

China's Free Trade Agreements: Domestic Constraints and International Learning

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Abstract

This paper analyzes how domestic politics have constrained China's pursuit of diplomatic and economic objectives through free trade agreements (FTAs), and what Chinese policymakers have learned from FTA negotiations with other countries. It starts with listing several political and economic motivations behind Beijing's foray into various bilateral and regional preferential trade agreements. Then it looks into China to analyze how the domestic conditions have constrained the state's ability to coherently and effectively realize its objectives for economic diplomacy. More specifically, it focuses on the resistance from domestic actors originated from their experience or resentment with globalization, the growing political power of some domestic actors because of partial reform, and the limited bureaucratic capacity and coordination among ministries. This is followed by discussing what China has learned from other countries during FTA negotiations in the areas of agenda setting for trade negotiations, and concepts about market economy, democracy and institutional coordination, which may help Chinese policymakers to understand or deal with problems in the domestic policymaking process. The empirical data come from the author's field research in China in 2006 and 2007, drawing heavily from the cases of China's FTA negotiations with the Association of Southeast Asian Nations (ASEAN) and Australia.

Keywords: China, free trade agreements, domestic politics, international learning

Introduction

Since the Reforms and Opening started in 1978, China has made a lot of efforts in expanding global economic nexuses. It celebrated the accession into WTO in 2001 as a major national achievement after 15 years' negotiating the terms of its entry. Since November 2000, when Premier Zhu Rongji proposed a free trade relationship to the Association of Southeast Asian Nations (ASEAN), China has embarked on forging bilateral free trade agreements (FTAs) with over twenty countries and regional groups, both near and distant, both developing and developed. As Table 1 shows, China has signed FTAs with Hong Kong, Macau, ASEAN, Chile and Pakistan, and is negotiating or studying FTAs with over twenty other countries or regional groups. As stated in the government's 11th Five-Year Plan, regional economic cooperation has become a national strategy.

Table 1 Current status of China's FTAs

Status	Countries / Regions
Feasibility Study	Costa Rica, India, Norway, South Korea
Under negotiation	ASEAN and Chile on investments, Australia, Bolivia, the Gulf Cooperation Council, Iceland, Pakistan on services, Peru, Singapore, South Africa Customs Union.
Agreement on Trade in Goods	ASEAN, Chile, Pakistan
Agreement on Trade in Services	ASEAN, Chile
'Comprehensive' agreement	New Zealand, Hong Kong, Macau

Some call China's activity as 'charm offensive' (Kurlantzick, 2007), emphasizing the usage of soft power by Beijing in diplomacy, including demonstrating China's development model and the benefits of China's rise for other countries. Indeed, FTAs are regarded by the Chinese government as part of its economic diplomacy, which refers to strengthening diplomatic ties with the partner countries through economic arrangements. It is worth

investigating, however, *how much autonomy the Chinese state has in pursuing such diplomatic goals and how domestic and international factors affect its FTA policies.*

In international political economy, many studies attribute variations in trade policies and international economic cooperation to international factors, especially the global distribution of capabilities and international institutions; fewer studies have examined the domestic sources of international cooperation (Milner et al., 2004). Reflected in the studies of regionalism, there is a heated international-systemic discussion, but less is available on the domestic politics of regional economic cooperation, and even less on that in East Asia. Most such studies assume that governments there enjoy autonomy in their pursuit of foreign economic policies generally, and in regional collaboration particularly (Ravenhill, 2002). Nonetheless, all governments must respond to their own constituencies, especially in a country undergoing marketization and liberalization.

In China studies, many analyze China's foreign (economic) policy with the assumption that China can be regarded as a unitary actor in international relations, perhaps because they think it is more authoritarian than other countries, in particular in the highly secretive decision making process of diplomacy. However, an increasingly number of studies have demonstrated that a widening range of actors with different opinions have participated in this process (Harris, 2002; Lampton, 2001; Pearson, 2001; Shirk, 1994; Zweig, 2002). Still, to date, there is no study on China's domestic policymaking towards regional economic cooperation.

This paper explores the factors that have constrained or modified the national strategic pursuit of Chinese policymakers in FTAs. It will first summarize the major motivations of Beijing in forging FTAs. This will be followed by analyzing why some of those objectives have not been achieved, focusing on the resistance of some domestic interests in a changing Chinese domestic political environment, the relationship between major institutional actors,

as well as limited bureaucratic capability and coordination. Next the paper will discuss what China has learned from other countries during FTA negotiations, which might provide inspirations for Chinese policymakers to understand or even solve domestic problems.

Beijing's Motivations behind FTAs

What objectives does China hope to achieve through forming FTAs with other countries? In public interviews Chinese officials have given some explanations of China's move into FTAs, but I will point out some other motivations, because they are useful for understanding China's stance in FTAs.

Official line

When asked what benefits an FTA would bring to China in public interviews, Chinese officials seem to have a standard answer of five reasons (MOFCOM, 2006; MOFCOM, 2007).

First, FTAs help China to expand exports. Although the government has made enlarging domestic demand one of its national economic strategies, exports have been a major source of GDP growth in the past decade and the dependence on export is not going to decline in a short time. Especially for officials at MOFCOM, the increase of export volume is regarded as an indicator of their performance achievement. The CEPA with Hong Kong was not aimed at increasing exports because Hong Kong had already been a free port, but China expects the exports of manufactured goods to grow through the FTAs with countries of big domestic markets, and that small countries could be an avenue for Chinese products to enter the markets of each continent if Rules of Origin allow. Chinese trade officials from the Ministry of Commerce (MOFCOM) underlined the increase of exports of temperate agricultural produce to ASEAN and the potential increase of manufactured goods, particularly when they were asked about the impact of increasing imports of ASEAN's

tropical produce on Chinese farmers under the ‘Early Harvest Programme’ (a first-stage concession mostly made by China under the China-ASEAN FTA). As will be discussed later, this pragmatic pursuit of export interests by trade officials sometimes conflicts with the political objectives of foreign policy officials, which affects the coherence of China’s economic diplomacy.

Second, signing FTAs is a way for China to ensure access to multiple export markets. China’s overdependence on a few markets such as the US, Japan and Europe has caused resentment in those countries about trade deficits with China. Many countries have taken restrictive measures — anti-dumping in particular—and added pressure on the Chinese government to allow the RMB to appreciate. Therefore China pursues FTAs for trade security as an important component of economic security, with the assumption that FTA partners normally would not launch anti-dumping measures against China because they need the Chinese market and would not want to trigger China into retaliation.

Third, FTAs help reduce costs for Chinese customers and producers. Liberals at MOFCOM hold this view, and emphasize this point when they are questioned by the media about the impact of imports on local producers. They cited the example of reduced prices of tropical fruits in Northern China because of the China-ASEAN FTA, and argued that an FTA with Australia would let Chinese consumers taste high-quality but cheaper wine and dairy products. As for producers, there has been an increase of ASEAN’s industrial parts exports to China and reduction of those to Japan and the US. Most of them are assembled or processed in China before they are exported to third-country markets including notably Japan and the US (Ravenhill, 2006).

Fourth, FTAs help China to attract foreign investments and participate in international industrial restructuring. China hoped the FTA with ASEAN would create an enlarged ‘domestic market’, which would attract more foreign investments to the region. At the same

time, China is aware of the expansion of global production networks and hopes it can move higher in the chain by moving some of the labour-intensive industries to partner countries. China not only hopes to be both the world's factory but also the Research and Development centre. Therefore China's FTAs usually include clauses to facilitate bilateral investment before formal negotiations on investment liberalization start. China encourages companies to set up factories in ASEAN countries, and utilize some of their least developed countries' treatment to gain access to American and other markets.

Fifth, FTAs help develop domestic industries and create job opportunities. In rhetoric, Chinese trade officials hold that greater competition brought by FTAs is good for domestic industries to enhance competitiveness. However, in practice, it is a question how much the government is willing to let in competition. The WTO membership was in a sense used by the Chinese leadership to impose reforms on difficult domestic sectors and to lock in reform in the future. Regionalism, in contrast, is pursued to 'lock in' the international economic opportunities for Chinese domestic actors under China's given economic conditions. As will be discussed later, the hands of trade negotiators have been tied by resistance from some domestic industries to allow greater market access for foreign companies and other conservative government agencies.

In fact, also:

Several motivations behind China's activity in FTAs are not included in those five points but are identifiable from China's behaviours.

First, FTAs serve China's strategic and political interests, in particular, to strengthen political relations with the FTA partner. Beijing's full support for the Closer Economic Partnership Arrangement (CEPA) with Hong Kong and Macau was to ensure their integration with the mainland, and to put pressure on Taiwan because Taiwanese companies might lose business opportunities because of the Taiwanese government's political position. China's

proposal of an FTA to ASEAN was primarily to ease the latter's apprehension about 'the China threat', in order to ensure a secure immediate strategic environment. In the Early Harvest Programs with ASEAN and with Pakistan, China gave the partner countries a step earlier into the Chinese market in order to show China's 'big country morality' (*daguo fengfan*), in particular exemplified by the principle of 'giving more, taking less'. Chinese policymakers claim that this morality is superior to those of other predatory big countries, and that it dates back to ancient times when many countries paid tribute to China. However, they deny that China is trying to revive the old tributary system because in the past China ensured the security of others whereas now China needs the insurance of others of a secure strategic environment. From the experience of the FTA with ASEAN, China has also learned that FTAs can bind partners together especially if there is growing dependence in the bilateral trade relations. Through them, China hopes to be in a better position to compete for regional leadership in East Asia (notably with Japan but also with the US), to gain power to make rules in the region, and to construct a secure strategic environment for domestic development.

Second, China hopes to ensure 'stable supply' of resources—meaning long-term, stably priced—from FTA partners. The WTO does not cover this area, and countries like Australia do not think an FTA should have this content either, but China thinks the areas of FTAs can be broader as will be discussed later. Importantly, even if an FTA would not formally include energy supply, China can pursue it in parallel with the FTA negotiations, which indicates that it is a condition for China to agree to open the Chinese market. The FTAs with Australia, the Gulf Cooperation Council (GCC), Chile, ASEAN, and the South African Customs Union (SACU) are all obviously aimed at obtaining resources.

Third, China seeks to obtain recognition of Market Economy Status from FTA partners. Since China's entry into the WTO, it has faced numerous anti-dumping measures and investigations, and feels greatly disadvantaged because of its status as an economy in

transition within the WTO for 15 years. China hopes to redress this problem by seeking market economy status from individual countries. China has so far obtained it from 77 countries, including its FTA partners like ASEAN, South Korea, New Zealand, Australia, Iceland, Pakistan, and South Africa. It is usually a precondition to start FTA negotiations. China also hopes the recognition of some developed countries of China as a market economy would propel other major WTO members like the US and EU to follow suit because they would then be in a weaker position to oppose the assessment of other market economies.

However, the Chinese government has not always been able to pursue the above national objectives coherently or effectively. For instance, the pursuit of pragmatic economic interests in the FTA with ASEAN has not extinguished the latter's worry of 'the China threat', despite Beijing's initial concessions to ASEAN in agricultural trade. Notably, China has not been able to reach an FTA agreement with Australia despite the commitments given by the leaders of both countries. The next section will discuss the constraints on Chinese economic diplomacy as exemplified in FTA policymaking, focusing on domestic interests and institutions.

Domestic constraints

China's pursuit of diplomacy through forging FTAs has been affected by domestic realities in two ways. First, protectionist domestic interests have gained power vis-à-vis liberal sections in the government, in particular under the current generation of leadership which emphasizes domestic stability in view of rising social tensions. Second, the limited bureaucratic capacity and domestic coordination hinder China's ability to conduct economic diplomacy coherently and effectively.

Protectionist forces

As previously mentioned, one important feature of China's FTAs is that, unlike the WTO accession, they are not used by the Chinese central government as an instrument to impose domestic reforms. The WTO accession was imperative to the Chinese leadership, despite costly domestic reforms, because in domestic discourse it was closely linked with China's national pride as a great power that deserved equal trading rights as enjoyed by most other countries, the international recognition of China's reform efforts to build a market economy, and the government's (including leaders like Jiang Zemin and Zhu Rongji) competency in international negotiations. Such an imperative is lacking in China's FTA endeavours. If an FTA would require costly domestic adjustments, it is questionable whether the Chinese policymakers would propel its formation with the same extent of commitment.

Chinese central policymakers do not enjoy so much autonomy in conducting economic diplomacy as conventional wisdom holds. The participation of industries in the policymaking of FTAs is still largely limited to the channel of state ministries and commissions as well as local governments, although some big state-owned enterprises seem to have an increasing role. This does not prevent domestic sectors from expressing their interests, and the industrial ministries can be quite stubborn.

As a typical example, China's unwillingness to open its agriculture and services sectors to Australia has been a sticking point in their FTA negotiation, despite the strategic motivations of Beijing to strengthen relations with Canberra and to acquire energy and resources. The progress of negotiations has been extremely slow although Chinese Premier Wen Jiabao set a target upon his visit to Australia in April 2006 that an important breakthrough would be achieved within two years.

Agriculture

Although Beijing was able to impose concessions on the domestic agricultural sectors in the China-ASEAN FTA (CAFTA), agriculture has been the most difficult sector in the

Australia-China FTA (AUCFTA) negotiation on goods. From the first round of the AUCFTA negotiations, “the Chinese were at pains to say that they were on the defensive on agriculture and would resist liberalization there.”(Kohler, 2005) An Agriculture Working Group was specially organized between the two countries at the second round of negotiations to deal with agricultural and quarantine issues.

Chinese Premier Zhu Rongji’s strong will was a decisive factor in the achievement of the CAFTA, which had impacts on tropical produce growers in South China. However, the incidence of peasant protests has been on the rise in recent years, a problem the Hu-Wen government must solve in its “construction of a harmonious society” as the overarching social and political objective. The government has put solving ‘three agricultural’ problems—peasant, rural area, and agricultural industry—on the top of the government policies at the 16th National People’s Congress; the three agricultural problems have remained on the No.1 Central Documents, which carry state policies of the highest priority.¹

There is no farmers’ union in China, but the agricultural problem has become so prominent in China that the Ministry of Agriculture (MOA) gained influence in Chinese policymaking through assuming the role of the representative of farmers. MOA has been the most stubborn opponent to the prospective opening of Chinese agriculture to Australia.² It also accumulated more knowledge about the potential impacts of international trade agreements on domestic agriculture from the WTO and CAFTA experiences. MOA asserted that Chinese trade negotiators had already made too many concessions under the WTO. For instance, MOA claimed that wool production in China was almost completely lost because of foreign competition after the WTO accession, which disproved what the Ministry of Foreign Trade and Economic Cooperation (MOFTEC, the former body of MOFCOM) had said about the benefits of liberalization on domestic productivity. In particular, MOA argues,

agricultural production in China is still organized in the unit of families and many farmers only have minimum income have very little resource to update technology.

Moreover, the National People's Congress (NPC), traditionally a venue to discuss domestic issues and merely a 'rubber stamp', has gained power in China's policymaking as a legislative body vis-à-vis the government. The representatives have now become more concerned with the impacts of foreign economic policy on local economies; sometimes they request hearings and policy briefings to be held on FTAs. Therefore, for an FTA that may adversely affect the local producers of a wide area, like the AUCFTA, it is difficult for trade negotiators to obtain the support from the NPC.

The provinces in North China that may be affected by the AUFTA (Xinjiang, Gansu, Ningxia, and Inner Mongolia) are also areas where many ethnic minorities reside, including Muslims and Mongolians, most of whom rely on cattle farming for a living. Ethnic issues have become more sensitive in recent years in China's domestic politics, with increasing incidence of violent conflicts between the Han majority and Muslims (Koch, 2006; Moneyhon, 2004).³ At a bilateral conference on FTA agriculture issues in Xi'an in September 2006, a researcher from the Xinjiang Uygur Autonomous region advised the Chinese government to open wool trade gradually so as to avoid adverse impacts on Chinese fine wool growers, which is essential to "protect the ethnic minorities' economy and maintain the border stability." (Tian, 2006)

Services and Investment

Services trade and market access for foreign investments are closely related. In its FTA negotiations, China has preferred to negotiate FTAs on trade in goods first, and services and investment later, as it did with ASEAN and Chile. The only 'comprehensive' FTA China has reached is one with New Zealand, covering goods, services and investment. However, the

areas of services of all those three agreements are very limited, with the notable exclusion of banking and telecommunication sectors. Services have been one of the two most contentious areas in the AUCFTA negotiations (apart from agriculture), and a Chinese trade negotiator secretly described Singapore as a clown [*tiaoliang xiaochou*] in the CAFTA negotiations because the latter requested more concessions from China than other ASEAN members did. Such a general position stems partly from China's conservative attitude towards domestic reform under an FTA for consideration of economic security, and partly from profits generated from monopoly.

Economic security

In recent years China has paid more attention to developing the services sector rather than focusing only on manufacturing for industrialization. It also noticed that services trade has become an important part of the multilateral and regional trade talks. However, compared with the WTO accession, Beijing is now taking a more conservative approach to reform in this area because economic security and stability have become the priority in China's current reform and opening strategy. The government thinks it made substantial concessions under the WTO and carried them out faithfully, and is reluctant to open services trade under the FTA significantly beyond WTO commitments. Chinese services regulators hold that the impacts of the WTO accession on domestic industries still remain to be seen, before any further liberalization can be experimented or committed.⁴ For instance, the regulators of the banking sector believe that Chinese banks are still vulnerable to foreign competition. Although Australian negotiators try to persuade China that medium-sized Australian companies can enhance the competitiveness of Chinese companies without their facing the destructive force of big European and American companies, which is consistent with the rhetoric of Chinese trade officials about the role of FTAs, China has been very cautious in

such experiments. According to MOFCOM officials, imposing domestic reforms is not the starting point or motivation of the Chinese government in its pursuit of FTAs.

Monopoly profits

As for telecommunication and cultural industries, China has sought protection in FTA negotiations on the ground of national security. A more important reason some services sectors resist opening, such as telecommunication, transportation and mining, is that a huge amount of profits is generated from monopoly in those sectors, usually by state-owned companies that have become increasingly independent and powerful. Major state-owned telecom companies have pressured the Ministry of Information Industry (MII) not to rush to open markets to foreign competition.⁵

Because of reform, state-owned companies have gained economic benefits from reduced social burdens and autonomy to make market-based business decisions. Meanwhile, because the reform is only partial, they retained the rents in the monopolised system, and have become even more powerful in politics because the government relies heavily on them for revenue and employment. The presidents of major state-owned enterprises are often members of important political bodies of the state. Therefore the sectors that benefited from reform have become a significant source of resistance to further reform because their profits and rents under the current system are likely to be lost under external competition and scrutiny. MOFCOM officials think that monopoly profits and vicious competition between service providers that exist in the Chinese telecommunication sector reflects that state regulation lags behind the development of the sector and therefore needs to be updated. However, it is very difficult for the MII to push reform forward. Although the companies are supposed to follow the regulations of the MII, they sometimes resist implementing national policy. When they conduct monopoly activities in the market, the companies reason that they

are owned by the state; when they defy government policies, they say that China is now a market economy.⁶

China is also reluctant to open its mining sector to Australia or any other countries. According to the Minerals Council of Australia, there are all sorts of restrictions in terms of ownership, access to geological data, as well as lack of transparency of regulations and legal processes (Attwood, 2005). Mining is not listed as a sector for which China has liberalized investment; foreign companies only have the right to explore resources in China but not claim or own them because they are regarded by the Chinese government as ‘national assets’ and is managed by state agencies (the Ministry of Land and Resources, and the recently established National Bureau of Energy). Some critics call mining in China a ‘grey area conspired by power and capital’, and the profits in the mining industry in China are too lucrative for the Chinese to subject it to foreign competition. Various reports have also exposed the safety and corruption problems in mining in China; despite the central government’s measures to curb them, they are still quite serious (Tu, 2007).

Domestic Policymaking Institutions

Domestic interests have constrained Chinese trade negotiators’ room for concession not only because of their assertiveness, but also because the features of the policymaking institutions—the relationship between central policymakers, and the limited bureaucratic capacity and coordination on the other.

Two groups of relationship are crucial in determining China’s FTA policies: that between economic policy and foreign policy agencies and that between liberal and conservative sections of the government.

Foreign policy and economic policy agencies

An important relationship for China’s FTA policymaking, or economic diplomacy in general, is that between the MFA and MOFCOM. When China embarked on its first FTA—

the FTA with ASEAN—the MFA was the leading agency in domestic policymaking. Its leading position during the stages of feasibility and negotiations of the Framework Agreement dictated that China’s positions were heavily informed by politico-strategic considerations. Reflected in economic policy, China voluntarily gave concessions to ASEAN on agricultural trade through an ‘Early Harvest Program’ in order to show its sincerity to benefit its neighbours. It resulted in the loss of profit or even the major source of income for some Chinese farmers in southern provinces (such as Guangxi, Yunnan and Hainan), but the central policymakers told local governments and the MOA to ‘calculate the total balance sheet’ that included political benefits and to ‘look at the big picture’ of potential benefits for the whole nation.

If the Early Harvest Program boosted ASEAN’s exports of tropical produce to China, the Agreement on Trade in Goods increased China’s export of temperate produce and manufactured goods to ASEAN at higher rates and caused resentment among local producers. An important reason was that the MOFCOM took over the leading position in FTA negotiation from MFA after the Framework Agreement was signed since MOFCOM had expertise on trade negotiations. Compared with MFA, MOFCOM holds a more pragmatic position on FTAs—it pursues economic benefits for China as a major objective. Although the MFA still plays a significant role in the other FTAs that China has negotiated, it mainly acts as the reviewer of the ‘political qualification’ of a potential FTA partner country and assesses if there is enough political trust between China and the country to make binding trade arrangements. Specific terms of the agreements are negotiated by MOFCOM, which is supposed to *represent* industrial interests. As discussed below, MOFCOM not only has responsibility for promoting trade, it is also more easily lobbied by industrial ministries. Therefore, the strategic pursuit of political interests and pragmatic pursuit of pragmatic

interests sometimes clash in China's FTA policies, with the latter sometimes trumpets the initial political motivations.

Relationship between liberal and conservative sections

MOFCOM officials are in general proponents of reform and liberalization, believing competition enhances productivity and free trade benefits consumers, but it has a lot of difficulty in persuading domestic sectors to subscribe to this belief. MOFCOM is designated as the lead agency to negotiate China's FTAs (except the first stage of the CAFTA), but it lost the power of settling conflicting domestic interests that it enjoyed under Zhu Rongji's Premiership. The current leadership or the State Council does not expect MOFCOM to report directly to them on what are regarded as 'working issues' though they may be central to the stigma of some FTA negotiations. Because MOFCOM has the same political rank as other industrial ministries and even lower than some national commissions, it is easily subject to pressure from other ministries and commissions to accommodate their interests. Moreover, because the power of trade, investment and industrial policymaking is fragmented among MOFCOM, the National Development and Reform Commission (NDRC), and other ministerial-level government agencies, MOFCOM cannot propel trade liberalization without the consent of others. In fact, it usually needs the co-signature [*hui qian*] of every state-level agency that has a stake in the FTA before it can submit a negotiation agenda to the State Council for approval. At the same time, MOFCOM seems to have more sympathy for the agricultural sector than they did during the WTO negotiations. From their experiences at the WTO, trade negotiators have concluded that agriculture is a special and sensitive sector for every country because of political reasons and therefore it is natural that countries would not compromise their domestic interests in an FTA.

In contrast, the NDRC seems to not only have inherited a conservative position on reforms and opening from its former body, the State Planning Agency, but also enjoy

increased power in domestic politics. Other government agencies call the NDRC a ‘small state council’, because it has departments matching every sector of the economy, and holds a higher political position than the ministries. In the AUCFTA negotiations, the Australian Department of Foreign Affairs and Trade (DFAT) is concerned that NDRC has not been fully involved in the negotiations and therefore MOFCOM cannot move beyond traditional agendas. Indeed, the conservative position of the NDRC has constrained Chinese trade negotiators’ autonomy to liberalize some sectors that it regards important to Chinese national economy.

The relative decline of the liberal section vis-à-vis the conservative section in the Chinese government happened against the background of leadership change. The Chinese leadership and the State Council still have a lot of autonomy in China’s foreign economic policymaking. However, because of increasingly serious social problems in China, the leadership has raised ‘building a harmonious society’ as the highest policy objective. It has to consider possible social impacts of foreign economic policies. It is commonly believed among Chinese officials that Wen Jiabao is more cautious than Zhu Rongji on reform. At his meeting with the Australian Prime Minister John Howard in Shenzhen in September 2006, Wen said that in the FTA negotiation between China and Australia, both sides should demonstrate ‘mutual understanding and *accommodation*’ [italicization by the author].

Bureaucratic capacity and coordination

When China agrees to a proposal of an FTA, it usually says the FTA will bring both opportunities and challenges but on the whole it will be beneficial, without specific assessments. In this way, the central decision makers try to dismiss potential costs on both sides. It is probably part of the Chinese diplomatic culture that they give an in-principle

approval if there is no crucial problem. Implementation of the in-principle agreement usually means selecting benefits while avoiding costs to the domestic economy. However, China's attempt to hide challenges does not always succeed. On the one hand, when Australia presented quantitative results of their potential loss, China was doubtful but it could not provide an alternative calculation. On the other hand, Chinese negotiators are often in an embarrassing situation at the negotiating table whereby Chinese domestic industrial sectors provide inaccurate or inconsistent statistics and offers. Chinese trade negotiators have also lamented at the limited domestic capacity of the government and research institutes for conducting rigorous economic studies, which was seen as one reason for the domination of Australia in their joint feasibility study of the Australia-China FTA and hence 'unsatisfactory' results for China. Moreover, Australia has very specific plans for the FTA negotiation but China cannot decide on many details including the schedule of negotiations because the government has to deal with many domestic issues and the negotiation team is overstretched. That is seen by Australia as a sign of lack of sincerity.

International Learning

The significance of domestic politics in China's FTA policymaking does not mean that it is not subject to international influences. As is shown above, some domestic actors behave according to potential impacts that a proposed FTA would have on their interests, and policymakers are likely to set policy agenda according to their perceived national interest of China in international relations. For instance, China started pursuing FTAs partly out of competition with other initiatives in East Asia, such as the possibility of Japan's offering an FTA proposal to ASEAN and the launch of the Korea-Japan FTA study group, and partly out of emulation of the European Union (EU) and North American Free Trade Area (NAFTA). China's lack of confidence in the WTO negotiation process and in how much benefit the

WTO can bring to China is an important reason why China continues to engage actively in bilateral preferential trade agreements. The proliferation of FTAs by other countries has to some extent emboldened China to form various kinds of FTAs without worrying much about their legitimacy under the WTO. During the process of negotiating and implementing FTAs, China has also learned that FTAs can bring substantial economic benefits such as export expansion, energy supply and the acknowledgement of the Market Economy Status, and that FTAs can ‘bind countries together’ politically.

Another important channel that the external environment has shaped China’s policies on FTAs is China’s international learning. Through FTA negotiations, China has learned about international practices such as the importance of the feasibility study, the implications of a market economy or a democratic political system for FTA negotiations, and the importance of domestic institutional coordination, although the extent to which China is able to internalise these practices varies and remains to be seen.

The feasibility study

As in many other countries, China appoints an expert group of its own or jointly with its FTA partner to carry out a feasibility study before starting formal negotiations. This has become an established practice in China’s FTA policymaking. As mentioned previously, the Chinese government often lacks accurate statistics or consistent agenda from various ministries, to the embarrassment of Chinese trade negotiators. As a result, the MOFCOM has started to put great effort in collecting information from industries and conducting ‘scientific and rigid’ economic modelling. At the same time, the government has learned to control the process of an FTA negotiation by accelerating or prolonging the feasibility study, and sometimes even by controlling the results of the study as a support for the government’s position. As the process of its FTA talks with India paused at the stage of feasibility study because of lack of enthusiasm from New Delhi, China’s study of an FTA with Japan and

South Korea seems to be prolonged as well. As mentioned above, MOFCOM believed that the joint study between China and Australia on the feasibility of an FTA was dominated by Australian researchers and therefore the economic modelling was manipulated to the advantage of Australia; therefore MOFCOM has since put more emphasis on strengthening China's research capability.

Market economy

Perhaps because FTAs and regional financial cooperation take the form of inter-governmental arrangements, and because of the legacy of the planned economy, Chinese policymakers stress the role of the state over the market in the policymaking on those issues. The government did not carry out substantial surveys to gather business opinions on potential FTAs, which hindered its ability to obtain reliable information for effective decision making. The constraint on effective negotiation caused by lack of accurate information has recently led MOFCOM to start encouraging the industries to assert their interests in trade negotiations, saying that 'only those babies who can cry can get milk' (quoting speech by Director of the WTO Department of MOFCOM, Xiangchen Zhang, at the "Meeting on How Industrial and Business Associations Play a Role in International Trade Negotiations", October 2006) (Cui 2006). The Chinese government also learned from Australia and New Zealand that industrial associations can be a good channel of communication between the government and companies and encouraged the involvement of Chinese industrial associations in FTA policymaking.

The paramount role that the Chinese government places on the state in FTA negotiations has also led it to make requests deemed impossible by a market-economy country, such as to include a clause on energy pricing and supply in the FTA with Australia. The Australian government insists that prices are purely business decisions by private companies, some of which are multinational corporations, and that the government should not

and cannot intervene because Australia is a market economy. However, He Yafei, Director of North America and Oceania Department of the MFA, told Australian media before Australian Prime Minister John Howard's visit in April 2005 that while the increase of iron ore prices was a commercial matter, Canberra "can certainly encourage companies to take a long-term point of view in setting prices...don't just look at the benefits under their noses." (Hu, 2005) Faced with obstinate opposition by Australia to including such a clause in the FTA, the Chinese government started to rely on other channels to obtain energy and resources, such as supporting state-owned enterprises in purchasing shares of energy companies through diplomatic and economic means.

Theoretically FTAs could help countries streamline their governance, and the proposed FTA with Australia had the potential to align China's policymaking institutions with the standards of Australia, because Canberra requested Beijing to do so in order to guarantee the benefits of an FTA. In reality, however, it depends on the preference of individual countries and the relative power between the negotiating parties. China resists including behind-the-border issues (such as intellectual property rights, government procurement and industrial standards) in FTAs on the grounds that FTAs are not meant to propel domestic systemic changes and that even if Beijing signs the agreement, local government implementation is questionable until domestic conditions are mature. A Chinese scholar at China Academy of Social Sciences (CASS) argues that FTAs are a means through which developed countries pursue their Singapore Agenda,⁷ which will hurt the autonomy of developing countries (He, 2005).

Although to what extent China is going to internalise the practices of a market economy in FTA negotiations remains to be seen, it learned a lot through the process of engaging with its FTA partners. Before China and Australia exchanged substantial offers and requests, they had gone through a lengthy process of familiarization with each other's

domestic systems. The Chinese government and businesses regard Australia as a developed country with advanced regulations for a market economy, and have expressed their willingness to learn from Australian practises if conditions allow. Although domestic regulators have so far resisted systematic change, they have gained a lot of knowledge on the operations of a market economy during the process of negotiation.

Democracy

China believes the government has the decision power over FTAs, and that the only difference between China and Australia is that the Australian government gathers more information from and communicates more with industries.⁸ That may be true considering the political decision made by Canberra on the US-Australia FTA, but this perception has led the Chinese government to underestimate societal pressures on the partner governments such as Australia and some ASEAN countries. China does not have as wide or deep consultations with domestic private sectors as Australia does; nor does it run a substantial advocacy program in Australia (Senate, 2007). The increased Chinese export of temperate produce in Thailand and some other ASEAN countries caused political backlash on their governments and stirred up the 'China threat' fears again (Bernardino, 2004; Narintarakul, 2004; Oxfam, 2004; Wattanapruttipaisan, 2003).

Through the difficult negotiation process, the Chinese negotiators have learned about the significant role that domestic interest groups can play in trade politics. It pulled the pursuit of the AUCFTA to a halt during the Australian national election in 2007 because there was likely to be a change of government in Canberra. It also put in place agricultural cooperation programs with Thailand and mechanisms to facilitate Thai exports to China. Perhaps more importantly, it learned the importance of a democratic process for making policies best for the national interest and for the loyal implementation of international agreements. The State Council has started to consciously involve all domestic stakeholders to

participate in FTA policymaking. At the same time, China is learning from other countries about domestic coordination given that the conditions of diverse interests and fragmented power in Chinese domestic politics increasingly resemble those in a democracy.

Institutional coordination

When China started the first FTA—the CAFTA—the MFA was the lead agency because it was regarded as part of China’s good neighbourly diplomacy. However, as China’s experiences with FTAs grow, although FTAs are still an important part of China’s economic diplomacy, MOFCOM is by default the lead agency from the beginning of FTA talks because China needs to conduct commercially meaningful dialogues with their foreign counterparts, which are all foreign trade agencies.

In view of the difficulty of domestic coordination for the AUCFTA and the amount of work required by the number of FTAs China is engaged in, MOFCOM is calling for the establishment of an ‘FTA Leading Group’ similar to the Australian FTA taskforces or the commissions of international organisations. It would be made of representatives of key government agencies which frequent the joint working meetings, and a Premier-level leader to ease domestic tensions. Such an institution, if launched, would play a significant role in pooling resources and facilitate domestic coordination.

The difficulty China has had in domestic coordination during FTA negotiations is only a reflection of the wider problems of Chinese government institutions—lack of transparency and communication, inconsistency of policies and the difficulty of inter-ministerial coordination. China recently reviewed the structure of the national government and studied the government structures of developed countries like Australia, Japan, the UK and the US. It has started experimenting with a ‘big ministries system’ by merging several former ministerial agencies in pressing issue areas that demand more bureaucratic efficiency.⁹

Conclusion

As the above discussion shows, although the Chinese state has strong interests in forming FTAs for politico-strategic and economic reasons, Chinese central policymakers do not enjoy as much autonomy as before or as conventional wisdom suggests. Domestic protectionist sectors can be quite stubborn and vocal in resisting opening under an FTA. The increased assertion of domestic interests comes from experience or resentment from the WTO accession for some sectors, and from partial reform that produced monopoly profits for other sectors. Their influence is further strengthened by the sensitivity of political and social problems in China.

The constraint of domestic ‘interest groups’ on state autonomy is aggravated by the lack of effective coordination among government institutions. There is no leading inter-ministerial agency to mediate between different domestic preferences, nor does the lead agency, MOFCOM, have the authority or enough power to do so. On the one hand, the nuanced positions between MFA and MOFCOM have resulted in the incoherence between China’s pursuit of diplomatic objectives and economic benefits. On the other hand, MOFCOM has not been able to carry out the state’s agenda effectively because domestic resistance has forced trade negotiators to take a conservative position at the FTA negotiations.

If the autonomy of pursuing national objectives by the Chinese state in FTA negotiations is constrained by domestic politics, international learning by policymakers seems to help them come to terms with the emerging domestic problems and deal with them in a more coherent and systematic manner. Through engaging with other countries, Chinese policymakers learned about the practices of trade agenda setting, market economy, democracy and institutional coordination. Even if China’s current domestic conditions constrain its ability to adopt these practices, this learning process provides the opportunity for international standards to be internalised in this rapidly changing country.

1. Interviews with MOFCOM and MOA officials, Beijing, 2006 and 2007. See 'Zhongyang guanyu zengjia nongmin shouru ruogan zhengce de yijian' [The central government's view on policies to increase peasants' income], *People's Daily*, 9 February 2004.
2. The information on MOA's views is based on the interviews with MOA officials, May 2006, Beijing.
3. Interviews, Beijing April 2006. Also see for example "Ethnic Conflict Catches China Off Guard", *Asian Economic News*, 8 Nov. 2004, available online at http://findarticles.com/p/articles/mi_m0WDP/is_2004_Nov_8/ai_n6343590.
4. Australia DFAT, "Updates on Progress in the Negotiations", available online at <http://www.dfat.gov.au/geo/china/fta/>; see in particular the 8th and 9th rounds of negotiations.
5. Interview with a MII official, May 2007.
6. Interview with a MOFCOM official, April 2007.
7. The agenda proposed at the 1996 Singapore Ministerial Meeting of the WTO—basically measures to liberalize investment, competition policy and government procurement policy. However, it failed because of objection from developing countries.
8. Interviews with MOFCOM officials, Beijing, April 2007.
9. The 11th National People's Congress in March 2008 endorsed the plan of structural reform of the Chinese government focusing on the formation of several 'big ministries'. The new ministries include the Ministries of Industry and Information Technology, Environment Protection, Human Resources and Social Security, Housing and Urban-Rural Construction, Transport and Transportation, as well as the National Energy Commission.

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