

Chapter 2

The Domestic Political Economy of China's Preferential Trade Agreements

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2.1 Introduction

What role does China's domestic politics play in its approach toward preferential trade agreements (PTAs)? What stands out immediately is an apparent absence of domestic politics from public eyes or in academic analysis in China and elsewhere. Does this mean that domestic politics does not matter in this case? If so, while a chapter on China might still be of some value as a stark contrast to domestic politics-rich cases such as Japan and the Republic of Korea discussed in the book, by itself it would be much ado about nothing.

To state what is obvious, China has a different political system from Japan and South Korea. In a democracy, citizens defend their interests openly and through political participation, thus revealing where people stand on a country's foreign economic policy and how they organize and compete with rival groups to influence that policy. But domestic politics matters in China's PTA policy, just not expressed in a good fight this time around. Domestic politics matters in nondemocracies like China although it plays out differently from democracies and there have been epic political fights in China such as the Cultural Revolution and the Tiananmen Incident. Domestic politics has always been important for Chinese foreign policy, foreign economic policy included, whether the public is aware of it or not. And we know more as the country opens up. As a case in point, we know the high political tensions prior to China's entry into the World Trade Organization (WTO). Analysts in China are often far more accurate and insightful in discussing domestic politics of other countries than China's own, but one hears about Chinese domestic issues in interviews and reads increasingly candid discussion in writing as well.

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My argument in this chapter is that the impact of domestic politics has not been felt strongly in China's turn to PTAs because Chinese political economy is transitioning, and because those who would lose from regionalism are not represented in the Chinese political system and they face bigger challenges such as land seizure and local cadre corruption in any case. Put simply, how would Chinese or anyone for that matter calculate gains and losses with so much going on? Even if you can, what are you going to do about it? And is PTAs the most pressing issue for you at this time?

I will make the following specific points. First, China's turn to PTAs in the past decade has not generated a major domestic fight. Second, China appears strategic and decisive in its PTA policy because the advocates who think they represent China's national interests have prevailed. Those within the government and among policy advisors who are sympathetic to the plight of "losers" like farmers talk gently, with no meaningful political pressure.

Third, those particularly vulnerable to regional free trade agreements such as farmers are not organized or represented in the political system. In fact, sectoral interests are not well articulated and aggregated in China partly because of other more prominent tensions such as bureaucratic turf fights, and central-local government relationships have fragmented societal interests. Chinese farmers fight in thousands of protests, which generate pressure on the Central Government to rein in local governments and alleviate their misery for its own political survival. In such an environment, policy entrepreneurs from the ranks of farmers generally view Beijing as their protector and utilize the laws and regulations of the Central Government as weapons against local officials, often borrowing ideas from intellectuals sympathetic to their plight. China's growing economy also mitigates potential challenges to some extent.

Fourth, China's turn to PTAs happened shortly after China joined the WTO, which means a compounded impact of global and regional integration on Chinese economy. This timing factor makes it easier for people to take grand positions on free trade versus protection than fine-grained positions on regionalism. Also, so many regional projects are being attempted, which makes cost-benefit calculations that much harder. In addition, many Chinese proponents for Asian PTAs base their arguments on a shared Asian identity. Asian regionalism does not raise a red flag for nationalists and conservatives who are often critical of the Westernizing implications of global free trade agreements.

Last, this unique moment for the Chinese government offers a window of opportunities for bold strategic initiatives. As time goes by, China might play the game of regionalism in the domestic context more like Japan and South Korea. One scenario for change is a combination of a slow-down economy, sourness on the regional free trade agreements, and emergence of policy entrepreneurs who seize upon the issue of regionalism (fairly or unfairly). If a PTA becomes a high-profile domestic issue receiving criticism at a level approximating that before China's accession to the WTO, I expect the Chinese government to find it easier to shift policy on regionalism than on global free trade agreements because it has a bigger stake in the global regime.

2.2 China's Turn to PTAs

China made a decisive turn to PTAs in 2000. It signed the Bangkok Agreement in 2000 (accession April 2001), its very first regional agreement that involves tariff reduction, and more importantly initiated a free trade agreement (FTA) with Association of Southeast Asian Nations (ASEAN) in the fourth China-ASEAN summit. China started relatively late in PTAs but has moved faster than some early starters, particularly Japan. In all, China has signed nine PTAs and is in negotiations over another seven, equaling the total for Japan and South Korea but trailing Singapore.

China started with a regional minilateral FTA with ASEAN, with three stages of negotiations. In November 2001, China and ASEAN reached an agreement to implement an FTA within 10 years. In July 2005, a China-ASEAN FTA in goods went into effect, with China and the six early ASEAN members beginning to reduce tariffs. In January 2007, the two sides signed an FTA in services. The China-ASEAN FTA entered into effect on January 1, 2010. While pursuing an FTA with ASEAN, China has also signed eight bilateral FTAs so far, four within the Asian region (Macau in 2003, Hong Kong in 2003, Thailand in 2005, and Singapore in 2008) and four outside the region (Chile in 2005, Pakistan in 2006, New Zealand and Peru in 2008).

The nine FTAs signed by China appear to reveal a balanced approach by Beijing. In fact, one may argue that China is now tilting toward trans-regional PTAs. China has been negotiating with Iceland, Australia, Costa Rica, and Norway bilaterally and launched a joint study with Switzerland in February 2010. Beijing has also been negotiating with the Gulf Cooperation Council (GCC) and the Southern African Customs Union (SACU). By contrast, Beijing has only one negotiation going in the Asia-Pacific, namely with Taipei starting in January 2010.

However, the breakdown between China's regional and trans-regional FTAs should not be viewed as Beijing not focusing on Asia. If you look at sequencing, China moved first with regional minilateral and bilateral FTAs. ASEAN of course has ten member countries. From Chinese perspective, China certainly concentrates in its region. China has engaged in an FTA or similar arrangements in studies or negotiations with all the 15 countries directly bordering China on land except Mongolia, North Korea, Bhutan, Nepal, and Afghanistan. China is also talking about or doing FTAs with its 14 neighbors broadly defined such as South Korea, Japan, ASEAN, Sri Lanka, and Bangladesh.¹ China is also active in loosely structured regional integration projects such as ASEAN+3, the East Asian Summit, and the Shanghai Cooperation Organization that is expanding in the economic cooperation arena. Moreover, China has participated in subregional projects such as the Greater Mekong River and the Tumen River project, which promote mainly cooperation and investment in infrastructure.

¹ Zhou and Li (2005).

We will see more trans-regional FTAs for China mainly because China has not been able to persuade Japan to move forward with a China-Japan-South Korea FTA. As late as 2009, the Japanese trade officials focused on concluding an investment agreement rather than moving to the negotiation stage.² Despite Prime Minister Hatoyama's emphasis on the East Asian Community, the three Northeast Asian countries are only moving from private studies to a joint study stage involving officials, business communities and scholars. Actual negotiations are not in sight.

While China has moved fast in numbers, questions about the quality of its FTAs loom large. To start with, as Vice Commerce Minister Yi Xiaozhun recognized, China has not concluded many FTAs, particularly with major economic powers in the world.³ ASEAN is the largest FTA partner for China, and New Zealand the only advanced economy signed so far. Moreover, in degree of integration China lags behind Japan, South Korea, Singapore, and Thailand. China has focused mainly on "shallow" integration, namely goods, country of origin, and services, not investment, competition, government procurement, intellectual property, the environment, and labor standards. The Chinese thinkers have realized the global and regional trend toward deeper integration and generally urge the government to move cautiously in that direction as well. The 2008 China-New Zealand FTA is the strongest for China so far, covering virtually everything except government procurement and competition policy, which constitute stronger commitments than those to the WTO.⁴

Consistent with the book, this chapter focuses on China's PTAs. But in the rest of the chapter, I will use regionalism from time to time because the Chinese officials and analysts often use the term when discussing Chinese strategic thinking. Regionalism is broader than free trade agreements as it also includes economic regional cooperation in finance or monetary affairs. Financial and monetary regional cooperation is important for East Asia. In fact, it has often been argued that financial regional cooperation is taking a lead in East Asia. After all, it was a financial crisis in 1997–1998 that gave much momentum to a more exclusive and institutionalized form of regionalism in East Asia.

2.3 Where Is the Fight?

With all these activities, it is surprising that we do not hear that much about the domestic politics of China's policy toward PTAs when we read Chinese narratives and analyses. Regionalism appears like a nonissue in the Chinese domestic context.

² Interviews with two senior officials at the Ministry of Economy, Trade, and Industry, Tokyo, July 2009.

³ Yi (2007).

⁴ Dong (2009).

Some Chinese analysts from the research wing of the Ministry of Commerce, for instance, comment that regionalism has received little criticism at home.⁵ A former official who accompanied Premier Zhu Rongji to Southeast Asia for an FTA discussion also recalls that there was no domestic criticism of the Chinese government initiative.⁶

When one considers the powerful resistance of the agricultural sector in countries like Japan and the Republic of Korea, the silence of domestic protest in China is deafening. Domestic politics of course matters for China's foreign policy, like for any other country's foreign policy. In fact, a majority of students of Chinese foreign policy emphasize domestic factors, not just preferences, institutions, and ideas, but also traditions, cultures, identities, and leadership styles.⁷ One actually sometimes hears complaints that students of Chinese foreign policy do not recognize enough the importance of the impact of international forces on China.

To be precise, what we observe in the case of China's turn to regionalism is not an absence of domestic politics but an absence of an attention-grabbing political fight. Students of international political economy instinctively look for conflicts that are predicted from a shift in foreign economic policy. We fundamentally assume that such a shift creates winners and losers. We have established some theoretical understanding of why different groups want to fight (sectoral or class interests based on relative endowment) and how they will fight (interest groups and coalition politics).

The Chinese are as capable of domestic fights as any other peoples. In fact, China has seen domestic turmoil and unrest on a scale unrivaled by most other countries in the past century. If one adopts a domestic misery index, whatever indicators one may choose, China would rank high in the world.

Moreover, the Chinese fight over foreign economic policy. Since China's reform and opening in 1978, there have been ideological fights over foreign economic policy. The Chinese are capable of domestic fights over free trade agreements as well. Criticism of the WTO follows from the nationalist discourse, which intensified after the NATO bombing of the Chinese embassy in Belgrade on May 8, 1999. Chinese critics wanted to say no to the United States and the West, which colored their view of China's WTO membership. They were also concerned that globalization dominated by the United States would hinder China's development, even though some recognized that China had to adapt to it.⁸ Premier Zhu Rongji was severely criticized as a traitor to the Chinese nation when he was viewed as making significant concessions during his April 1999 trip to the United States but still failing to conclude a deal with the Clinton administration.

Like previous rounds of ideological fights over economic policy, the WTO fight pitched factions within the government, but the debate over WTO accession

⁵ Zhou and Li (2005).

⁶ Conversation with the official, July 2008.

⁷ Kim (1998), pp. 11–16.

⁸ Fang et al. (1999).

reflected sectoral divides as international political economy scholars studying trade issues would predict. In fact, bureaucratic fights over WTO membership reflect sectoral interests and some class interests they represent. We can calculate who would benefit or lose from a free trade deal in China, just like any other country. Chinese officials and analysts themselves calculated carefully for a WTO membership. For example, the Chinese knew that free trade deals would have a short-term negative impact on Chinese agriculture, based on a simulation model developed by researchers at the China Agricultural Academy called China's Agricultural Policy Analysis and Simulation Model (CAPSiM).⁹ We also saw detailed analysis of the impact of WTO accession on China's telecommunications, automobile, and financial sectors. A high-profile case is the telecommunications.¹⁰ According to one study by the Development Research Center under the State Council, unemployment would increase in the short term after China joined the WTO. First, a dozen sectors such as automobile, machinery, metallurgy, petroleum, chemical, food and oil processing, and telecommunications were expected to see increases in layoffs because they needed to restructure their industries to be competitive. Second, the price of wheat, rice, and cotton in China was about 20–70% higher than the international market. Although the import quota was only about 4–5% of the country's total demand for cereal, private enterprises were allowed to have the same quota for their operations, which would affect 10–13 million jobs.¹¹

For an earlier example of domestic politics, China did not want to see APEC adopt market opening measures too quickly to the outside world because of its low per capita income and because of its difficult transition to a market economy.¹² On the other hand, there were sectors interested in regional integration. When the Chinese government was to select a few high-tech industrial parks for opening to APEC in 1996, all 52 state-level high-tech industrial parks came to the central government to lobby intensely. In the end, the government selected four in 1997 and added one in 1998.¹³

In the case of FTAs, should people fight? Of course, no one fights all the time or over all issues. I am not arguing that FTAs are necessarily a top issue that should invite strong protests in China. But FTAs should cause a domestic fight because they do have a negative impact on some sectors, as will be discussed in the next section. As comparison, we see how agriculture affects Japanese and South Korean policy toward FTAs.

⁹ Huang (2000).

¹⁰ Fewsmith (1999).

¹¹ Mo (2002), pp. 50–52.

¹² Zhang (1998).

¹³ Wang (2000), pp. 121–3.

2.4 Whose Voices?

As Peter Gourevitch pointed out, those who emphasize domestic sources of international cooperation tend to adopt either “preference-driven” models or “institution-driven” models. Preference-driven models suggest that policy outcomes result from what society wants. Preferences refer to one’s ordering of the desirable outcomes, which allows a strategic analysis of interactions between players. Put simply, it is not enough to know that an actor has certain interests. We need to know how strongly one interest is relative to others. By contrast, institution-driven models show how similar sets of preferences end up with different policy outcomes due to different institutional settings.¹⁴

This section discusses the preferences being expressed over China’s FTA policy. The section title uses the word “voices” rather than “preferences” to indicate who has louder and more clearly expressed preferences. Chinese analysts and observers often use the word “voice” for precisely such a purpose. My discussion of the Chinese voices relates to the next section about China’s political system because the distribution of voices has much to do with the political setup.

When it comes to foreign economic policy, the voices that have been most dominant are between various schools of reformers and conservatives although bureaucratic agencies (*bumen*) and sectoral interests have gained importance over time. In the case of the WTO, the central leadership wanted to join the WTO. For them, joining the WTO is a strategic decision to join the trend of economic globalization despite some serious challenges involved. The Chinese government made great efforts to prepare for China’s eventual membership.¹⁵ Chinese bookstores had shelves of WTO-related books displayed prominently for the public and officials.¹⁶ More than publicizing the WTO, the government needed to change laws and administrative regulations to be compatible with WTO rules. In Fall 2001 the State Council began reviewing and revising 756 administrative regulations, an unprecedented move.¹⁷ China’s adoption of regionalism would not involve such extensive publicity and adaptation.

The domestic politics question about China’s policy choice for regionalism is really, “Who wants that policy choice and who does not?” The fact that we do not talk about domestic politics that much is because government views apparently prevail in this case. It is well understood that China had a strategic calculation. That is directly related to Chinese elite politics. Immediately one should ask who has that strategic vision and whether that is contested among China’s elites or challenged by the public.

The Chinese discussion of Asian regionalism has been strongly state-centric, emphasizing national interests while acknowledging perceived collective interests

¹⁴ Gourevitch (1996).

¹⁵ See chapters by senior Chinese government officials in Wang (2001).

¹⁶ See for example Liang and Lu (2002).

¹⁷ Lu Jianhua (2002), p. 6.

for East Asia. Strictly speaking, what one hears amounts to benefit–benefit analysis rather than cost–benefit analysis. Even rare discussion of potential costs is immediately softened by stronger counterarguments.

FTAs have a long list of commercial and strategic benefits in Chinese eyes. The Chinese view FTAs as a must because other leading countries have already done so; China would suffer from the discrimination of FTAs in which it is not a member. Chinese elites see an opportunity and complementarity in China's integration with East Asia. For one thing, this is a fast growing region that is viewed as becoming the third pole of the world economy. China already has significant trade with ASEAN and an FTA would bring greater economic benefits. In addition, it would be easier for China to resolve trade disputes within an FTA framework than within the WTO. And most countries now have a good neighborly relationship with China. Although China is still a developing country, its economic capability has strengthened due to reform and opening, and Chinese firms now have the ability to invest abroad and need to take advantage of overseas market. Given cultural affinity and geographical proximity, China should focus its investment in East Asia. The Chinese certainly see strategic interest in regional cooperation. They view American regionalism initiatives as tying political conditions and making partners more dependent on the United States. China wants to increase its own political influence with developing nations, some of which are considered its traditional friends. China also wants to deny Taiwan the opportunity to expand its international space. And China wants to be a rule maker in the international system dominated by the West. This is consistent with China's enlightened view that to gain influence, China needs to open its market more to developing countries through regional cooperation.¹⁸ The Chinese thinking cited above is voiced by a list of heavyweights in the Chinese government, including Ma Hong, the former Development Research Center (DRC) Director and a leading reform strategist; Yi Xiaozhun, the vice commerce minister; and senior researchers from Academy of Macroeconomic Research of the State Development and Reform Commission; DRC; Commerce Ministry; and

¹⁸ Ma Hong (2002) "Rushihou zhongguo tong yazhou quyu jingji guanxi zhanwang [The Prospect of China's Economic Relations with Asia after Entering WTO]." Development Research Center of the State Council, accessed on June 21, 2008, Available from <http://www.drcnet.com.cn/DRCNet.Channel.Web/expert/showdoc.asp?doc_id=121874>; Yi (2007); Zhou and Li (2005); Zhang Yansheng (2004) "Canyu he cujin quyu yitihua" [Participate in and Promote Regional Integration], February 10, 2004, accessed on August 1, 2008, Available from <http://www.amr.gov.cn/macro_economic/domino.jsp?subframeid=107&informationid=20C8B2FF1BC548D48_256E47002DCBD7&title=张燕生&database=yjbg.nsf&table=xszz&field=Title&date=1>; Zhang Yansheng (2006) "Woguo jiaru wto hou canyu fta de libi" [The Costs and Benefits of Participating in FTAs after Joining WTO], December 30, 2006, accessed on August 1, 2008, Available from <http://www.amr.gov.cn/macro_economic/domino.jsp?subframeid=107&informationid=5DB48D2472A300BB48257264000F4F22&title=张燕生&database=yjbg.nsf&table=xszz&field=Title&date=1>; "Zhongguo dongmeng quyu jingji hezuo jinzhuan yuchengjiu [China-ASEAN Regional Economic Cooperation: Progress and Achievements]," *Chinese Academy of Social Sciences News*, May 27, accessed June 22, 2008, Available from <<http://www.cass.net.cn/file/20080527123518.html>>; Cheng (2001), pp. 240–63.

the Chinese Academy of Social Sciences. Their reasoning varies at times, but reveals a strong consensus for the commercial, political, and strategic benefits for China. It is worth noting that almost all the ministries and commissions under the State Council have involved in regional economic cooperation forums or FTAs.¹⁹

What should be the cleavages over trade policies in a country? Those who study the political economy of trade tend to focus either on special interests in the economic decision making process or class conflicts among owners of land, capital, and labor whose preferences are shaped by whether they have an abundant or scarce factor.²⁰ Another way of looking at this is to distinguish internationalists from nationalists. Etel Solingen, for example, emphasizes the internationalist versus backlash coalitions as the drivers of foreign economic policy.²¹ Helen Milner has also shown how the American and French firms that had growing international economic ties resisted protectionist attempts and limited protectionism in the 1970s.²² The same logic should apply to the Chinese firms that have integrated more with the global market. Pro-reform internationalists have so far prevailed in this case. China is not unique. Those who study Japan, for instance, also often frame the domestic politics in terms of internationalists and nationalists.

Those who want reforms have been interested in locking in reforms through free trade agreements. We know reformers tried to use membership in the WTO as a catalyst to further reform in China and further integration with the world market. A WTO membership would also mean that China's reform was now irreversible and further opening to the outside world was now a stimulus for domestic reform. This was such an openly and frequently cited reason for WTO membership that we really do not need extensive citations here.²³ FTAs have been viewed in this light. Chinese analyses typically put China's accession into the WTO as the context of China's turn to FTAs and often emphasize the importance of FTAs for facilitating global trade liberalization. China's turn to FTAs is consistent rather than contrary to China's reform and opening.

When discussing Chinese domestic political economy, one central issue is the relationship between the central government and local governments, which really defines the Chinese political system. This relationship is also important because of an enlarging gap between coastal regions and the interior.²⁴ This fault line is within the government, thus entailing "legitimate" political tensions. Central-local government issues are publicly debated among elites of different types. While

¹⁹ Yi (2007).

²⁰ Hiscox (2001). For industrial group studies, see Gourevtich (1986) and for class cleavage studies see Rogowski (1989).

²¹ Solingen (2001).

²² Milner (1988).

²³ For just an example, see He (2002).

²⁴ There is a lot written about this. See for example Angang et al. (1995), Angang (1995); pp. 66–141.

provincial governments pursue their own interests, the dominant views of the central government shift depending on what they think is the central challenge facing the country at a given time. During the Deng Xiaoping era, the Central Government focused on coastal regions. In fact, the Seventh Five Year Plan (1986–1990) stipulated explicitly that coastal regions would be preferred for investment. Although the next two 5-year plans called for increased investment in the interior, the regional gap enlarged because of a lack of a comprehensive package and the natural pull of the market to the coastal region. In June 1999, Jiang Zemin announced the “Go West” campaign. The West here includes Guangxi, Yunnan, Xinjiang, Tibet, Ningxia, Gansu, Shanxi, Guizhou, Qinghai, Sichuan, Chongqing, and Inner Mongolia. One of the strategies was to increase free trade deals with neighboring countries.²⁵ Hu Jintao put even greater emphasis on regional balance.

Chinese regional governments view opening to the outside world as in their interest. Coastal regions are interested in the global market and therefore support membership in the WTO. According to a field study by the Development Research Center of the State Council in four coastal developed cities in Guangdong Province prior to China’s accession to the WTO, all these local governments had studied WTO rules and made policy adjustments, but they appeared overly optimistic from the perspective of the researchers that they would benefit from WTO membership. They felt they were essentially already in the WTO since they were integrated more with the global market.²⁶ Viewing integration with the global market as a key reason for the success of the coastal regions, the interior provinces also want to have their own outlets to the global market. Inner Mongolia and Jilin Province are enthusiastic about the Tumen River project that connects China, Russia, and North Korea, involving also Japan. Shandong, the Liaodong peninsula, and coastal cities are interested in the Yellow River zone, connecting South Korea.²⁷ Yunnan and Guangxi are the main participants in the Greater Mekong River Subregion economic cooperation program (established in 1992) that includes Cambodia, Laos, Burma, Thailand, Vietnam, and China. Guangxi sees itself as the bridgehead and a pilot in China’s FTA with ASEAN. The province is also the permanent host of the China-ASEAN Expo. Xinjiang participates in the Central Asia Regional Economic Cooperation started in 1996. Xinjiang is also interested in the expansion of the Shanghai Cooperation Organization into the economic realm.

The collective interests of the country have prevailed over the sectoral interests. In his memoir, former Chinese Ambassador Wang Yusheng to APEC in 1993–1998 wrote about the negotiations for the Bogor goals in 1994. After five senior official meetings, much consensus was achieved except the flexibility and non-discrimination principles, left for the last meeting held in Osaka. The flexibility principle had direct relevance for the Bogor timetable of achieving “free and open trade and

²⁵ Sun (2001).

²⁶ Long (2002).

²⁷ Watanabe (2004), pp. 139–40.

investment in the Asia-Pacific for industrialized economies by 2010, and for developing economies by 2020." Japan, South Korea, and Taiwan were described as wanting flexibility in meeting the timetables because of agriculture. Japanese and South Korean officials lobbied the Chinese representative for support. Wang recognized that China shared concern over agriculture as well as telecommunications and automobile. So China sided with Japan, South Korea, and Taiwan. But there was no indication that the Chinese government was under the same degree of sectoral pressure as the other Northeast Asian economies. Rather, the Chinese delegation focused on the nondiscrimination principle, which meant unconditional most-favored-nation status, which the United States reviewed annually when it came to China. So this was an issue between China and the United States.²⁸

Where are the voices of those who might lose from FTAs? Farmers and other sectors are being affected negatively on balance in the short run at least. But their voice is barely audible. If one reads selectively about what the Chinese say about Asian regionalism, little has been said about the "losers." If one casts the net wider, one will hear some caution and concerns about a potential negative impact on agriculture by a few sympathetic scholars and government officials, but there has not been any political pressure in this case.

One way to see how losers are being marginalized is to see what concerns Chinese officials and thinkers over FTAs. For example, two researchers from the Ministry of Commerce believe that the government should be concerned mainly about what China can expect to gain from regional economic cooperation and who China should partner with.²⁹ A government in a democracy would have to consider potential domestic opposition as a high priority.

Chinese officials and analysts did not calculate that much when the government decided to promote FTAs. Better analysis came only starting around 2003, after the threshold decision was made. This should be surprising because the Chinese had calculated carefully over China's entry into the WTO. Moreover, there was much calculation by "outsiders," which the Chinese were familiar with.

Should there be some social groups concerned about FTAs? There is some confusion about where interests lie and how to calculate them. But the Japanese made some useful calculations, which indicated a large segment of Chinese peasants negatively impacted by regional accords. Watanabe Toshio, for instance, pointed out that the early harvest measures that allowed import of ASEAN agricultural products before schedule would have a negative impact on banana producers in Hainan and Guangdong provinces. He estimated that China-ASEAN FTA would affect negatively 15–45 categories of agricultural products and could have some impact on as many as 160 million people. Even though the Chinese government hoped to deal with the problem by strengthening the competitiveness of agriculture and moving labor from agriculture to nonagricultural sectors, he concluded that this could destabilize Chinese society and have a negative impact on political stability

²⁸ Wang (2000), pp. 75–78.

²⁹ Zhou and Li (2005).

because of the slow progress in improvement of agricultural competitiveness and the saturation of the abilities of cities to absorb surplus labor from the countryside.³⁰ Needless to say, not all Chinese farmers will necessarily lose or lose big from FTAs. In some areas, Chinese farmers might enjoy comparative advantage over their counterparts in Japan and South Korea. As one Chinese estimate shows, a China-centered East Asian FTA that links the China-ASEAN FTA and a China-Japan-South Korea FTA would mean loss for Japanese agriculture and gain for Chinese agriculture and a reversed balance in manufacturing sector.³¹ But China and Japan are not going to negotiate an FTA bilaterally or minilaterally anytime soon. And on balance Chinese farmers are losers because unlike market democracies, the Chinese government has not fought to protect the agricultural sector in free trade negotiations, which puts them at a disadvantage to developed countries that protect the agricultural sector and to competition from lower-cost agricultural products from less developed countries.

Rare concerns for potential losers came not from the losers themselves. As we know about the domestic politics in other countries, affected sectors would highlight or exaggerate the negative impact of a particular shift in foreign economic policy on them. The Chinese government has to play a two-level game like anybody else, but it involves different players to a different degree due to its own set of domestic institutions.³² The question is thus not whether sectors or classes are being affected by FTAs but whether and how they express their views and push for policy outcomes to their liking.

There should be losers and winners in China just like in any other countries. The fact that the policy outcome does not seem to reflect the preferences of some players points to the importance of understanding the institutional arrangements in different countries. There is a greater variation in terms of institutions among East Asian countries as explored in this book.

2.5 Institutions

The distribution of preferences and the nature of political institutions mesh so well in the FTA case in China that it is easier to lump the two issues in one section. But I separate them analytically to allow easier comparison with other cases included in the book at the risk of some repetition between the two sections in this chapter.

China started later than Japan but moved faster, which put pressure on the Japanese government. Why that was the case could be explained by domestic factors. It is safe to assume that the forces for such a move were better organized

³⁰ Watanabe (2004), pp. 140–41.

³¹ Li (2007).

³² For a study of how domestic politics shapes international relations using a two-level strategy game, see Milner (1997).

and prevailed over the opposition. This should also mean that Chinese elites for such a move had a clearer idea of what to do and were more resolute than their Japanese counterparts.

China has a top-down decision making system, which is also plagued with bureaucratic fragmentation. One should also note that this is a reform government that has faced far more difficult challenges than regionalism. Part of their political successes has been to build political momentum behind reform and opening measures.³³ To understand what is happening in China, it helps to have a sociological understanding of institutions. China has a transitional society, which means that rising tide lifts all boats and that pressure on the government may be diffused because ironically rapid economic growth often makes both winners and losers discontent.³⁴ While initially benefiting from the economic reform, Chinese peasants came to be marginalized since the mid-1980s. So what is troubling them is a long series of problems, particularly corruption by local officials and a rising gap with the cities. Thus, FTAs are not that prominent a cause of miseries for them.

Where the top leadership has made up their mind, things get done. As the official who went with Zhu to Southeast Asia for FTA discussions commented, "when the head of the leader gets heated, decisions are made," which was the case for Beijing's decision to form China-ASEAN FTA. However, central leadership decisions do sometimes become controversial in the domestic context.

Even though China has a top-down decision making system, public opinion still counts; but Chinese public opinion is not institutionalized in contrast to public opinion in democracies like the United States. Since the Chinese Communist Party does not allow formal channels of communication and political representation, Chinese masses exert influence mainly through protests and complaints and they aggregate their negative feelings mainly in long term.³⁵ It is hard to imagine seeing a mass movement protesting over imports of certain foreign products like what South Korean President Lee Myung-bak experienced after he lifted ban on import of American beef in April 2008. Chinese public opinion matters more now, but mainly in a general sense rather than a specifically targeted area for lobbying and influence.

The Chinese government is responding to public expectation and is also creating the expectation that the central government would be on the side of the disadvantaged. Public pressure particularly comes from the internet. Apparently, Chinese leaders all claim that they surf the Internet to gauge public opinion.³⁶ But it is important to recognize that regional FTAs have rarely generated any online movement of support or opposition. The events that generate heightened cyber

³³ Shirk (1994).

³⁴ Olson (1963).

³⁵ Liu (1996), pp. 6–7.

³⁶ On June 20, 2008, Hu Jintao appeared in the chat room of the "Strong Nation Forum" of the People's Daily, a highly symbolic move. Of course, an immediate background was that Chinese Net citizens were critical of the principle consensus on the East China Sea reached 2 days earlier.

nationalism in China include the 1996 Taiwan Strait crisis, the 1998 Indonesia anti-Chinese riot, the 1999 American bombing of the Chinese embassy in Belgrade, the 2000 Taiwan presidential election, the 2001 USA–China spy plane collision, the 2005 anti-Japan demonstration, and the 2008 Olympics torch relay. The only Internet controversy involving China's foreign economic policy was Premier Zhu Rongji's failed attempt to win American acceptance of the Chinese package of concessions for accession to the WTO during his visit to the United States in April 1999. Hardliners called him a "traitor" in the bulletin boards.³⁷ But this clearly had much to do with China's relations with the United States rather than China's entry into the WTO per se. This lack of interest in regionalism reflects partly the fact that Chinese farmers are not represented that well in the internet world.

In fact, how free trade might affect Chinese agriculture has not generated that much interest in the Chinese Internet forums. After the Doha round collapsed on July 29, 2008, Western and Japanese media lumped India and China together as leading a fight among developing nations to defend the interests of their poor peasants against the United States and Europe. The reality cannot be too different between India and China. Indian chief negotiator Kamal Nath, who serves as the commerce and industry minister, was truly championing the interests of poor Indian farmers. As such, he was praised back home as a hero. What he did at the negotiation table should not be surprising given the fact that he had been an elected politician from one of India's poorest regions for 28 years. He contrasted himself from the American negotiator who is an academician and the Brazilian foreign minister who is a diplomat.³⁸ Nath did not mention the Chinese chief negotiator Chen Deming, who serves as the commerce minister. Like other Chinese trade negotiators, Chen is a long-serving bureaucrat in the Chinese central government. Interestingly, unlike Vice Premier Wu Yi and China's chief WTO accession negotiator Long Yongtu, who were lionized in Chinese media as tough defenders of Chinese economic interest, Chinese media did not say that much about the failure of the Doha round and certainly did not want to take credit for taking a tough position. Rather, they saw China as being reasonable and constructive and attributed the failure to the breakdown between the United States and India.³⁹ Chen himself portrayed the negotiation as a "tragic defeat" and stated that China was disappointed that "two countries" could not come to an agreement over safeguards over agricultural imports.⁴⁰ The Qiangguo luntan [Strong nation forum] of the *People's Daily* had only two positive comments on July 30 about China needing to fend for the interests of the common people and about opposing U.S. hegemony.

³⁷ Wu (2007), p. 47.

³⁸ Information about Kamal Nath cited in Rama Lakshmi, "Hard Line at WTO Earns Indian Praise," *Washington Post*, August 1, 2008, A12.

³⁹ *People's Daily*, July 30, 2008, accessed on August 1, 2008. Available from <<http://nc.people.com.cn/GB/7585011.html>>.

⁴⁰ *People's Daily*, July 30, 2008, accessed on August 1, 2008. Available from <<http://nc.people.com.cn/GB/7587541.html>>.

The forum normally has 3,000–4,000 comments a day at the time. The Doha Round was not on people's minds right before the Beijing Olympics.

This is not a case in which unrepresented farmers do not make their voice heard. There have been frequent and increasing peasant protests and unrest. Ironically, farmers have not protested that much about FTAs because they have far more pressing and local issues to be concerned about, particularly land seizures by government officials to sell to developers as a source of revenues or personal gains. The central government came to be viewed in this context as the ally of farmers. The central government has a strong self-interest to be viewed as protecting the peasants for its own political survival. In 2006, the Beijing government canceled crop taxes and tried to reduce local levies. Thus, not surprisingly, activists have sought to use the laws and regulations of the central government as weapons against corrupt local officials.

This is the reason that increasingly central leaders like President Hu Jintao and Premier Wen Jiabao adopt populist politics, a trend that is amplified by state-controlled media. This temporarily shifts blame on the local officials, which the public generally dislikes. But this populist tendency does not address the fundamental issue.

In a way, aggrieved citizens simply resort to violent protests to get the attention of the central government. As a case in point, in Wengan County of Guizhou Province, when a teenage girl's body was pulled from a river on June 22, 2008, 30,000 people burned the county government building a few days later, believing that the girl was raped and murdered by relatives of local police officers. When the news spread, the provincial government reopened the investigation and fired the county leaders within a week, which reversed its earlier verdict of this incident as a riot against the government. But this is a costly way to get things done.

By contrast, the beneficiaries of the reform are better represented. This is not a case in which elites may form national associations to exert influence. In China, officials control policy making and intellectuals can exert some influence as advisors and would-be officials. With economic reform, private businessmen and business managers have become a third force in policymaking. Even though they are not influencing policy through political participation, they can influence government officials through personal contacts and gift giving for officials, which lead to their influence on government behavior.⁴¹

Using the veto player model, the question is then, "Who will be in a position to block FTAs?" A veto player is one situated in a position to formally block a policy change.⁴² Ultimately, China's political system has a strong collective veto player, the Chinese Communist Party that decides policy change and makes it into law if necessary. This is similar to but stronger than Malaysia's United Malays National Organization.⁴³ It can be difficult to formulate economic policy because of the presence of many potential minority veto players in the Chinese system. At the

⁴¹ Qin (1999), pp. 142–3.

⁴² See Tsebelis (1995); MacIntyre (2001).

⁴³ For an assessment of United Malays National Organization, see MacIntyre (2001), p. 93.

same time, these players will be hesitant to exercise their veto power if the top leadership is unified and has clarified its policy preference.⁴⁴ This is clearly the case in China's FTA policy. Once the top leadership decided it was a great idea to move in that direction, there was little resistance from within the bureaucracy.

Before one can jump and conclude that this is simply a story of a one-party state using its monopoly of political power to carry out what it desires in virtual disregard of societal opposition, we should consider some intervening variables that condition the policy outcome we see today and indicate the possible change to come.

2.6 Knowledge, Ideas, and Identities

The complexity and variance of regional cooperation projects are too well known to need any citations in this chapter. Like most other nations, China is entering or negotiating a wide range of FTAs; not just within East Asia, but also with countries outside Asia; not just trade, but also competition policy, the environment, and the labor standards.

Researchers from the Development Research Center (DRC) of the State Council, which is a principal government think tank focused on reform and opening, admitted around the time of China's turn to FTAs that, like the WTO, China lacked practical experience in regionalism. Moreover, Chinese researchers did not have any quantitative analysis of which country would be a desirable FTA partner. So China should move one step at a time, starting probably with the ASEAN Plus China and Bangkok Agreement.⁴⁵

DRC, which is currently tasked as the institution representing China for studying a possible China-Japan-South Korea FTA, conducted a quantitative analysis of the impact of various East Asian regional integration projects. Their conclusion was that all participants would benefit, although the degree of benefits vary based on their competitiveness. For example, for China-ASEAN FTA (CAFTA), China would benefit greatly and all would benefit although the arrangement would have a negative impact on nonmembers. The study also concluded that China and ASEAN mainly complement each other. Because of different climates, Chinese and ASEAN agricultural products do not compete directly in most categories. While the two sides seem to compete in the textile sector, their mutual trade volume is small because they compete mainly in third parties. So CAFTA would not increase competition in each other's markets. In the IT sector, CAFTA would not change how international investors treat the Chinese versus ASEAN markets. In the steel and consumer electronics sectors, China is expected to benefit from CAFTA because of stronger position against Japanese and South Korean competitors.⁴⁶

⁴⁴ Shirk (1993), p. 118, p. 127.

⁴⁵ Lu (2002), p. 477.

⁴⁶ Long (2005).

China's turn to FTAs revealed the power of ideas, which may be defined as including world views, principled beliefs, and causal beliefs.⁴⁷ The fact that China moved before it calculated means that they did so because they thought regionalism is a good idea. China's embrace of FTAs did not represent a dramatic shift in its foreign economic policy of integrating with the world economy, which would generate domestic policy debates. It followed from China's 15-year negotiation to join GATT/WTO. Chinese analysts of regionalism mostly consider regionalism a good idea. First, most Chinese elites believe that trade liberalization is essential for China's economic reform, which in turn is central for the country's prosperity and greatness. FTAs continue China's pursuit of GATT/WTO. Second, they believe that trade liberalization will deliver tangible results like China's WTO membership.⁴⁸ Chinese also believe that China could handle FTAs. When Vice Commerce Minister Yi Xiaozhun was asked about the challenges from regionalism to some domestic sectors, he replied that China also considered similar questions when applying for WTO membership. The reality was that China seized the opportunity and became more competitive internationally and the fear by most did not occur. Now that China is more competitive, it should have more courage and confidence in building regionalism.⁴⁹ Long Guoqiang, a senior DRC official, made similar comments, particularly pointing out the drastic increase in China's exports since joining the WTO as the reason that liberalization had become the mainstream consensus and weakened the resistance to further opening.⁵⁰

Identity is important particularly if one views the not-so-subtle difference in public attitudes toward China's WTO membership and Asian integration. There was strong conservative criticism of China's application and perceived kowtowing to the West. By contrast, we do not hear much about China's early harvest arrangements with Southeast Asian countries. Chinese national identity is inseparable from a strong sense of victimization in the hand of the West. By contrast, one may see a faint revival of the Middle Kingdom identity when it comes to Southeast Asia, some of which were viewed as Chinese tributary states.

The Chinese view Asian regionalism as related to but different from globalization. East Asians are fellow Asians although there is some confusion here for the Chinese as well. One often hears Chinese analysts describing China's relations with fellow Asian countries as those of good neighbors and they emphasize the long history of interaction, cultural affinity, and shared destinies.⁵¹ Like non-Chinese analysts, the Chinese also view ASEAN as being weakened or even "marginalized" after the Asian Financial Crisis and as needing outside great powers like the United States, Japan, and China.⁵² The Chinese sense of Asian solidarity is partly

⁴⁷ Goldstein and Keohane (1993), pp. 7–8.

⁴⁸ Zhou and Li (2005).

⁴⁹ Yi (2007).

⁵⁰ Long (2005).

⁵¹ Liu (2001); Wang and Wang (1998), p. 359.

⁵² See for example Dao (2002), pp. 137–41; Chen (2001), p. 51.

instrumental: The Chinese view their neighbors differently when things turn ugly. But when the Chinese government or public want to have a good relationship, they have a ready traditional script to work with. The presence of ethnic Chinese in Southeast Asia also has an increasing influence in mainland China, given their importance in their home countries and investments in China.

Put simply, Chinese nationalism does not conflict with regionalism at this point while conflicting with globalization. A popular book that predicted China as the future world leader reasoned that China should achieve unification as the first step and then economic alliance with Southeast Asia before moving step by step to be the dominant power in the world.⁵³ The author's fantasy aside, the point here is that Chinese nationalists and free traders could be strange bedfellows dreaming different dreams about regionalism.

2.7 Looking into the Future

China's current political arrangements provide the country with a window of opportunities for taking bold initiatives for regionalist projects. However, China's future is conflicted. On the one hand, strategic leadership by the central government may get the country going and "growing out of" the problems. On the other hand, while China's tight political control avoids a grueling battle over FTAs now, it adds to the cumulative tensions, which may build a bigger crisis in a delayed reaction when it does come. In the end, state-centric governance may prove efficient in isolated cases, but aggravates broad problems, which require societal stakeholders to participate and build interest in.

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⁵³ Cai (1996).

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