

Behind China's World Trade Organization agreement with the USA

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ABSTRACT *The Sino-US agreement regarding China's accession to the World Trade Organization (WTO) in late 1999 came as a surprise to many observers. How and why did the Chinese reach the agreement in view of the impasses in the negotiation that occurred earlier in the year? These impasses included the collapse of the WTO talks during Zhu's visit to the USA in April, the NATO bombing of the Chinese embassy in Belgrade in May, and the deadlock between the Chinese and US negotiators in November. Drawing on published sources as well as experts' insights, this paper examines the Chinese leadership's decision-making process and its reasons for concluding the agreement. It suggests that the exclusive decision-making circle of top Chinese leaders circumvented the opposition to the agreement and facilitated the negotiations. These leaders, especially Jiang and Zhu, favoured an agreement because they believed WTO membership could improve China's international relations, trade conditions, the outcomes of reform at home, and China's leverage over Taiwan. The closed decision making on the WTO also left the Chinese leaders with a challenging task: educating officials and the population about the WTO rules and possible impacts while ensuring that they abide by the rules.*

A perfect storm and a perfect surprise

On 15 November 1999 China concluded an agreement with the USA regarding its accession to the World Trade Organization (WTO). Since the USA is the largest and most influential WTO member, the agreement paved the way for China's accession to the organisation. The China-US negotiations over China's WTO membership in 1999, however, were full of thrills and suspense, and could be depicted as 'sailing through a perfect storm'. The three twists surrounding the talks included: (1) Clinton's refusal to seal the agreement despite Zhu's considerable and politically bold concessions in April; (2) the termination of the talks after NATO's bombing of the Chinese embassy in Belgrade; and (3) the impasse in the negotiations days before the agreement. These dramatic events transformed the WTO talks into a perfect storm, parallel to the one in a recent disaster movie of the same title.¹ One huge difference, however, exists between this real storm and

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the one depicted by the Hollywood film-makers. Unlike the movie's ill-fated fishing ship *Andrea Gail*, the Chinese and American negotiators, to many analysts' surprise, successfully sailed through the heart-pounding waves to their destination.

A question naturally results: how and why did the Chinese leaders weather all these crises and reach a WTO agreement with the USA? This paper suggests that an exclusive decision-making circle of the top Chinese leaders circumvented the bureaucratic and popular opposition to the agreement, facilitated the negotiations and also left the leaders with a formidable task of gaining the co-operation of bureaucrats in implementing the WTO rules. The Chinese leaders favoured an agreement because they believed WTO membership could improve China's international relations, stimulate economic growth, and propel the reform process. Drawing on the news coverage as well as experts' insights, this paper discusses the decisions, moves and reasons to conclude the agreement. This paper first reviews the history of China's bid for WTO membership. It then reveals the Chinese leadership's determination to enter the WTO, its attempts to downplay the accession talks amid the turbulent events described above, and the reasons for China's desire to join the WTO. The paper focuses on the Chinese side of this issue, because it is more manageable to do so given the space constraints.

China's bid for WTO membership from 1986 to early 1999: a brief review

On 10 July 1986 China inaugurated its bid for membership of the General Agreement on Tariffs and Trade (GATT), the predecessor of the WTO up to 1995. China regarded its application as a resumption of its former membership, vacated by Nationalist China in Taiwan in 1950. In May 1987 a formal working party was established to review Chinese application for GATT membership.² Between October 1987 and February 1992, China sent 10 delegations to attend meetings of the GATT-China working party in Geneva. Until then, the GATT was still assessing China's foreign trade regime, because China was still committed to a planned economy instead of a market economy.³

After the Chinese Communist Party (CCP) adopted a platform of establishing a socialist market economy in 1992, China strengthened its GATT membership application. China proposed to slash tariffs and open up its markets for agricultural products and services. Meanwhile, China declared that it would enter the GATT as a developing country, and that it would thus observe the obligations that applied to developing countries. Between 1992 and 1994 the GATT-China working party met nine times on substantial issues. As late as 1995, however, no real progress had been made.

China-US summit meetings dating back to 1996 improved the atmosphere for China's WTO accession talks. First, at the November 1996 summit meeting of the Asia-Pacific Economic Cooperation (APEC) group in the Philippines, Chinese President Jiang Zemin and US President Clinton decided to accelerate the accession talks. Their visits to each other's countries in 1997 and 1998 energised the Sino-US talks on China's WTO membership.

Between 1996 and 1999 China took larger strides in liberalising its trade regime. The country introduced four rounds of tariff reductions, lowering its

tariff rate from 43% to 17%, and promised to further reduce tariffs to the average level of developing countries. China also signalled its willingness to open up the telecommunications market. By 1999 China had participated in multilateral talks of the WTO-China working party, and had concluded its talks with 12 WTO members, including Japan, South Korea, Australia, New Zealand and Singapore.⁴

The Chinese institutions responsible for the WTO accession talks had undergone numerous changes. In 1986 the Chinese government established the State Council Interministerial Coordination Group on GATT Negotiations (SCICGGATTN) to co-ordinate the ministries with differing views on the GATT. In 1988 this group was renamed the State Council Committee on Interministerial Coordination on GATT (SCCICGATT). In 1998, however, the SCICGGATT was dissolved, for it lacked both the power and reputation to coordinate the influential yet often conflicting ministries. In the aftermath, the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) took the initiative and acted as a coordinator. Its efforts were not consistently effective, and their success rested on the support of top leaders. After 1994, especially after the start of the 1997 Asian financial crisis, with the growing difficulties in reforming state owned enterprises (SOEs) in China and popular concerns with competition from foreign business, both public opinion and a number of industrial sectors and ministries supported a delay in China's WTO membership. As a result, co-ordination between ministries over WTO accession became difficult, slowing down China's progress toward its membership. In 1999 the top Chinese leaders decided to break the stalemate in China's WTO negotiations.⁵

Sailing through the storm of 1999

The setback on and after Zhu's visit to the USA in April 1999

The USA was the 13th WTO member from whom China sought support for its WTO bid. However, accusations of Chinese nuclear espionage since March 1999 and Republican criticisms of Clinton's China policy cast a long shadow over the two countries' WTO talks. In 1997 the Republicans investigated illegal contributions to the Clinton re-election campaign, which were allegedly made by the Chinese. In March 1999 Wen Ho Lee, a Taiwan-born American nuclear scientist suspected of stealing nuclear secrets for China from Los Alamos National Laboratory, was fired by the Energy Department. Although little strong evidence supporting the accusation was revealed, the Republicans in Congress and the Senate strongly criticised the Clinton administration for its belated handling of the espionage case.⁶ In this political embroilment, Clinton appeared to pander to the Chinese, and China was portrayed as the primary US enemy. By raising a smoke screen, Republicans had scored political points over their political opponents.

Despite the hostile environment in the USA, the Chinese leaders nevertheless decided that Premier Zhu should visit the USA as scheduled.⁷ On Zhu's trip, the Chinese negotiators agreed to lower tariffs and to remove China's trade barriers to the import of US beef, wheat and citrus, one of the major US demands at China's WTO accession talks.⁸ They also offered to further open up China's

market, including telecommunications, banking and insurance. Some observers considered that these concessions removed the largest obstacle in China's WTO talks.⁹ A number of prominent Republicans opposed China's entry into the WTO, citing their concerns about its trade practices and China's alleged role in nuclear espionage at USA nuclear weapons facilities. Senate Majority Leader Trent Lott, in particular, expressed strong opposition to US efforts to facilitate China's entry into the WTO by claiming that China's membership in the Geneva-based organisation would do nothing to end China's 'predatory trade practices' (CNN, 8 April 1999). Out of his fear that the Republican majority on Capitol Hill would scuttle his WTO deal with China, Clinton refused to conclude an agreement with Zhu.¹⁰ Clinton insisted that China should further open its financial, insurance and telecommunications markets, and that the USA should maintain its quotas on imports of Chinese textiles and steel.¹¹ Viewing these demands as excessive, the Chinese refused. Disappointed by the setback, Zhu called on the US business community to voice its opinion on the WTO to US politicians.¹² Many US corporations and business associations expressed their disappointment over the impasse of the talks, and urged Clinton and their elected representatives to reach an agreement with China.¹³

Upon his return, Zhu faced criticisms on two fronts. The first involved the leaders, the Standing Committee, special committees, and the party group of the National People's Congress (NPC), which was headed by Li Peng. The NPC leaders and committees questioned Zhu's characterisation of the goal of his trip in front of the Americans as 'allowing the Americans to let off steam'. They regarded Zhu's words as a sign of China's dependence on the USA and as a diplomatic blunder. The party group of the NPC, along with the party group of the Political Consultative Conference, questioned whether China should make unrealistic concessions to satisfy the USA in order to join the WTO.¹⁴ The other front comprised six ministries and one bureau of the State Council, which would be threatened by foreign competition after China joined the WTO. These included the Ministry of Finance, the State Development Planning Commission, the Ministry of Communications, the Ministry of Information Industry, the Ministry of Labour and Social Security and the Ministry of Agriculture, as well as the State Bureau of Metallurgical Industry. These ministries asked who had decided on the concessions to the USA, and why they were not consulted ahead of time. At a Politburo meeting during which he reported on his trip to the USA, Zhu reportedly confided: 'If I have done harm to the state and to the accession to the WTO, I bear the responsibility and resign'.¹⁵

During a later Politburo meeting, however, Jiang defended Zhu's deal with the USA by reportedly stating:

Given the current China-US relations, Comrade Zhu Rongji's visit to the US has achieved our anticipated goal. He has neither deviated from the decision and policy of the Politburo, nor has he erred politically or on principle. Among the high, middle, and low bottom lines of our accession to the WTO, he took the low bottom line. He has not made concessions that give up the principle, nor has he deviated from the Politburo's bottom lines, nor has he accepted conditions that our country cannot bear. He might have done it a bit fast and early, and might have left some kind of influences. The Politburo is responsible for them. The members of the

Standing Committee of the Politburo and the members of the Politburo will explain it to the Standing Committee of the NPC and the State Council.¹⁶

The break-off and resumption of talks after the embassy bombing

On 8 May 1999, a NATO bomber attacked the Chinese embassy in Belgrade during its bombing mission in Yugoslavia. Although the USA and its allies claimed it mistook the Chinese embassy for a Yugoslavian government building, the Chinese government refused to accept the explanation, and insisted that NATO had bombed it in order to exact revenge for Chinese support for Yugoslavia. At a Politburo emergency meeting regarding the bombing, Li Peng and the military leaders ridiculed the China-US 'constructive partnership' and Zhu's trip to the USA 'to let off [American] steam' (*xiaoxiao qi*) (Zhu's words).¹⁷ The bombing triggered a nationwide surge of anti-US sentiment in China. Large-scale demonstrations broke out in front of the US embassy in Beijing, and the protestors stoned the windows and the door of the embassy. Many Chinese felt that Clinton's open apology for the incident was insufficient, even though US Republican politicians denounced him for being too soft on China.¹⁸

The WTO talks, coupled with China-US relations, became an immediate casualty of the bombing. Clinton made a telephone call to Jiang Zemin soon after the bombing, and Jiang refused to accept the call.¹⁹ The Chinese called off a high-level official military exchange, talks on weapon non-proliferation, and dialogue on human rights. Although they did not cancel the WTO talks, they were delayed for four months.

Criticisms of Zhu's concessions to the USA mounted in China, especially within the CCP and the government ministries. Some CCP cadres accused Zhu of 'giving up the principle' (*bujiang yuanze*) (*Ming Pao*, November 13 (A)). Critics viewed China's admission to the WTO as 'a start of the end of China's socialist course and national interest', and 'a step in the wholesale introduction of capitalism', and they regarded the WTO as 'a trap under the roses'. It was rumoured that officials in Beijing even characterised Zhu as a traitor, and called his concessions on his April trip to the USA the 'new 21 Articles', a code word for an agreement selling out the country, named after the Northern Warlord's humiliating terms to Japan.²⁰

The two top leaders also modified their stance on the WTO. Li Peng, the head of the legislature, the National People's Congress, took a strong stance on the WTO when receiving a delegation of the Japanese legislature by declaring: 'China need not join the WTO by making concessions or under attached conditions. The CCP does not set a deadline for joining the WTO'.²¹ Jiang Zemin, the most powerful leader, tried to calm the critics by moderating his stance. He remarked: 'If the talks go nowhere, we are prepared to talk for another ten years.' He did, however, defend and explain Zhu's concessions to the USA and took his own responsibility for it.²² Zhu was forced to remain silent.²³

The Chinese government demanded the USA give a satisfactory explanation for its treatment of the bombing incident. On 16 June Beijing rejected the US investigation report of the NATO bombing delivered by the US Assistant State Secretary. The next day, Wu Yi, a member of the State Council, claimed that the

WTO talks could be resumed only if the USA supplied a satisfactory explanation of the bombing incident.

Despite these stern moves and debates among the leaders, China did not retreat from its commitment to enter the WTO and seek healthy relations with the USA. On 11 May 1999 Chinese Foreign Ministry Spokesman Zhu Bangzao stated that China's admission to the WTO accorded both with China's interests and with those of the WTO members. His and later Wu Yi's statements reaffirmed China's interest in WTO membership. The *People's Daily* published an editorial on 17 June, declaring that China paid great attention to its relations with the USA.

After weeks of cool-off, China-US relations warmed up again with a financial settlement of the bombing incident. Both governments realised that normal relations would benefit both countries politically and economically, while poor relations would hurt both dearly. In their talks over the compensation for the bombing, both sides managed to reach a compromise. The Chinese gave up their demands for compensation for their destroyed collection of a variety of Yugoslav newspapers and journals over the past several decades at the embassy. In return, the Americans retracted their demands that all personnel and materials required to repair the US embassy in Beijing, which was damaged by Chinese protesters, come from the USA in order to prevent espionage, and that the Chinese shoulder the accrued shipping and transportation expenses. By 31 August, days before the APEC summit meeting, the compensation talks had, by and large, ended.²⁴ After the compensation talks, a high-ranking US official declared that China-US relations were moving toward a strategic and constructive partnership.²⁵

After the bombing, high-ranking Chinese officials held several rounds of discussions over China's accession to the WTO. Finally, the Chinese leaders concluded that the benefits of joining the WTO outweighed the costs. They ordered the relevant agencies to initiate contact with the Americans in order to hasten the resumption of the WTO talks.²⁶

In September, US officials in Beijing conveyed the following messages to the Chinese: talks on redemption for the bombing were less significant than China's accession to the WTO; the USA would not try to create trouble for China; the USA, however, expected the Chinese to further open up their markets, especially in finance, insurance and agriculture; the USA hoped the Chinese would take advantage of this final opportunity; the USA was ready to restart the talks at any time. In return, the Chinese told the Americans that they would not try to orchestrate international efforts against the USA over accession to the WTO and the opening of their markets.²⁷ At the APEC summit meeting in New Zealand in September, Jiang and Clinton decided to resume the WTO talks.

The near breakdown and the success of the final round

The final round of talks was held in Beijing between 10 November and 15 November 1999, the last round of talks before the Seattle conference for foreign trade ministers. Both the Chinese and US leaders paid particular attention to this round. On 6 November Clinton telephoned Jiang and discussed the WTO talks. This was the second time Clinton had phoned Jiang after the APEC summit meeting, as the first time was on 16 October. It was reported that during the

phone conversation Clinton promised to pressure Taiwan to retract its 'state-to-state' view on Mainland-Taiwan relations.²⁸ Clinton's calls appeased Jiang and even bolstered Jiang's status at home.²⁹ Jiang appeared to be more supportive of the WTO accession.³⁰

The suspense of the strenuous talks

The Beijing round of talks started on 10 November and was originally scheduled for two days. The talks appeared to break down at least twice: on 12 November and 14 November. Yet they miraculously pulled away from collapse.

At the end of the talks on 10 November, both the Chinese and US negotiators expressed their optimism, and the Chinese officials even hinted that they could join the WTO at the end of the year. By the end of 11 November, however, the US delegation refused to comment on the talks. On 12 November US Trade Representative Charlene Barshefsky told the media that the talks were going slowly, and that both sides agreed to extend the talks for another day.

Reportedly, in the first two days the talks had run into a roadblock regarding China's status for accession to the WTO, a major issue in China's WTO bid since June 1997, according to Groombridge and Barfield.³¹ The USA demanded that China enter the WTO as a middle-level developed country, whereas China insisted upon a developing country status, with obligations corresponding to that status.³² On the evening of 12 November, the US negotiators accepted the Chinese position, thus allowing the talks to continue. The Chinese notified the US delegation that a Chinese leader would meet them.³³ On the morning of 13 November Zhu Rongji met the US negotiators. Zhu reportedly emphasised that he hoped the talks would succeed and that China could only accept the terms that it could sustain (*Ming Pao*, 13 November (B)). Barshefsky told the media that her meetings with Zhu and Shi Guangsheng, from the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), had gone well. The US delegation decided to stay in Beijing for further talks. At 10pm on 13 November the official Xinhua News Agency reported that important news would be issued at noon on 14 November, a signal of its optimism over the WTO agreement.

It turned out that Xinhua was overly optimistic. As of 14 November no agreement had been reached. The US delegation decided to leave Beijing the next day. On the morning of 15 November the MOFTEC asked the US delegation to attend further talks.³⁴ Around noon, it was suggested that both sides had reached an agreement. At 3:20pm the Signing Hall of the MOFTEC was opened to reporters, where Shi Guangsheng and Charlene Barshefsky signed the historic China-US WTO agreement.³⁵

A few details have been revealed about the talks after both sides agreed on China's status for joining the WTO on 12 November. After Zhu's meeting with the US delegation on 13 November, the Chinese negotiators reportedly made concessions on opening China's financial and telecommunications markets, probably by allowing foreign companies to conduct local- and foreign-currency business and provide internet services.³⁶ China's Ministry of Information Industry had been resisting the entry of foreign investors. Since 1998 the ministry had promulgated that foreign investment in joint ventures in telecommunications was illegal and

needed to be withdrawn. Therefore, Zhu's intervention might have been a factor in Chinese concessions on telecommunications (*Ming Pao*, 13 November (B)).

In the final hours of the talks on 15 November three disputes probably still remained. First, the USA demanded that foreign investors be allowed to control the telecommunications and insurance industries in China. However, the Chinese resisted. Finally, both sides agreed to a 49%–50% share of foreign investment in telecommunications. Second, the US threatened to scuttle the talks if China did not abolish the state's exclusive rights over the sales of fertilisers in China. After consulting their superiors, the Chinese negotiators rejected the demand, because they believed the state's monopoly of fertiliser sales would protect peasants' input prices and income. The US negotiators finally gave up their demands. Third, the US negotiators reiterated their demand of April 1999 that the US phase out quotas on textiles and apparel by 2010, instead of 2005. China refused, probably for three reasons: (1) the US demand exceeded the WTO Agreement on Textiles and Clothing; (2) the textile and clothing sector provided the largest number of manufacturing jobs in China, and generated a significant amount of added-value industrial output as well as the largest portion of hard currency earnings; and (3) China's textile industry had suffered in recent years because of US protectionism and an increase of imports to the USA from the Caribbean countries. Finally, the USA retreated, but added anti-market disruption safeguards against Chinese textile products to the agreement for 12 years from accession. In retrospect, Robert Kapp, the president of the US–China Business Council was right in commenting before the agreement that sticking with a tough stance until the final moment was a typical Chinese strategy in major negotiations.³⁷

The Chinese government originally arranged for Zhu Rongji to meet the US negotiators after the conclusion of the agreement. Realising that the meeting would have international significance and deserved a higher level of formality, however, Zhu asked Jiang Zemin to host the event. Without hesitation, Jiang agreed. Jiang's meeting with the US Trade Representative Charlene Barshefsky and the Chairman of the Director of the National Economic Council (NEC) of the USA, Gene Sperling, signified his approval of the WTO agreement.³⁸

China's decision-making approach to the WTO

Ironically, one of the main reasons why the Chinese government could sail through the perfect storm in 1999 towards a WTO agreement is that its decision making was restricted to a small circle, thanks to senior leaders' takeover of decision-making powers over the WTO bid, and to its closed political system. Top-down decision making, bypassing bureaucracy, and restraint of the media were the key components in Chinese decision making regarding the WTO.

Top-level decisions

Between 1986 and 1999 specific agencies, that is, the SCICGGATTN, the SCCICGATT and the MOFTEC, were responsible for the WTO talks. The Chinese negotiators had been closely observing the guidelines set by the Central Committee of the CCP

(CCCCP) in their talks with other countries on the WTO. Wu Yi, an Alternate Member of the Political Bureau of the CCP and an experienced negotiator with the USA on trade, tried to clarify confusion over China's decision-making processes for the WTO at the closing ceremony of the meeting on the national economic and technological developmental zone on 26 May 1999 by stating: 'To enter the WTO is the decision of the CCCCPC after weighing costs and benefits ... Our negotiations for the past 13 years had stayed within the scope authorized by the CCCCPC.'³⁹ Nevertheless, as stated earlier, it is probably true that, before 1999, the agencies in charge of the WTO talks were given considerable power in coordinating the ministries and conducting the negotiations, and that the top leaders did not intervene frequently.⁴⁰

As mentioned above, the top leaders threw themselves directly into the decision-making process in 1999 in order to break the growing bureaucratic gridlock and opposition caused by pain at the deepening of Chinese reforms, especially reform of state-owned enterprises (SOEs).⁴¹ The high-ranking leaders, primarily the members of the Standing Committee of the Politburo and possibly of the CCCCPC, played a crucial role in China's WTO deal in 1999. This is revealed in Jiang's above-noted defence of Zhu's concessions to the USA at the Politburo meeting, and in the six ministries' and the NPC's complaints against Zhu's April concessions. During his visit to the USA, Zhu also reportedly consulted the Politburo and Jiang over several details of the negotiations, and carried out foreign policies agreed upon by the party leaders.⁴²

In the wake of the strong anti-US and anti-WTO accession sentiments following the bombing, Jiang Zemin reportedly issued the following instruction on WTO accession around June or July: 'Hold an active attitude, use flexible methods, excel at negotiations, and reserve no naiveté' (*taidu jiji, fangfa linghuo, shanyu cuoshang, bu ke tianzhen*).⁴³ At the beginning of September 1999 the senior leaders of the CCP discussed China's social and economic prospects after the WTO. They realised that the largest problem in the wake of China's membership would be that several disadvantaged sectors, including agriculture, machinery, electronics and cars, would face strong international competition, and that inequality between rich and poor, between the cities and the countryside and between different regions would be aggravated. The Chinese leaders concluded that WTO membership would both benefit and hurt China, and that as a whole the benefits outweighed the drawbacks. They ordered the relevant agencies to initiate contact with the Americans in order to hasten the resumption of the WTO talks.

After the talks resumed, Zhu consulted Jiang on many major issues, and Jiang gave Zhu his active support. Jiang told Zhu that not only they, but also the other Politburo Standing Committee members, should bear the responsibility for China's accession to the WTO, because it concerned the interests of the country and the nation.⁴⁴

Before the last round of the WTO negotiations in Beijing, the State Council headed by Premier Zhu was formally in charge of the negotiations. The Chinese paid special attention to this round. Jiang Zemin replaced Zhu Rongji as the Director of the Financial and Economic Group of the CCCCPC, and took charge of the WTO talks. Zhu became the Vice Director. The CCCCPC issued a document to the provincial leaders informing them of the change of leadership over the WTO talks.

This move signalled to the Chinese officials that, as the most influential leader in China, Jiang provided full support for China's bid for WTO membership.⁴⁵

Both Zhu and Jiang's advisers might have persuaded Jiang that securing an agreement with the USA could boost his reputation at home and abroad. Before his nomination by the NPC as Deputy Director of the Supreme Court on 31 October, Cao Jianming, the former President of East China Political and Legal College in Shanghai, reportedly conducted a final cost-benefit analysis of China's accession to the WTO on behalf of the government. Cao firmly supported China's WTO bid.⁴⁶

After Jiang came back from his trip abroad in early November, Zhu talked to him several times. Zhu reportedly told Jiang that, if China could not join the WTO within a year, it would have to make many more concessions the next time around.⁴⁷ In response, Jiang asked Zhu to accelerate the talks so that China could contain the negative impact of its accession (*International Daily*, 16 November 1999). Jiang instructed his subordinates to strive for an early accession without giving up principles. On 6 November 1999, Jiang talked to Clinton over the phone, and they reached a consensus on accelerating the accession talks and reaching a mutually beneficial agreement.⁴⁸ On 9 November, the night before the Beijing round, Jiang held an emergency meeting regarding the WTO talks at Zhongnanhai, the residential compound of the senior Chinese leaders.⁴⁹ Jiang's support paved the way for the talk's success, and was certainly a key factor in the conclusion of the agreement.⁵⁰ In addition, at the Beijing round of talks, Zhu met the US negotiators twice, on the mornings of 13 and 15 November, respectively, and helped to solve the remaining issues at the talks.⁵¹ Not surprisingly, Long Yongtu, the chief Chinese negotiator, as well as the CCP flagship journal *Qiu Shi*, called the WTO agreement a decision made by the collective leadership around the core of Jiang Zemin.⁵²

Restraining the media

The Chinese leadership tried to reduce resistance to the negotiations. After the bombing incident, it became acutely aware of the backlash against the USA as well as against WTO membership. The Chinese leadership ordered the media to avoid sensational, attention-grabbing and exaggerated coverage of the WTO accession and instead asked them to strive for objective and accurate reports of the issues.⁵³ One possible concern the leaders might have had was that, with the increasing commercialisation of publishing, the press and publishers might use the inside story and rumours surrounding the talks to attract readers, even though these reports would hurt China-US relations.⁵⁴ Such a restriction on the media undoubtedly removed a key channel for the bureaucracy, other political institutions and the disgruntled populace to express their opposition to the WTO deal.

Bypassing the bureaucracy and other institutions

Little evidence indicated that the bureaucracy or other institutions played a key role in the 1999 WTO talks. The Chinese bureaucracy was, by and large, excluded from the policy-making process. That is why, as noted above, six ministries of

the State Council complained about not being consulted before Zhu made concessions on his trip to the USA in April 1999. It was estimated that agriculture, machinery, high-tech electronics, cars, telecommunications and financial institutions would stand to lose from an influx of competitive foreign products in the short run in the wake of China's WTO membership.⁵⁵ Understandably, these sectors and their government representatives feverishly opposed the WTO membership.

Meanwhile, the political institutions in charge of national security might also be alarmed to see a greater influx of foreign goods and influence. In mid-April, during Zhu's visit to the USA, participants at a military-sponsored seminar on accession to the WTO concluded: Western countries carried out financial pillage and sowed the seeds for crises in the name of financial liberalisation. As a result, international competition might enable China's economy to develop faster and more effectively, yet might also exert unbearable shocks and pressures.⁵⁶ It was reported that the State Security Ministry, a stronghold of hardliners, urged President Jiang Zemin to take tough measures in retaliation for the bombing incident, including recalling the Chinese ambassador and sending the US ambassador home. But Jiang, eager to maintain normal ties with the USA, refused. Leftists, such as ex-propaganda chief Deng Lique, who still believes in the command economy, and radical nationalists, including some generals, share this strong anti-US view.⁵⁷

As the top leaders imposed restrictions on the media, industrial ministries, the security institutions and the leftists or hardline nationalists could not publicly voice their opinions through the media. Therefore, they had to pick opportunities, such as Zhu's setback on his trip to the USA and the bombing of the embassy, to attract an audience and reduce their political risks. In addition, the opposition could only voice their concerns in an unco-ordinated manner, through complaints, at un- or quasi-official meetings and private exchanges, in low-profile publications, or via rumours. Some of the six ministries representing the above-discussed sectors that stood to lose from foreign competition complained about Zhu's April concessions. Predictably, these ministries, along with the security agencies and the fervent nationalists, were among the loudest critics of Zhu after the bombing incident.

These opposition forces were successful in delaying, but not in derailing, the WTO talks. Immediately after the bombing incident, Zhu and Jiang were put on the defensive. By September, however, Jiang and Zhu had regained the upper hand, ignored and quieted the dissenting groups, and went ahead with the WTO negotiations.

In addition to the Chinese leadership's commitment and secretive approach, several other factors also helped the conclusion of the agreement. These included rigorous lobbying by US business, Clinton's and Congress's support, as well as the enormous efforts of the Chinese and US negotiating teams. Limited space precludes any further discussion of these factors.

China's reasons for reaching the agreement

China's leaders had carefully weighed the costs and benefits before they told

their negotiators to seal the WTO deal with the USA. For example, as mentioned above, before the resumption of the Beijing round, the government asked Cao Jianming to provide a final cost–benefit analysis of China’s WTO membership. His report was finished in late October 1999, and contained tens of thousands of Chinese characters. An abstract of Cao’s report, the Chinese specialists’ post-agreement comments, and an editorial in the party organ, *Qiu Shi*, reveal that China decided to join the WTO for the following two sets of reasons, international and domestic.

External reasons

Overcoming non-trade barriers. Quotas are one of the main non-trade barriers to China’s exports. For example, in 1998 exports of textiles totalled US\$42.87 billion, and made up 23.3% of China’s exports.⁵⁸ However, China’s textiles ‘encountered quotas from the largest number of countries, of the broadest scope, and of the most severe restriction’.⁵⁹

Anti-dumping was another major form of non-trade barrier China encountered. In June 1979 the European Community launched the first anti-dumping investigation against China. By the end of 1998, 23 countries had filed 327 anti-dumping cases against Chinese exports, most of which were China’s traditional, major export items. Eight of these anti-dumping cases in 1998 involved over US\$100 million, eleven over \$30 million each, and the largest case involved \$450 million. Since China was not a WTO member, these countries used a tougher standard under their laws, rather than the WTO anti-dumping regulations, to handle the cases.⁶⁰

Anti-subsidies was another form of barrier China’s exports had to overcome. Ninety per cent of China’s trade was conducted with WTO members. When trade disputes broke out, China could only use bilateral political relations, which are considered a weak weapon, instead of international regimes, to solve the conflict.⁶¹ The WTO, on the other hand, had successfully and reasonably resolved trade disputes, including the Banana Case and the Beef Case between the USA and the EU. It had also sided with Venezuela and India in their cases against the USA. If China remained outside the WTO for a long time, it could become an easy target for discrimination in trade, and would not be able to protect its interests.⁶²

Escaping the US Congress’s annual review of China’s MFN. Even though Clinton decided in 1994 not to make human rights a precondition for his renewal of China’s most favoured nation (MFN) status, the US Congress continued to include human rights, religious freedom, trade deficits and intellectual property rights in its consideration of the renewal of China’s MFN.⁶³ After China joined the WTO, the USA had to grant China permanent MFN in accordance with WTO rules.⁶⁴ China would then free itself from the annual ordeal of MFN renewal, and China’s exporting sectors from the uncertainty regarding such status.

Creating a favourable environment for China’s long-term growth. China tried to create a favourable environment for its long-term growth. The Chinese were aware of two possible reactions to China’s rise as a world power: the one would

view China as a threat, the other would see its sizeable market as a great economic opportunity. Through joining the WTO, the Chinese wanted to become a decent player which observed the rules of the international game, to establish a reputation as a responsible member of the international community, and to defuse the view of China as a threat,⁶⁵ rendering the external conditions more favourable.

Avoiding a higher price for later accession. Both the Chinese leaders and scholars believed that China would have to accept less favourable terms should it fail to reach a WTO agreement with the USA. Experts at Shanghai World Trade Research Centre and the Chinese Economic Research Institute in Taiwan agreed that it would take at least another three years for China to enter the WTO should it miss this round of talks.⁶⁶ Zhu Rongji reportedly told Jiang that China would have to make more concessions if it did not join the WTO at this round.⁶⁷

Diversifying the regional distribution of China's trade. At the time of negotiations, China exported heavily to the USA, Japan, and the EU. In 1998, China's exports to these trade partners totalled US\$134.56 billion, or 73% of China's total exports. The Chinese were concerned with such a narrow regional distribution, because a major crisis in trade in any of these partners could entail costly consequences. China hoped to diversify its trade partners after it joined the WTO.⁶⁸

Increasing China's international competitiveness. Finally, through joining the WTO, China hopes to participate in economic globalisation and the international division of labour, to co-operate with the increasingly important multinational corporations, to utilise China's comparative advantage, and to increase China's economic competitiveness.⁶⁹

Domestic reasons

Establishing the norms of a market economy. One of the primary domestic reasons for China to join the WTO was to establish the norms of a market economy. As Cao pointed out, China's economy lacked a well specified set of rules, and many economic players did not follow the norms. For example, local government preyed upon and intervened excessively in firms' management in order to generate revenue, and customers and firms did not value their own credit, refusing to pay back loans or practising deceptive acts. If China joined the WTO, officials and firm managers could quickly familiarise themselves with the norms of a market economy and adjust their mentality and behaviour. The rule of law, especially in the economic realm, would be facilitated.⁷⁰

Stimulating exports and attracting foreign investment. After the Asian financial crisis, China's exports had been growing slowly. Between January and September 1999 exports totalled \$137 billion, a virtual stagnation since the the same period of 1998 (which registered at \$134.1 billion).⁷¹ Meanwhile, China's utilised foreign direct investment (FDI) totalled \$32.1 billion between January and October, a decrease of 10.5% from the same period of the previous year.⁷² China needed foreign currency and investment in its development.⁷³ After China joined

the WTO, it and the organisation's 134 members would be able to provide equal treatment of each other in investment and trade. As a result, China's exports would surge, and foreign investors would find it easier to invest in China. It was estimated that China's imports and exports would increase from \$320 billion in 1998 to \$600 billion in 2005, and FDI in China would grow from \$45 billion to \$100 billion.⁷⁴

Generating growth and jobs. The Asian Development Bank estimated that a full implementation of the agreement resulting from the Uruguay round would generate 2.9% growth in China's gross domestic product (GDP). An increase in the GDP by each percentage point could generate five million jobs. Therefore, after becoming a WTO member, China's GDP would grow by an additional 3% and could create 10 million additional jobs, roughly equal to the number of people currently unemployed.⁷⁵

Forcing uncompetitive sectors to improve their performance. In an analysis of the impact of WTO membership, Cao Jianming refuted an argument by officials at several ministries that China should wait until its car, telecommunications, electronics, and services sectors grew stronger before joining the WTO. Cao argued that continued protection of these sectors only prolonged their inefficiency. He cited the example of colour-television manufacturers. At the beginning of the liberalisation of the sector, Chinese-made colour televisions lost most of their domestic market to foreign brands. In a few years, however, Chinese manufacturers won the competition and drove out the foreign competitors.⁷⁶ Cao argued that strong competition was the best approach to strengthening these sectors. In addition, after China joined the WTO, the reform of SOEs would have to be speeded up, so that state firms could improve their performance and survive foreign competition.⁷⁷

Improving the population's living standard. With China's admission to the WTO, free trade would increase market competition in China, better products, such as cars and personal insurance, would be available at lower prices, and the Chinese would benefit. The real Chinese standard of living would improve.⁷⁸

Using international pressure to overcome resistance to reform. China's recent reforms had entered a particularly difficult stage. SOEs resisted reforms and tried to perpetuate their monopolies; the government continued to protect SOEs; bureaucrats and party officials continued to profit from their control of resources and refused to follow the sound rules of regulation. After China became a WTO member, the WTO and the international business community would see to it that all institutions and economic players in China would follow international norms of conducting and regulating business. They would exert pressure on the Chinese national and local governments to play fairly by the WTO rules.⁷⁹

Forging a closer tie with Taiwan and facilitating unification. One last political consideration the Chinese leaders had for joining the WTO was to prevent Taiwan from entering the GATT earlier than did China and to forge a closer tie with the

island and facilitate the process of unification with China. Mainland China was aiming to join the WTO no later than Taiwan, so that it would not lose out to Taiwan in the WTO accession.⁸⁰ In addition and more importantly, Taiwan has maintained its 'three-Nos' policies (no direct transportation, no direct mail and no direct trade between mainland China and Taiwan), especially since the reign of Lee Teng-hui. After both the Mainland and Taiwan become members of the WTO, the 'three-Nos' policies will amount to trade discrimination and, therefore, violation of the WTO rules. Taiwan will have to abandon its 'three-Nos' policies, or else face a penalty from the WTO.⁸¹ Beijing anticipates that direct trade and communications will strengthen the social and economic ties between the Mainland and Taiwan and will increase the costs of Taiwan remaining separate.

The population's and cadres' reaction to the agreement

One may argue that a drawback of China's highly exclusive decision-making process is that the Chinese leaders have yet to mobilise support from bureaucrats and the country's population for the agreement. Available opinion surveys and journalists' reports suggest that residents, bureaucrats, and cadres had at best a mixed reaction to the agreement. Days after the agreement a Chinese social survey agency (the SSIC) conducted a telephone poll among 1156 Chinese. It found that as many as 98.9% of the respondents agreed that joining the WTO was in the Chinese interest, and that 80% believed that, after China joined the WTO, people's standard of living would improve and consumers would benefit from lower tariffs on imports. It is not clear how much of this overwhelmingly positive reaction was a result of the initial excitement about the agreement fanned by the media.⁸² On 16 November 1999, the Xinhua News Agency's *Internal Reference* (*Nei Can*) for leaders and officials reported: 'The people cared little about the China-US WTO agreement. They only cared that foreign goods could enter the Chinese market and that they could buy superior goods. Meanwhile, many employees of state enterprises increased their concerns because they did not know when they would be laid off.'⁸³ News reports also confirmed concern among the populace.⁸⁴ It was even rumoured that bank runs occurred in over 22 provinces and 95 cities during 15–17 November, right after the news of the agreement.⁸⁵ Following the conclusion of the China-European Union WTO agreement in May 2000, the government conducted an internal official opinion survey among urban residents in several large cities, including Beijing, Shanghai, Tianjin and Chongqing. According to this survey, 75% of respondents expressed indifference to or no interest in the agreement, and fewer than 20% of the respondents in any of these cities supported the agreement. The Chinese reaction to the WTO thus seemed mixed: people appeared to like an increase in their living standards because of cheaper foreign imports, yet worried about losing their jobs.⁸⁶

A more serious problem confronting the Chinese leadership is that the bureaucrats and cadres have either only a vague idea or a negative opinion about China's WTO membership, partly because of the secretive nature of the decision making over the WTO accession. Two official reports highlight the severity of the problem. A report issued by the Policy Research Office of the State Council of

April 2000 suggested that most of the cadres expressed their disapproval or negative opinions regarding globalisation of the Chinese economy and financial reform in the wake of China's entry to the WTO.⁸⁷ However, state banks had no sense of crisis about China's impending entry to the WTO.⁸⁸ An analysis of the investigation conducted by the Chinese Academy of Social Sciences and read to the Politburo in May 2000 suggested that cadres and bureaucrats at various levels had a rather vague understanding of China's obligations and the likely impact on China after its entrance to the WTO, not to mention preparing for such an impact.⁸⁹ In the light of the officials' attitudes to the WTO, the Chinese leaders would have a challenging task educating the bureaucrats and cadres about WTO rules and encouraging them to abide by these rules. Not surprisingly, on 19 November 1999, the State Council issued a 'specially emergent' document to provincial and ministerial party committees, urging them to study carefully and fully understand Jiang's and Zhu's talks on the significance of China's WTO membership, to prevent social unrest and the stripping of state assets, to overhaul financial and telecommunications sectors, and to resolve outstanding social problems.⁹⁰

Conclusion

An array of factors helps to explain why China might sign an agreement with the USA regarding its accession to the WTO, despite the turbulent events threatening the negotiations. The Chinese leadership realised that WTO membership, though entailing considerable costs, would bring long-term benefits to China's international position and domestic conditions. The Chinese leaders insulated themselves from a variety of institutions, groups and bureaucrats whose interests or influence would suffer from China's WTO membership, while restraining the media from releasing a controversial portrait of China's accession to the WTO. In addition, Chinese and US concessions helped save the talks. Finally, the support provided by Jiang, Zhu and Clinton during the final round of negotiations helped secure the conclusion of this historic agreement. The closed decision-making processes of the WTO also left the Chinese leaders with either ignorant or disgruntled officials, however, and a sizeable segment of the population was either ignorant or worried. Chinese leaders will face a challenging task in the near future: educating officials and the population about the WTO rules, containing economic and social shocks, smoothing economic and social adjustments, and ensuring the implementation of the WTO rules.

Notes

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¹ In 1991 three storms combined to produce a deadly and powerful one, which was termed the 'Perfect Storm'. In the movie *The Perfect Storm*, the tidal waves caused by the storm of 1991 overturned the fishing ship *Andrea Gail*, consuming its crew.

² Mark A Groombridge & Claude E Barfield, *Tiger by the Tail: China and the World Trade Organization*, Washington, DC: AEI Press, 1999, p 14; and Stuart Harris, 'The WTO and APEC: what role for China?', *Pacific Economic Paper*, No 274, Canberra: Australian National University, December 1997, pp 1–2.

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