these negotiations such that it achieved most of its objectives from the conclusion of the Sino-US negotiation. Moreover, the EU could have topped China's concession to the US if it had taken advantage of the opportunity right before the PNTR vote came to the US Congress.

INTRODUCTION

On May 24, 2000, the US Congress' decision to grant permanent normal trade relations (PNTR) with China concluded 14 years of debate over China's accession into the World Trade Organization (WTO). PNTR links China's political condition with the issue of granting normal trade relation status based on the Jackson-Vanik Amendment. In fact, PNTR has allowed the US to control trade talks with China. After a US-China bilateral agreement was reached on November 1999, covering four broad areas of market access,¹⁾ China's PNTR status became the means by which it entered the WTO.

Since 1986, China has sought to become a member of the General Agreement of Trade

and Tariff (GATT), which was replaced by the WTO on January 1, 1995. To examine China's candidacy as a member of the world trade system, working group meetings led by "quad parties"—the US, Japan, Canada, and the EU—were formed and numerous bilateral meetings between China and other parties were organized. Negotiations progressed on either bilateral or multilateral tracks. Bilateral negotiations were geared towards obtaining China's commitment to remove specific market access barriers and ensure the Chinese domestic market to a greater number of foreign goods and services. Multilateral negotiations between China and the Working Party of 44 members including the US focused on ensuring that China will conform its trading practices to the rules set out in the WTO agreement. China made reasonable progress in completing negotiations, particularly at the bilateral level. China is also expected to complete ongoing multilateral negotiations with members of the WTO Working Party.

The former General Director of the WTO, Mr. Ruggiero, argued that "the WTO increasingly

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1) The four areas of agreement are (1) to reduce China's tariffs; (2) to remove non-tariff barriers such as quotas; (3) to reduce its limits on trade in services; and (4) to remove barriers on trade in agricultural products.

needs China as a full and active member to be a truly universal system”(Ruggiero, 1997). The consensus among the nations was that, with its growing political importance and significant contribution to the international market, China should not be excluded from the WTO. Although the PNTR was one of the most controversial issue in bilateral negotiations between the US and China, it became apparent that China may gain accession into the WTO within a year’s time, once the PNTR vote is presented before Congress.

This paper analyzes the bilateral negotiations between China and its major trading partners in a domestic and international context. The accession process is different from stipulations declared by the WTO, which was originally designed to ensure equal voting for all members. The process usually involves sudden shifts in leverage as well as political platforms of some countries with significance. Therefore, understanding the Sino-US or the EU-China negotiations demands that one examine it from a contextual point of view. This article tries to answer the following questions to highlight the overall characteristics of the bilateral meetings: (1) Why did it take 14 years to reach an agreement between the US and China?; (2) Who possessed more leverage at critical moments?; and (3) What finally caused the dramatic breakthrough?

Section II gives the background of China’s entry into the WTO. Section III discusses the negotiations between the US and China. Section IV analyzes the negotiations between the EU and China. Section V discusses the characteristics of the bilateral negotiations and ends with concluding remarks.

BACKGROUND OF CHINA’S WTO ACCESSION

The Process and Nature of China’s Accession into the WTO

The WTO stipulates that “any state or customs territory having full autonomy in the conduct of its external commercial relations may accede to the WTO on terms agreed with WTO members.”²⁾ The accession process begins by a government’s request for accession. The General Council then establishes a Working Party to consider that request. The Working Party uses a Memorandum which covers every aspect of the applicant’s foreign and economic policies along with other relevant information to perform a detailed examination. At the appointed time, WTO members engage in bilateral negotiations with the applicant regarding concessions and commitments on goods and services. The Working Party is responsible for preparing the Protocol of Accession (containing the precise terms and conditions of entry into the WTO) and Schedules of Concessions and Commitments on Goods and Services. Once the General Council accepts the prepared package, the applicant is free to sign the Protocol. The applicant becomes a member thirty days after the acceding government sends the WTO its formal notification of the completed ratification process.³⁾

The decision to invite a given country into the WTO is designed to be a plurilateral process where players can voice their position as free equals. In reality, however, the unique consensus-building mechanism within the WTO leaves the decision-making process to only a handful of powerful countries. Negotiations over

2) WTO homepage, “About the WTO,” <http://www.wto.org/wto/about/accegen.htm>.

3) WTO homepage.

China's accession process had been held in abeyance for 14 years by these politically dominant countries. It is obvious that many countries who were implicitly cautioned by the US not to sign or wanted to be a free-rider, were reluctant to cast their support for China, as exemplified in the EU-China talks. This made the outcome of the US-China trade normalization negotiation to be of great importance in comparison with the remaining bilateral meetings China would later have.

At the present moment, China is finishing its bilateral negotiations with WTO members and performing multilateral negotiations on the Protocol of Accession and Schedules of Concessions and Commitments on Goods and Services.

Chinas Objectives as a Member of the GATT/WTO

During the past two decades, China was one of the largest and fastest-growing economies in the world. After nearly 20 years of economic reforms, China has clearly become a major participant in the world economy. China was almost completely isolated from the world before it adopted an open-door policy in the late 1970s. Even then, however, China had a small number of foreign investments by 1978. Only when Deng Xiaoping visited southern China in the early 1990's were a new round of reforms adopted, which opened foreign investments even more.

China quickly became an important trading power. Its foreign trade increased almost 15 percent annually in the past 20 years. In less than two decades, the total value of China's merchandise expanded more than 20-fold. In the international capital market, China has become the second largest recipient of foreign investment (after the United States).

As an economy in reform, China seeks to establish an efficient market system by interacting with other countries. No surprise that China desires to join the WTO to play a constructive role in the new world economic order. In particular, China's reason to join the WTO is to (1) obtain the permanent most-favored-nation (MFN) trading status; (2) participate in a multilateral framework for dispute settlements; and (3) play an active role in writing rules for the future world trading order (Wen 1998). These three reasons will be explained in turn.

(1) Since China is not a member of the WTO, it does not automatically have MFN status with its trading partners. It needs to negotiate trade agreements with each individual country. By joining the WTO China ensures itself with stable and nondiscriminatory trade relations with all countries. (2) China's economic relations with other countries are currently based upon bilateral agreements. As a nonmember of the WTO, disputes between China and its trading partners largely depend upon bilateral negotiations, most of which are settled by domestic legislation. As China integrates itself into the world economy and becomes a major trading power, a framework for settling multilateral disputes is needed for business security, fairness and confidence. (3) Current negotiations in the WTO are establishing rules for the future. As an emerging and large world trading power, China does not want to stand on the sidelines while others write the rules of the game. As China's interests were not fully represented in past GATT negotiations, which made its GATT/WTO accession very difficult, China cannot afford to be left outside of another round of negotiations.

Furthermore, drawing on the experience of countries undergoing economic reform, external pressures and obligations have proven to be an effective way to counter powerful domestic

interest groups. Although Chinese-owned enterprises threaten China's entrance into the market economy, accession into the WTO will create more competition between Chinese and foreign firms in both domestic and foreign markets. Membership into the WTO will contribute to regulatory reform and institutional development because WTO rules will also be part of national law. Finally, being a WTO member will help speed up the enforcement of existing laws.

In early 1999, President Jiang Zemin and Premier Zhu Rongji of China implicitly expressed their interest and willingness to forge an agreement with considerable concessions to liberalize their economy. The Asian financial crisis prodded China to explore new avenues to prop the country's export trade by attracting foreign investments and increasing the competitiveness of the industry sector. After Taiwan beat China in joining the WTO, the leadership also perceived it better to actively participate in the creation of rules rather than to remain passivity uninvolved (Abbott, 1999).

China's Accession to the GATT/WTO and Trade Relations

The Peoples Republic of China (PRC) has sought membership into the WTO and its predecessor, the GATT, to transform its market into a more predictable and accessible one under commercially viable protocol. Membership will positively influence economic reform and progress, stimulate fair competition, and hold economic transactions accountable to international trade rules.⁴⁾ China's effort to return to the world trade regime started in the late 1970s when China began its economic reform and

adopted an open-door policy. After more than 30 years of isolation in a centrally planned economy, both China and the GATT contracting countries needed time to understand each other before China's re-entry into the GATT. On July 11, 1986, China formally requested a resumption of its seat in the GATT. The main task of the Working Party was to examine and evaluate China's trading regime, define areas and timetables for negotiations and adjustments, and prepare a report for the GATT Council. China was granted observer status in the GATT and sent its first delegate to the 38th meeting of the contracting GATT parties in 1989. The Working Party had seven productive meetings in the period through April 1989, but was suspended until 1992 after the Tiananmen Square incident.

In 1992, a very important year in the history of China's efforts to re-enter the GATT, the Working Party held three meetings and completed a general hearing assessing China's trading system. Negotiations on the commitment and conditions for entry into the GATT also started in 1992. More importantly, China speeded up its reform in the direction of a market economy.

Following the conclusion of the Uruguay Round, China wanted to become a founding member of the new GATT. Along with distributing nationwide propaganda promoting an internationalized economy and disseminating false information on the GATT, China made a series of reforms in accordance with GATT rules. Those reforms included (1) decentralized foreign trade, (2) reduced tariff and non-tariff barriers, (3) elimination of export subsidies, (4) increase in transparency, and (5) reforms in foreign exchange.

Despite China's enthusiastic efforts, the bilateral and multilateral negotiations were not very successful. After 14 years, China was still

4) "China Accession to the World Trade Organization," (June 1999). <http://www.ccit.net/keypolicies/chinawto.html>.

unable to return to the GATT and join the WTO. The WTO as a legal and institutional foundation of the multilateral trading system required China to lower import tariffs, trade with non-discrimination, open service markets to foreign competition, protect intellectual property rights, and institute policies for foreign investment. Transparency, uniform application of trade policies throughout the country, and disciplined state-owned trading corporations are the three pillars that China must erect to stabilize their market-based economy. However, the current economic and political arrangement appears incongruous with these WTO cornerstones. China further lacks a meaningful policy that promotes competition mainly due to its long years in isolation.⁵⁾

China initially expected to recover its status in GATT in 1986, when the need to gain membership was significant for its economic development. The reason for its initiative was not just to be a member of the world economic club, but also to benefit from the status of being a GATT member. However, the possibility of benefiting from early entry into the organization has been reduced. Therefore, China's motivation and willingness to compromise with the US and the EU had become weakened, which strengthened China's position during bilateral negotiations.

China's domestic political power structure was another factor that affected negotiations. The reform party supported China's entry into the WTO because it entailed re-constructing the Chinese system. However, when negotiations arrived at an impasse and the economic situation worsened during the Asian Crisis, the reform party became weak compared to the

conservative military. If the US continued to block China's entry into the WTO, then conservatives could have a chance to seize control, a situation that the US wanted to avoid.

It should also be pointed out that China's WTO membership would reverse the recent trend of the declining FDI, which had brought a lot of attention among policy makers (Moore, 1999). In particular, opening service industries to foreign investors by speeding up the development of these industries will help create many new jobs, which can partially offset those lost by domestic economic reforms (Niquet, 1997).

From the US point of view, the prospect of expanding trade with China from its WTO membership would certainly benefit US companies. This would specifically be the case due to China's open service sector markets, such as banking and finance, consulting, telecommunications, and transportation.

MAIN NEGOTIATIONS BETWEEN THE US AND CHINA

Interests of the US and Sino-US Trade Relations

US analysts estimated that China's accession into the WTO accession will benefit the US, which can be explained in the following points:

First, China is compelled to reduce its import barrier to US products and services. The US will especially benefit from broad market access to agriculture, telecommunication and other services, insurance and banking, technology, and manufactured goods. There are also 1.2 billion potential consumers in China and its annual economic growth rate has averaged more than seven percent in the last 14

5) "Economic, Social and Legal Issues in China's Transition to a Market Economy," *Implications of China Accession to WTO*. http://www.isop.ucla.edu/eas/eass/transition/liang_wei.htm.

years.⁶⁾

Second, China's accession into the WTO contributes to ensure fair trade and set up effective protection mechanisms for US agricultural and manufacturing industries from unfair pricing and investment practices. Therefore, import surges in particular industries will be protected from product specific safeguard provision and anti-dumping protections against China under WTO provisions.

Third, China's accession into the WTO will legally block the human rights violation of profiting from goods made from prison labor. Both the Clinton and Bush administration firmly supported China's accession into the WTO based on commercial grounds. China's accession will remove the administrations burden of linking the issue of human rights with trade policies.

Fourth, bringing China into the international community does not only bring commercial benefits but a powerful opportunity to influence China's commitment to cooperate with international peace and security.

In 1999, Zhu Rongji's visit to the US was an example of Chinese flexibility in proposals with more concessions and market access. This was matched by the Clinton Administrations desire to conclude negotiations with China. After many months of struggling, on November 15, China and the US signed an agreement on China's accession to the WTO.

Sino-US Trade Relations

Trading volume between the US and China has drastically increased after the two nations established diplomatic relations by signing a bilateral trade agreement in 1979. Total trade rose from \$4.8 billion in 1980 to \$94.8 billion

in 1999, listing China as 4th largest US trading partner. However, a number of issues have strained economic relations between the two countries.

The US trade deficit with China surged from \$6.2 billion in 1989 to \$68.7 billion in 1999. The US attributed its trade imbalance to China's restrictive barriers on trade and investment. Over many years, China's violation of Intellectual Property Rights, prison labor exports, and high technology exports have been the point of dispute between two nations. High tariff and non-tariff barriers imposed by the Chinese government has made it difficult for US firms to penetrate into the Chinese market (Segal, 1999). Along with tariff and non-tariff barriers, the Chinese governments non-transparent trade rules and regulations, and foreign investment restrictions constitute unfair trade practices. The US government has reacted with Super 301 cases against Chinese unfair trade practices dating back to October 1991. With USTRs threat of imposing trade sanctions, the Chinese government responded with its commitment to reduce trade barriers by lowering tariffs and importing quota and to alleviate trade restrictions. However, Chinese trade laws and foreign investment restrictions have negatively affected to the operation of foreign firms in China.

To understand why US-China bilateral talks took 14 years, the dynamics of the process must be carefully considered. The Washington summit in 1997 and Beijing summit in 1998 played a critical role in China's accession to the WTO. These two round of summits intertwined with China's domestic political change and the economic situation of the US, resulted in China's accession into the WTO.

Barriers to China's Entrance into the WTO

However, China still encountered some

6) "China Accession to the World Trade Organization" (1999).

difficulty in route to the WTO. Despite being the world's third largest trading country, bringing a "socialist market economy under GATT/WTO rules" was a special challenge.⁷⁾

There are many differences between China's position and that of the United States. The major differences are as follows: (1) China wants a gradual system adjustment while the United States wants a rapid change; (2) The United States and other developed countries want special safeguard options to protect their economies against future import surges from China, but China does not accept this; and (3) China wants to maintain protective measures for its "infant industries" as a developing country but the United States is unwilling to grant a full range of protective measures to China despite having done otherwise with other developing countries. Although China is a developing country by traditional economic standards, being among the world's biggest economies with potential for more growth makes the issue extremely difficult and complex. (4) Despite being the world's third largest economy, China continues to define itself as a developing country, in order to avail of a more generous time frame to implement WTO requirements.

The political situation in the US further prevented China from entering the WTO. Congress demanded China's concessions and commitments as a prerequisite to grant PNTR status.⁸⁾ The protracted battles waged by anti-pathetic Executive and Legislative Branches complicated the talks. For example, some factions within the US Congress attempted to attach non-trade related concerns of human rights violations and the issue of Taiwan. This

tug-of-war was mirrored within China's politics as well. President Jiang Zhemín allegedly encouraged a Zhu Rongji's prime detractor, Li Peng, to smear the Premier's reputation within the Politburo. This was supposed to take the responsibility of the losses or 'getting soft on America' off his shoulder. Allegations of Chinese espionage of US nuclear facilities and the bombing of the Chinese embassy in Belgrade also complicated the process.⁹⁾

In addition, China's entry into the WTO was delayed 14 years by events like the Tiananmen Square in 1989, controversy over intellectual property rights, and other circumstantial matters. After the end of the cold war, America's foreign policy has changed dramatically. During the cold war era, US-China relations were limited to economic matters. Tensions between the US and China were thought to be minimal because both were working against Soviet power. However, with the end of the cold war, this US interests began to revisit the following traditional arguments about the role of ideology and principles in US foreign policy:

(1) Human rights: Throughout the 1990s, the US Congress continued to grant China yearly extensions of normal trade relation (NTR). Both the Bush and Clinton administrations, backed by businesses and agricultural organizations, have argued that diplomacy is the fastest way to bring reform in China. They insist that granting China PNTR status will eliminate barriers to U.S products, expanding exports market and creating jobs in the US. Rather than China's human rights record being a condition of their status as a trading partner, many argue that improving human rights is conditioned upon bringing China under the umbrella of international scrutiny. President

7) Regarding US-China WTO Agreement; <http://www.uschina.org/public/wto/b4ct/qanda.html>.

8) "China Accession to the World Trade Organization."

9) "China and the WTO: The Politics Behind the Agreement," <http://www.nbr.org/publications/report.html>.

Clinton, for example, argued that to promote US-China economic, diplomatic, military consolidation, PNTR status to China has a great significance and the US needs to deal with human rights issues separately.

In past years, however, Congress has tried repeatedly to terminate or restrict China's MFN status either by blocking annual extensions or subjecting it to additional statutory conditions, primarily in the area of human rights. The Democratic minority, organized labor unions, and human rights and environmental activists, argued that China's failure to observe past agreements with the US suggest that Congress should continue to hold annual reviews so that China keeps its commitment to an open market, and uphold human rights and labor standards. When the Tiananmen Massacre occurred in 1989, the Bush administration responded by limiting diplomatic and economic sanctions to China and vocalized their support for Chinese dissidents. Congress, however, linked China's human rights performance with their most favored nation (MFN) trade status, resulting in a tension between the White House and the Congress. The Clinton administration entered the White House with a commitment to do more for China's human rights. The use of economic sanctions backlashed, however, with the cost of ending US-China economic ties, even while the Clinton administration could not abandon its relationship with China by withholding it from MFN status.

Meanwhile, the widespread use of forced labor for Chinese exported goods has remained one of the most crucial issues in the U.S-China trade talks. Under the US law, importing commodities produced by forced labor is prohibited. The Memorandum of Understanding (MOU) between the two countries in August 1992 stipulated the prohibition of

Chinese prison labor exports to the US. Following this, the two countries agreed to have regular talks to discuss human rights issues. In 1994, a new MOU included the provisions enhancing US access to Chinese production facilities suspected of exporting prison labor products.

(2) Taiwan Issue: Washington would like to maintain the cross-strait status quo by having Taiwan as a de facto independent country. In May 1995, Congress voted to grant a visa to Taiwanese president Lee Teng-hui in order that he may receive a Ph.D. from Cornell University. China, however, was worried that this case could lead to a formal declaration of Taiwan's independence. Diplomatic and military pressure was therefore applied towards Taiwan, culminating in Chinese military exercises in March 1996, including missile tests in close proximity to the island. In response, the White House dispatched two aircraft carriers in the vicinity of Taiwan. Despite China's threat to use force against Taiwan and the two aircraft carriers deployed by the US, both Chinese and American leaders worked toward better relations. Chinese leaders permitted low-profile visits by Taiwanese leaders to the US and the increase of US arms sales to Taiwan. In return, the White House engaged in serious discussions with Beijing in the fall of 1996 regarding PRC membership in the WTO and first addressed the prospect of a US-China summit.

(3) China's weapons proliferation: Besides the issues surrounding human rights and Taiwanese independence, China's weapons proliferation and arms trade became an important obstacle to US-Chinese relationships and China's accession into the WTO. The US continually insisted that China fully commit to the terms outlined in the Missile Technology Control Regime. Since the end of the cold war, China has limited its nuclear exports to the

Middle East, though both the US and China sold weapons in retaliation and re-retaliation. By 1996, both states no longer considered the other's weapons export an obstacle to US-China relations.

(4) Dual purpose high-tech exports: China has always been greatly interested in receiving high technology goods from the US. The export policy on dual use exports have been a controversial issue both in China and the high technology firms in the US precisely because high technology can threaten national security. Specifically, the US government was concerned that such high technology could be used for Chinese military purpose.

(5) Intellectual property rights: The enforcement of intellectual property rights has been the main issue of US-China confrontation in the 1990s. Beginning in April 1991, China has been repeatedly designated as a Special 301 "Priority foreign Country" by USTR due to its violation of US intellectual property rights, even though the US and China have resolved much of their conflict over pirated intellectual property since 1989. China's directive to crackdown pirated goods that were manufactured and exported have greatly improved intellectual property rights (IPR). Nevertheless, the violation of IPR and smuggling remains a serious problem in US-China trade relations.

To minimize losses in US industries, in 1992 the Bush administration negotiated an agreement with China requiring Beijing to enact legislation protecting IPR. In 1995, the Clinton administration reached an agreement with China that required Beijing to close factories that produced illegal goods 1997, and sentence IPR violators to long prison terms.

(6) Regional security: China is playing an increasingly active role in Asian security and stability. US engagement with China will influence China's future orientation and yield

tangible benefits to the US.

ANALYSIS OF THE SINO-US NEGOTIATION PROCESS

An analysis of the negotiation process that lead toward this monumental agreement would engender a better understanding of US-China bilateral negotiations and China's accession to the WTO. During the Sino-US negotiations in April and November of 1999, the US secured important agreements on industrial tariffs, financial services, insurance, distribution, sanitary and phyto-sanitary (food safety) barriers and market access for the US wheat, soybeans and citrus.

In November 1995, China understood the value of being a WTO member and began to enhance market reforms with a view to receive US support. On October 29, 1997, the Washington Summit provided a diplomatic context for the two sides to expand cooperation. In this summit the two States both agreed that establishing a sound and stable relationship could serve the fundamental interests of each. Recognizing China's need for a successful summit, the US met a number of important objectives regarding the proliferation of weapons, military-to-military cooperation, and economic relations. The Washington summit was characterized by an American preference for substance and a Chinese preference for symbolism. This entailed unveiling one of its biggest trade liberalization package since becoming a sovereign state: China slashed import duties from 17% to 23%.¹⁰⁾ Following this summit, the Beijing summit was arranged for June 1988. In 1998, China offered further cuts on tariffs but the US still found the Chinese

10) For the main events in China's WTO bid, see <http://english.china.com/cdc/en/articles>.

market unacceptable and demanded greater accessibility to foreign products and services. At this point, the US more leverage than China.

Although China succeeded in using its economic importance to dissuade the US from linking MFN to China's human rights policy, this victory reflected less on China's economic importance and more on the relative importance of human rights in US foreign policy. By March 4, 1999, United States Trade Representative (USTR) Charlene Barshefsky engaged in talks with Chinese negotiators, after which she noted that "significant gaps" still remain in farm trade and services. Talks continued on March 30 in Beijing with the US Commerce Secretary William Daley who was optimistic about China's accession before the next round of global trade talks (Daley, 2000).

Zhu Rongji, the Chinese Premier visited the US on April 6 1999 and reached a breakthrough in agricultural issues. However, the talks were inconclusive due to three areas of dispute by the US.¹¹⁾ Concessions given by China during these negotiations were presumably confidential, and Zu Rongji had to return to China without reaching a concrete agreement. To his dismay, however, the USTR decided to post the terms of the inconclusive agreement on the web site, thus giving the Chinese populace access to the information. This led to severe criticisms made by the

Chinese premier and caused a stall in negotiations. Moreover, the purportedly accidental bombing of the Chinese embassy in Belgrade on May 1999, the Taiwanese president's speech referring to relations between Taiwan and China as "state to state" relations, and the US report accusing China of espionage all adversely effected the negotiation process, thus giving China more leverage. According to press reports, President Clinton regretted turning down the April 1999 Agreement set plans to repair relations between the US and China in motion. This eventually resumed talks and the final bilateral agreement in November 1999.

1990s: Playing a Tug of War

During the 1990s, bilateral negotiations between China and other major parties fell into stride. In October 1990, the US as one of the main negotiation partners, closed its own investigation of China's status as Permanent Favored Countries under its Trade Law and a "Memorandum of Understanding (MOU) on Market Access" was signed by the two parties on 1992. The MOU clarified that China would withdraw its non-tariff barriers on US industrial products as well as agricultural products with an import admission by late 1994. China planned to finish the whole negotiation process with the US by late October 1994 so that it could restore its status as an original signatory of the GATT during the 19th working party meeting on December of that same year. It seemed that there was little resistance for China's accession to the WTO by the US side only if China would properly implement the terms of MOU. But the situation made a sharp turn when the issue of intellectual property rights (IPR) arose.

As a result of the political disruption between the two parties, the WTO General Council officially removed China's entry into the

11) These are: (1) the idea that China should agree to an additional five years of restrictions on textile and apparel exports; (2) the continuous use of non-market economy methods in determining anti-dumping margins in cases for a period longer than 5 years, to which the Chinese had already acquiesced; and (3) the safeguard mechanism referring to the safeguard provision in the Uruguay Round agreement which allows importing countries to apply restrictions on products when it becomes obvious that an increased number of imports cause some injury upon their domestic industries.

organization from the agenda. China argued that its failure to enter the WTO was due to US political interests. After China decided to stop implementing the terms of the 1992 "MOU on Market Access," negotiations between two countries arrived at an impasse.

With the goal of reconciling the two countries, the US chief negotiator Micky Kentor went to Beijing the following year to secure an agreement regarding IPR issues. In April 1995, a WTO working group meeting was scheduled and China announced that it would resume the terms of 1992 MOU until late March 1995. But the friendly mood between the two parties would not last. In a Geneva meeting on April 1995, the US accused China of not fully opening its market and reforming the system in a way that the US had expected. Also, the US objected to China's request to receive a "developing nation" status, and suggested that China place 11th on the world trade. China criticized the US for violating its commitment, and insisted that the WTO would be incomplete without its large amount of trade volume.

However, the worsening situation did not turn into a complete catastrophe because of the similar interests and concerns of both leaders. Bill Clinton, under pressure from public opinion as well as his political opponents, moved to resolve this problem as soon as possible. Jiang Zemin needed to defend himself from the opposition party's accusation and meet the need of domestic industries. In July 1995, the 20th working party meeting was held and the original signatories of the GATT, including the US, admitted China's participation as an observer. In November 1995, China unveiled its biggest trade liberalization package in 15 years aimed at winning the US backing to enter the WTO.

Final Stage

From 1997 to 1998, the US and China held

historical summits at each country. However, nothing significant resulted from these meetings except the conviction that a gap between the two parties needed to be overcome. Because China was not immune to the economic recession that began early in 1997, its leaders faced strong demands from the domestic market to protect the economy. This made it increasingly difficult for them to implement active market reforms and open door policies. Indeed, there was practically no progress in the talks during this period.

Once it became clear that China could not enter the WTO by the end of 1998, China implied that they would not join the WTO at the last minute partly because there was no reason for them to make a hasty deal after missing its original deadline. The US, however, had a greater demand to open new markets for domestic industry despite receiving pressure from labor unions and civil organizations for China's human rights record.

On March 4 1999, the US Trade Representative Charlene Barshefsky held talks with Chinese officials. At first, she expressed the US' dissatisfaction with China's implementation of conditions, especially in the agriculture and service sectors. But towards the end of this meeting, the two parties reached an agreement on agricultural issues that removed major obstacles to China's bid for WTO membership. Finally, in April 8, 1999, Clinton and Zhu Rongji signed a joint commitment in Washington to complete the WTO deal by the end of the year. And in November 1999, the two countries finally agreed upon China's WTO accession, which would guarantee an 'opening' and deeper integration of China into the international regime.¹²⁾

12) "China and the WTO: Remarks on China's WTO Accession," <http://www.iie.com/TESTMONY/levi.htm>.

On May 3 2000, the Clinton administration announced an unprecedented trade monitoring plan to ensure Chinese compliance and to endorse a watchdog commission for monitoring human rights violations, hoping to boost Congress' support for PNTR. On May 19, after months of negotiations, the European Union signed a market-opening pact to allow China entry into the WTO while US lawmakers forged an agreement to monitor Beijing's human rights record, a key side deal aimed at drawing Democrats to support PNTR. On May 22, 2000, China was conferred PNTR status by the US Congress.

MAIN NEGOTIATIONS BETWEEN THE EU AND CHINA

EU General Stance on China's Entry to the WTO

A formal relationship between China and the then European Community (EC) dates back to 1975 when both parties agreed to establish official relations. China initiated the relationship with the European Coal and Steel Community and the Atomic European Community in November 1983. In May 1988, comprehensive normalized relations with the EC developed. Between 1997-1998, the EU considered China's WTO entry against the following backdrops: (1) Since the ties became normalized, China and Europe have constantly expanded cooperative efforts ranging from educational projects to promoting commercial exchanges and consultations in economic reform. Since the last European colonies in Asia were given their independence, such as Hong Kong and Macao, restoring China's WTO status was obviously in line with the EU's interest to secure Europe's commercial presence in the region. (2) While the US and China

wrestled with the issue of opening the Chinese market, the EU could "keep status quo" while promoting its stake until a greater demand for market access to China was not conspicuous.

While the US have been cautious of China's military and political capabilities, the EU, the second player in the Cold War structure and independent integrated power in the post Cold War era, has been relatively free from confrontational feuds over political and security issues with China. In the aftermath of the Cold War, the EU needed a keen sense of balance in seeking to enhance economic and political integration among member states while trying to increase its presence in the international arena. As the US and China announced the watershed agreement during Washington summit, normal trading ties between the EU and China were optimistic. Thereafter, the EU began to publicize its support of China's entry into the WTO as it adopted a more positive outlook towards China as a serious trading partner.

As early as 1995, the EU addressed its full support for an early resumption of China-WTO negotiations (EU-China News, November 1995). While the US opposed entitling China as a developing country, the EU did not. In 1998, the EU decided to grant "market economy" status and upgraded the EU relations with China to a level equivalent to that of the US.

From 1997 to 1998, when China-US ties progressed with optimism, the EU's choice could have brought a different outcome for China. Sir Leon Brittan, commissioner of the European Council on China's WTO membership, re-affirmed the EU's strong belief that China's WTO entry will be good for China and the world economy.

EU's Negotiation Strategy: Being a Free-rider and an Intermediary

The EU's strategy was not to push the WTO

accession negotiation forward, since its common foreign and security policy would not be institutionalized until May 1999 as agreed in the 1997 Amsterdam Treaty. The EU was carrying on enlargement policies to promote economic consolidation. The EU trade policies intended to facilitate the unions enlargement, which was noted as being discriminatory in nature. Preferential treatment towards new member states was imperative to facilitate the EU's enlargement, which could be a target in trade negotiations. Therefore, when its leverage on the issue did not decrease due to prolonged negotiation, their dominant strategy was to avoid making hasty judgements concerning pending negotiations while having internal problems and inconsistency in trade policy. Resultantly, the EU was as a "free-rider" in its negotiations with China. The EU's Chief Commissioner Pascal Lamy remarked, after finalizing EU-China negotiations, that 95% of what EU stands to gain from trade negotiations is owed to achievements made by the US a few month before (EU-China News, 2000). Though it had its own stakes and interests, which aimed to benefit from negotiations with China, it was concerned with US power initiatives. The EU generally took a position similar to the US concerning China's closed market system and expected accompanied benefit by demanding balance with the US benefit to China. Its basic objective during the negotiations was to promote the process of reform and liberation in China, and to ensure a level playing field for the EU's industry in China. Accession terms needed to be agreed, which would support the growing EU-China relationship.¹³⁾

13) Key criteria include the average trade-weighted tariff rate compared with that of the EU's competitors and the extent to which specific EU interests and competitive strengths are taken into account, including in the services sectors like fi-

The previous round of talks between the EU and China collapsed on March 31 in 2000, where little progress was reported. Therefore, the five day China-EU negotiations on May 15 were crucial for China, a week before the US Congress would vote on to grant China "permanent normal trade relations." The pending US vote pressured the EU and China to seal an agreement. However, European Trade Commissioner Pascal Lamy was determined that the negotiating team would be pressured by the US Congressional vote. The Europeans were expected to press China to top some of the concessions made to the Americans in telecommunications and financial services, according to sources close to the talks. They also discussed issues unique to Europe, like access to British gin, Scotch whisky, French cosmetics, and Italian leather goods. But China was extremely reluctant to go beyond the concessions made to the United States, even though Lamy's leverage over China has never been greater. Beijing could influence the key vote pending in the US Congress by reaching agreement with the EU. After Chinese Premier Zhu Rongji met Lamy, the negotiation made a breakthrough, as access to China's burgeoning telecommunications market was a key sticking point. The Chinese side agreed to a generally faster timetable for market access than they offered the Americans and expanded the scope of business open to foreign companies in telecommunications and insurance. Although Lamy and Chinese Foreign Trade Minister Shi Guangsheng failed to resolve nagging gaps until the 4th day of negotiations, the EU signed a market-opening pact to allow China entry into the WTO on the fifth day of negotiations, May 19 2000, after months of negotiations.¹⁴⁾

nance and insurance. Also it showed concerning on system transparency issue.

14) For the entire text of bilateral agreement between

De-politicizing the WTO Negotiation: De-link Human Rights and Trade Issue

With political consultations and dialogues established since 1994, cooperation between the EU and China has taken place rather smoothly in the course of legal and technical assistances exchanged, where the issue of human rights have been most important. The policy has continued from then on as China's accession into the WTO presented no political problems in Europe. (EU-China News, 1999)

Human rights issues have been one of the major obstacles in the Sino-US trade negotiations. While the EU have assisted the US in pressing China to uphold human rights, it did not intervene at other times, especially during the 1997 China-EU summit held in Beijing. It effectively dissociated the issue of human rights from trade while not giving up its commitment to human rights. In May 2000, the policy has been maintained as promised in Beijing, where the breakthrough was made.

DISCUSSION

China's membership into the WTO was not perfectly enacted as the plurilateral, which had been on hold for 14 years since a handful of countries with dominant political power refused to admit China. US-China negotiations had much significance compared to other bilateral meetings China had with the rest of the WTO members.

Fourteen years of delay in China's WTO accession increased uncertainty and intervention of maturity effects. Throughout the negotiations, each players domestic political and

economic situations along with the international situation as a whole have slowed the struggle to seek the conciliatory points. As economic issue become entangled with political issues, understanding the relationship between the two in ones concern for human rights, Taiwanese independence, and China's weapons proliferation, became one of the biggest challenges.

The US voters are prone to protect American values as well as its economic interests. Chinese leaders realized that its entry into the global market is a symbolic necessity for their own interests. They also discovered that their membership would bring substantive economic benefits to the US economy. Therefore an agreement was reached as China conceded some of its tangible short-term benefits by being a WTO member, even though it may not bring immediate economic prosperity.

For China, timing was a very important factor in the negotiations. Initially, China's membership was crucial for its economic development after its status in the GATT in 1986. However, the possibility of benefiting from an early entry decreased over time. Accordingly China's willingness to compromise with the US and the EU became waned, which strengthening China's position in bilateral negotiations. China's domestic political power structure also affected its position in the negotiations. In the aftermath of Deng Xiaoping's death in 1997, the political power transferred to reform-minded figures who wanted to reach an agreement. Deng's death opened the door for a new generation of leaders to not only fight for China's economic and social transformation domestically, but its status in the international community and market at large. For Jiang Zemin and Zhu Rongji, central figures in the new generation of Chinese politicians, the US-China deal would bring external pressure to further

China and the EU, refer to the Homepage of European Commission, <http://europa.eu.int/comm/trade/bilateral/china>.

facilitate the economic reform policies of Zhu and Jiang.

The reform party supported China's entry into the WTO. When negotiations were at an impasse and the economic situation worsened during the Asian Crisis, the power of the reformists within China were taken over by the conservative military. The balance of party power within China was crucial for the US to receive what they needed in this negotiation. The increasing needs of specific issues could have reduced China's leverage on them. However, through an effective "double play" by China's leadership, China skillfully made the US blind to the real leverage China had: While Premier Zhu Rongji was often identified as a trustworthy and friendly figure for the US and western countries, President Jiang's is rather increasingly unpredictable. China's leverage was veiled as no outsider knew who really had control over the negotiations. The Asian economic crisis discouraged China's from entering the WTO. The lesson learned from the Asian economic crisis was that premature market openings could lead to fierce economic malaise. This may have been the reason why the US behaved more generously towards China. In either case, it gave China more leverage in the negotiations. But also this factor affected US domestic public opinion from industry asking the necessity of China's entering the WTO. [I don't think I understand this sentence]

For the US, postponing the deal with China would create more difficulties because it gives a chance for Congress and civil organizations to attack the US administration (Wang, 1998). If the US continued to obstruct China's entry to the WTO, then conservatives could have mounted an impenetrable defense. Clinton's desire to build a legacy also played a role: As Clinton's tenure came to an end, the need to finalize

goals established early in his tenure became more urgent. Unless the trade relations were quickly resolved, Clinton's contribution to China would not be recognized. This also gave China more leverage in negotiations.

However, one of the strongest leverage that the US had against China was its decision to grant PNTR. However, when China lost their interest to gain this status from the US, its leverage on the issue was weakened. Also, China's market was too attractive for US industries that the Democratic government could not keep its strong stance against it. Once the PNTR status was conferred to China, the US lost its leverage.

The EU was a kind of "free-rider" in this negotiation. It had its own stakes and interests in this issue, however, it had more concerned on US power initiatives. While the leverage shift between the US and China is obvious, the EU's general stance was focused on continued ties with China with seeking the best timing for maximizing interests. The progress made between the US and China was closely watched in developing its strategies and controlling pace of progress. Also its deal making with China before PNTR vote in US Congress was another leverage that they could enjoy. If their negotiation with China failed, then it may unfavorably affect PNTR vote. The negotiation between the EU and China has been struck right before the US Congress PNTR vote, when the EU had the maximum leverage vis à vis China. Therefore, the EU could achieve their objectives in their negotiation with China at the last meeting.

China, however, must wait several months before it is allowed into the WTO. In the meantime, some important business must still be completed, which is expected to take place in the near future.¹⁵⁾ Once all is complete, the WTO's ruling General Council will approve

China's membership. China can join as soon as it has ratified the accession protocol. A remaining problem is that many aspects of Chinese law need to change before it can join the WTO. A political compromise requires Beijing to legislate immediately in areas like customs valuation, and lets it change other laws later as its liberalization plans are phased in. [This sentence doesn't fit with the claim that "many aspects of Chinese law needs to change before it can become a WTO member."]

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15) The first thing that has to be done is for China to reach market access agreements with the five WTO members (Costa Rica, Ecuador, Guatemala, Latvia, Mexico and Switzerland) with which it is still negotiating. Mexico will be one of the hardest negotiating partners, which is anxious to demonstrate its independence from the US by striking a deal of its own. But while there are some sensitive problems by industry sectors still to be resolved, trade diplomats do not expect them to hold proceedings up too long. And WTO members will conduct close examination on the Draft Protocol, draw up an inventory of its existing trade policies and formalize its detailed commitments to abolish barriers to imports and foreign investment. It will not be an easy task for its agreement given its scope and depth.

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