

**FOREIGN ECONOMIC POLICY FORMULATION  
AND IMPLEMENTATION IN CHINA:  
CHINA-ASEAN FREE TRADE AGREEMENT**

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## SUMMARY

This dissertation begins with a critique of two-level games, and the concept of two-front games is introduced, whereby two-front games are more appropriate to China as far as China's domestic and international relations are concerned. The study proposes a new perspective to explain China's foreign economic policy formulation and implementation. In contrast to the existing literature and models (which neglected the discussion on policy implementation when studying policy making), this study argues that China's foreign economic policy making is not fragmented or decentralized in the way many scholars have argued. It is decentralized, yet the "decentralization" of the power is not in the conventional policy-making process. It is during the policy implementation process and the policy justification process that we can observe such a trend. Therefore, the policy implementation process ought to attract more attention from scholars, since the power of local governments in the policy implementation process far outweighs that of the policy formulation process itself.

Policy formulation and implementation are different but closely related. The new perspective of "Dynamic Authoritarianism" taken by this study comprises both of these two processes. It illustrates that Chinese foreign economic policy making is still an authoritarian one, with dominance in the decision-making process held by the central government on the one hand. However, this should not dismiss the bargaining power and space to manoeuvre held by the policy implementation process of local governments since they have more bargaining power and free space to manoeuvre. It is characterized as a dynamic model because local governments and academic scholars, especially those affiliated to



the government are participating more in the policy making process. To be more specific, they tend to play more roles in the policy implementation and justification processes. Policy implementation, as argued in this study, is also regarded as a process of policy reformulation, which is susceptible to change.

Bureaucratic politics still plays a key role under the present Chinese political system. After introducing the various bureaucracies and the academia involved in the field of foreign policy especially foreign economic policy, the study first discusses foreign economic policy formulation and implementation processes of the Chinese government in general. As a policy background to the case of the China-ASEAN Free Trade Agreement (CAFTA), the study discusses China's general foreign economic policy changes toward Southeast Asian countries, i.e. from bilateralism to reactive multilateralism, and further to pro-active multilateralism in the new millennium. The idea of the CAFTA was China's response to the concerns of the Association of Southeast Asian Nations (ASEAN) on China's entry into the WTO. Moreover, China's political and strategic considerations of building an FTA with ASEAN should not be ignored either. Based on the fieldwork done in Beijing, Guangxi Zhuang Autonomous Region and Yunnan Province, the case study of the CAFTA has proved the validity of the dynamic and authoritarian nature of China's foreign economic policy formulation and implementation processes.

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## LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AMR	Academy of Macroeconomic Research
AMM	ASEAN Ministerial Meeting
APEC	Asia-Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
CAFTA	China-ASEAN Free Trade Area (Agreement)
CAITEC	Chinese Academy of International Trade and Economic Cooperation
CASS	Chinese Academy of Social Sciences
CC	Central Committee
CCP	Chinese Communist Party
CCYL	Chinese Communist Youth League
CDI	China Development Institute
CFAU	China Foreign Affairs University
CICIR	China Institute of Contemporary International Relations
CIECOS	China International Economic Cooperation Society
CIIS	China Institute of International Studies
CPAFFC	Chinese People's Association for Friendship with Foreign Countries
CPIFA	Chinese People's Institute of Foreign Affairs
DOC	Department of Commerce
DRC	Development and Reform Commission
DRCS	Development Research Center of the State Council

EHP	Early Harvest Program
EPG	Eminent Persons Group
EU	European Union
FAO	Foreign Affairs Office
FAOSC	Foreign Affairs Office of the State Council
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GMS	Greater Mekong Sub-region
GXDRC	Guangxi Development and Reform Commission
IAPSCASS	Institute of Asian Pacific Studies, Chinese Academy of Social Sciences
JFTC	Japan Fair Trade Commission
KIECF	Kunming Import & Export Commodities Fair
KIEP	Korea Institute for International Economic Policy
LDCs	Less Developing Countries
LSG	Leading Small Group
LSGFA	Leading Small Group on Foreign Affairs
LSGFEA	Leading Small Group on Financial and Economic Affairs
MFA	Ministry of Foreign Affairs
MFNT	Most Favoured Nation Treatment
MOFCOM	Ministry of Commerce of the People's Republic of China
MOFTEC	Ministry of Foreign Trade and Economic Cooperation
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NDRC	National Development and Reform Commission
NIEs	Newly Industrialized Economies

NPC	National People's Congress
NSEC	Nanning-Singapore Economic Corridor
OECD	Organization for Economic Cooperation and Development
PPP	Purchasing Power Parity
PPRD	Pan-Pearl River Delta Regional Cooperation
PRC	People's Republic of China
RECASC	Regional Economic Coordination Association of Southwest China
ROO	Rules of Origin
RTA	Regional Trade Agreement
SARs	Special Administrative Regions
SCORES	State Council Office for Restructuring the Economic System
SDPC	State Development Planning Commission
SEOM	Senior Economic Officials Meeting
SETC	State Economic and Trade Commission
SPC	State Planning Commission
TAC	Treaty of Amity and Cooperation
TNC	Trade Negotiation Committee
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization
YNDRC	Yunnan Development and Reform Commission

## CHAPTER ONE

### INTRODUCTION: INTEGRATING POLICY FORMULATION AND POLICY IMPLEMENTATION

The process of foreign economic policy making in China is distinctively different from that in western democratic countries. In contrast to existing models, China's foreign economic policy making is not fragmented or decentralized in the way many scholars have argued. To analyze more appropriately the present foreign economic policy making mechanism in China, it is necessary to take a new perspective that encompasses an integration of the policy formulation and policy implementation processes.

#### **I. A Framework of China's Foreign Economic Policy Making: Two-Front Games Versus Two-Level Games**

In his study of the links between domestic and international politics, Robert Putnam developed what he called the theory of "two-level games."<sup>1</sup> The theory states that international agreements are the products of negotiations at both national and international levels in liberal democracies. According to Putnam, domestic politics and international relations were entangled and interacted with each other. He argued, "the politics of many international negotiations can usefully be conceived as a two-level game": at the national level, which he defined as level II, "domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups"; at the international level, defined as

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<sup>1</sup> Robert D. Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization*, Vol.42, No.3 (Summer, 1988): 427-460; P. B. Evans, H. K. Jacobson, and R. D. Putnam, eds., *Double-edged Diplomacy: International Bargaining and Domestic Politics* (Berkeley: University of California Press, 1993). See also James N. Rosenau, ed., *Linkage Politics: Essays on the Convergence of National and International Systems* (New York: The Free Press, 1966).

level I, “national governments seek to maximize their own ability to satisfy domestic pressure, while minimizing the adverse consequences of foreign developments.”<sup>2</sup> “Neither of the two games can be ignored by central decision-makers, so long as their countries remain interdependent, yet sovereign.”<sup>3</sup> The theory has been adopted to describe the relationship between domestic level and international level in western democratic countries, yet the applicability of the theory to the case of China needs to be examined.

China is a centralized unitary state. The state power is concentrated in the central government, whereas local governments only have delegated powers,<sup>4</sup> and therefore are removable by the central government. The central government, as the main actor in the international arena, has to face both the outside world and local governments. Such a role is similar to the role of the state in Putnam’s two-level games. Nevertheless, the relationship between the central government and local governments in terms of the decision-making process is quite different from western democratic countries, be it democratic federal states or democratic unitary ones. China is administratively divided into 23 provinces, 5 autonomous regions, 4 municipal cities that have the same political, economic as well as jurisdictional rights as provinces, and 2 special administrative regions. Although local governments should align their local interests with the national interests, each administrative unit does have its own interests.

First, in western democratic countries, policy justification is an integral part of the policy-making process and the role of policy justification is vital. Based on the

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<sup>2</sup> Robert D. Putnam, “Diplomacy and Domestic Politics: The Logic of Two-Level Games,” *International Organization*, Vol.42, No.3 (Summer, 1988): 434.

<sup>3</sup> Ibid.

<sup>4</sup> Local governments in this study refer to provincial governments. The counterpart of local governments in the United States is state governments rather than governments at counties, municipalities, townships and villages that comprise local governments in the United States.



fact that domestic forces are very powerful, the policies of western democracies are usually domestic-oriented with the domestic audience as priority. For example when initiating a bill, the bill will have difficulty being adopted either because it is unable to secure the approval of the congress or it is opposed by big conglomerates. In contrast, China has an entrenched hierarchy of policy-makers and lacks such powerful interest groups as found in western democratic countries, though the influence of similar Chinese interest groups is increasing. Some policies of the Chinese government may have seriously transgressed the interests of certain local governments or social groups. Nevertheless, it is usually impossible for local governments and such social groups to turn into a powerful lobbying force. After a policy has been adopted in China, it is sure to be carried out in most cases. In recent years, although policy justification is gaining more importance in China's policy-making process, it is not yet as vital as in western democratic countries.<sup>5</sup>

Second, China emphasizes much more on national interests than local interests. Local governments are not granted as much power as the western democratic countries. A comparison between the United States and China can corroborate this argument: The United States is widely regarded as a beacon of democracy. The 50 state governments of the United States constitutionally share sovereignty with the national government. In the early years prior to the adoption of the Federal Constitution, each state was actually an autonomous unit. Due to this tradition,

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<sup>5</sup> As will be discussed in this study, the policy-making process includes the processes of policy formulation and policy implementation, whereas the policy justification process comprises the processes of policy initiation, policy coordination and policy justification. Policy justification and policy implementation are regarded as integral parts of the policy-making process. In China, policy justification is also conducted before top leaders initiate policies, but in most cases policy justification is to reinforce the applicability of one policy, rather than to justify whether a policy is applicable. Moreover, such actions usually take place among a narrow group of people and are not open to scrutiny, thus little is known to the public. Nevertheless, it shall still be noted that although policy justification is not as vital as in western democratic countries, the Chinese leadership cannot ignore the influence from different interests in contemporary China.

state governments in the United States enjoy much more autonomy compared to their counterparts in China. In fact, those states comprising the federation in the federal system have a set of constitutional functions, which cannot be unilaterally changed by the central government. As long as the state governments adopt no laws contradicting or violating the Constitution or the laws of the country, they enjoy full rights over matters that lie entirely within their borders, such as regulations relating to property, industry, business, public utilities, the state criminal code, and internal communications. State governments also have three branches, consisting of the executive, legislative, and judicial branches, which function equivalently to their national counterparts. In contrast, local governments are subordinated to the central government under the Chinese constitution. Although they have a certain amount of autonomy and some bargaining power, they have no veto power against the policies made by the central government. Moreover, their bargaining power is usually more pronounced in the economic field. That is, when economic interests are concerned, the scope of bargaining for local governments increases. In fact, in terms of autonomy, what local governments enjoy more is in the process of policy implementation rather than in the policy formulation process. Nevertheless, it needs to be pointed out here that the central government can compensate local governments if the interests of certain local governments are violated. The major difference in the relationship between the “central-local” governments of China and the United States is that when the federal government exercises responsibility in the states, programs are usually adopted on the basis of cooperation between the two levels of government, rather than as an imposition from above.

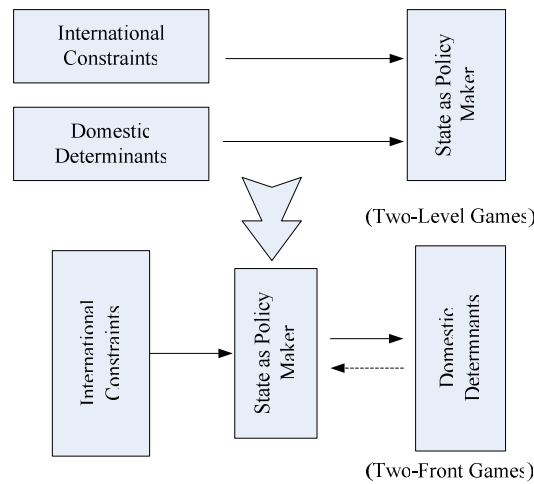
Third, in western democratic countries, constraints over the exercise of power of the actors on the international stage have been formalized by laws and constitutions of the state. Moreover, such a system of “rule of law” goes on well and is strictly adhered to. For example, as defined by the Constitution of the United States, foreign policy making powers are divided between the President and the Congress. The President as the chief spokesman of the nation, directs government officials and machinery in the daily conduct of diplomacy, and has the principal responsibility for taking action to advance U.S. foreign policy interests. Congress can affect the course of policy through the enactment of legislation and through the appropriation or denial of funds. Thus, the executive and legislative branches play different roles and both have opportunities to initiate and change foreign policy.<sup>6</sup> Moreover, powerful interest groups play a vital role in both pressing and lobbying the central government when it is making policies. Thus, in a democratic country like the United States, the domestic level is the basic level of policy input; the President is confined to the domestic level first and then bargains internationally. Even up to the present, China lacks such a well-oiled system of checks and balances that are able to confine the powers of the central government. The present Chinese leaders are determined to turn the country from “rule by law” to the Western democratic model of “rule of law.” However, even under some of the existing power-restriction arrangements, the level of implementation of such rules is relatively low in China.

Therefore, the state of China, as an actor on the international stage, does not actually face two levels in terms of domestic and external relations. In other words, local and international spheres are not at parallel levels in China’s case. Local

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<sup>6</sup> See Richard F. Grimmett, “Foreign Policy Roles of the President and Congress.” Available online at: <http://usinfo.state.gov/usa/infousa/politics/pres/fpolicy.htm>; retrieved on June 12, 2006.

governments can provide input to policy justification and implementation processes, but not as often or as much when it comes to policy initiative; moreover, such power is more confined to economic fields. In order to make Putnam's theory of "two-level games" applicable in China's one-party system, it will be more appropriate to modify it into a new model, i.e. two-front games, where the internal front is the local government and the external front is the international sphere. As shown in Figure 1-1, in the model of two-level games, international constraints and domestic determinants are at parallel levels in influencing the decision-making of the state, while in the model of two-front games, the state is stationed in the middle of international constraints and domestic determinants. It has to face international constraints, which is the same in the model of two-level games. Nevertheless, in terms of domestic determinants, the state actually has more influence and power over the domestic side compared to western democratic countries. Domestic determinants can affect policy makers to some extent, as the dashed arrow in the figure indicates, but such effects and influences are much smaller compared to both international constraints and the influence of the state on the domestic side. The framework of the "two-front games," which is characterized by weaker domestic constraints, is a key determinant of the model of the policy formulation and policy implementation processes that will be discussed hereafter.



**Figure 1-1: Two-Front Games vs. Two-Level Games**

*Note: Solid arrows refer to the actual direction of influence; dashed arrow indicates nominal direction of influence or the scale of the influence is much smaller compared to other influences listed.*

## **II. Explaining China’s Foreign Economic Policy Formulation and Implementation**

This section will first review the various perspectives of the literature on policy formulation, as well as on policy implementation, followed by the illustration of a synthesized model integrating policy formulation and policy implementation, which I believe will explain China’s foreign economic behavior effectively.

### ***Review of Approaches on Policy Formulation***

In the early renowned works of Graham Allison and Philip Zelikow on the Cuban Missile Crisis, *Essence of Decision: Explaining the Cuban Missile Crisis*, they illustrated three models that were applicable in explaining the Cuban Missile Crisis, i.e., the Rational Actor or “Classical” Model; an Organizational Process Model; and a Governmental (Bureaucratic) Politics Model.<sup>7</sup> These models refer to governmental choice, goals and objectives; organizational outputs; a result of various bargaining games among players in the national governments respectively.

<sup>7</sup> See Graham T. Allison, *Essence of Decision: Explaining the Cuban Missile Crisis* (Glenview & London: S. Foresman, 1971); see also Robert K. Yin, ed., *The Case Study Anthology* (London & New Delhi: Sage Publications, 2004).

According to this Organizational Behavior Model, what Rational Actor Model analysts characterized as “acts” and “choices” are thought of instead as outputs of large organizations functioning according to regular patterns of behavior. From what organizational context, pressure, and procedures did this decision emerge? According to the Governmental Politics Model, events in foreign affairs are characterized neither as unitary choices nor as organizational outputs. Rather, what happens is understood as a result of bargaining games among players in the national government, the players whose interests and actions impact the issue in question, the factors that shape players’ perceptions and stands, the established procedure or action for aggregating competing preferences, and the performance of the players.<sup>8</sup> These approaches have been well summarized in their work. The Chinese decision-making process can also be explained via the above-mentioned three perspectives. However, the model of rational actor and the bureaucratic model are more suitable in China since the organizations as understood by Allison and Zelikow are relatively weak in the country.

Based on Allison and Zelikow’s arguments and taking them a step further, I am of the view that in general, there are mainly three different approaches in terms of Chinese foreign policy-making:<sup>9</sup> the Rational Actor approach,<sup>10</sup> the structural approach, and the approach which focuses on the relationship between

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<sup>8</sup> Robert K. Yin, ed., *The Case Study Anthology* (London & New Delhi: Sage Publications, 2004): 19.

<sup>9</sup> There are other approaches, such as those that focus on the perceptions, ideas and culture as the analytical units. However, it is beyond the scope of this study. Examples of such works include, Robert Jervis, *Perception and Misperception in International Politics* (Princeton, N.J.: Princeton University Press, 1976), and Paul Egon Rohrich, “Economic Culture and Foreign Policy: The Cognitive Analysis of Economic Policy Making,” *International Organization*, Vol.41, No.1 (Winter, 1987): 51-92.

<sup>10</sup> For works on foreign policy making based on this approach see John T. Rourke, *Making Foreign Policy: United States, Soviet Union and China* (Pacific Grove, Calif.: Brooks/Cole Publishing Co., 1990), which is a detailed comparative study of foreign policy making in the United States, Soviet Union and China. See also Samuel S. Kim, 4<sup>th</sup> ed., *China and the World: Chinese Foreign Policy Faces the New Millennium* (Boulder: Westview Press, 1998).

state and society. The Rational Actor approach views the state as the unitary international actor, while the structural approach switches the emphasis from international sphere to domestic determinants of the constituent bureaucracies. This study will adopt the second approach.

The structural approach on China's foreign policy making emphasizes more on functions of different actors, such as paramount leaders and bureaucracies in the decision-making processes. In this regard, two scholarly works are worth mentioning. A. Doak Barnett's work, *The Making of Foreign Policy in China*, is considered a landmark piece on Chinese foreign policy making. In his book, Barnett discussed various domestic institutions and their interaction with the Chinese foreign policy making process.<sup>11</sup> Kenneth Lieberthal and Michel Oksenberg developed two models on the Chinese policy making process, one of which is the "power model" attributing the stimulus for policy changes to the perpetual jockeying for position among the leaders.<sup>12</sup> Some of the conclusions and arguments of the above models are still applicable in contemporary China. However, in the years since these two works were published, many fundamental changes have taken place in the Chinese foreign policy making process. Such new changes, as will be discussed later, have modified the major characteristics of the Chinese decision-making paradigm. Within the structural approach, the following three models can be identified:<sup>13</sup>

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<sup>11</sup> See A. Doak Barnett, *The Making of Foreign Policy in China: Structure and Process* (Boulder: Westview, 1985).

<sup>12</sup> The other model is the "rationality model," which focuses on the responses of the leaders to the changing economic and foreign policy environments. See Kenneth G. Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures, and Processes* (Princeton, N.J.: Princeton University Press, c1988): 4.

<sup>13</sup> The following three models, namely the totalitarianism model, authoritarianism model, and pluralism model, are often considered as the models of political system rather than decision-making. However, as the decision-making process is actually determined by the structure of the political system, it is hard to separate them distinctively. In this study, I use these models to describe the paradigms of China's decision-making.

### *Totalitarianism Model*

The best description of such a model can be traced back to the 1950s, when Carl Friedrich and Zbigniew Brzezinski put forward the concept.<sup>14</sup> They later summarized six common features of totalitarian dictatorships, which consist of “a totalistic ideology, a single party committed to such an ideology and typically led by one man, a terroristic police, a communications monopoly, a weapons monopoly, and a centrally directed economy.”<sup>15</sup> As some features characterizing totalitarianism may also be found under other political systems, some scholars called for a distinction between totalitarianism and totalitarian elements in a political system.<sup>16</sup> It is a meaningful academic attempt. Nevertheless, the differentiation cannot be overemphasized. When applied to policy-making, as long as the totalitarian features dominate the political system, it is still characterized as totalitarianism.<sup>17</sup> Scholars supporting this model hold the view that the scope of the power of local governments is strictly determined by how much power the central government wants to share with it. In their view, the foreign policy making process is totally under the purview of the central government while local governments almost have nothing to do with it. This model applied perfectly during Mao’s era, when almost all policies were made by major leaders especially Mao himself, while bureaucracies and local governments only played a role as his agents (See Figure 1-2). As Doak Barnett pointed out earlier, the system was “designed to penetrate and politicize every segment of

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<sup>14</sup> See Carl J. Friedrich and Zbigniew K. Brzezinski, *Totalitarian Dictatorship and Autocracy* (Cambridge, Massachusetts: Harvard University Press, 1956).

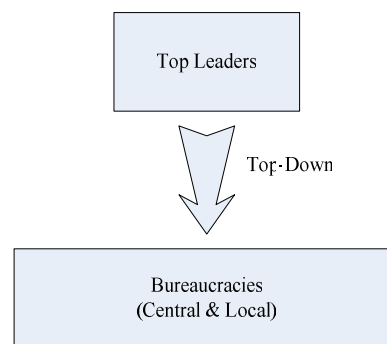
<sup>15</sup> Carl J. Friedrich and Zbigniew K. Brzezinski, 2<sup>nd</sup> ed., revised by Carl J. Friedrich, *Totalitarian Dictatorship and Autocracy* (Cambridge, Massachusetts: Harvard University Press, 1965): 126.

<sup>16</sup> See Barrington Moore, *Political Power and Social Theory* (Cambridge: Harvard University Press, 1958).

<sup>17</sup> See Juan J. Linz, *Totalitarian and Authoritarian Regime* (boulder & London: Lynne Rienner Publishers, 2000).



society, at all levels, in a way that would enable the regime to plan and control all social activities.”<sup>18</sup> The main reason why such a model is applicable is based on the revolutionary experience of Mao. His charisma and credibility had been firmly built up due to his whole-hearted devotion and preeminent ability to lead the Chinese people out of an abyss of suffering to a bright new future. As the primary leader in the founding of the People’s Republic of China (PRC), his position was unchallenged.



**Figure 1-2: Totalitarianism Model**

Obviously, this model emphasizes too much on the roles of top officials and the central government. Today, local governments are playing an increasing role in the foreign policy making process, especially in the foreign economic policy making process, which is a less sensitive area of policymaking. Moreover, concerning the issue of policy implementation, a policy cannot be carried out without the active participation and involvement of local governments. Since each local government has its own interests and there are still spaces for local governments to potentially maneuver, they may exert their possible influences to affect the policy making process in the first place and may act according to their highest interests. Thus, a new model is needed, which can better take into account

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<sup>18</sup> A. Doak Barnett, “Values and Institutions in Crisis,” Chapter 1, in A. Doak Barnett, *Uncertain Passage: China’s Transition to the Post-Mao Era* (Washington, D. C.: The Brookings Institution, 1974): 2.

the new inputs of the foreign economic policy making process under the new transformation of China's foreign policy making.

### *Authoritarianism Model*

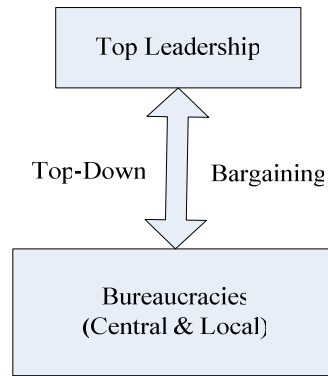
As pointed out by Peter Calvert, the word "authoritarian" describes more traditional dictatorships. The beliefs that underpin such systems include the belief "in the transcendental importance of the principle of authority; an emphasis on the exclusive use of political power, unfettered by juridical restraint or civil liberties; and a tendency to excuse the excesses either of arbitrary decision-making or of despotic methods of political and social control."<sup>19</sup> In an authoritarian system, political power is concentrated in a small group of top-leaders. Such a model is different from a totalitarian model in that it tolerates and leaves a certain space for pluralist actors to exert their influences on the policy-making process. Moreover, the authoritarian governments exercise their power within relatively predictable limits.

Although the question of China's system being transformed from totalitarianism to authoritarianism is still under discussion,<sup>20</sup> it is certain that the totalitarian model no longer applies to the current policy-making situation in China. What makes the authoritarian model distinctive from the totalitarian model is that local governments are increasingly exposed to incentives from the top-level rather than being merely dictated to from above. Besides top-down orders, local governments and bureaucracies now enjoy more autonomy and are able to bargain with the central government, as shown in Figure 1-3 below.

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<sup>19</sup> Peter Calvert, "Authoritarianism," Chapter 7, in Michael Foley, ed., *Ideas That Shape Politics* (Manchester and New York: Manchester University Press, 1994): 62.

<sup>20</sup> For example, in his work, Guo Sujian argued that the fundamental features of totalitarianism have remained unchanged in post-Mao China although China had experienced considerable quantitative changes. See Sujian Guo, *Post-Mao China: From Totalitarianism to Authoritarianism?* (London: Praeger, 2000).



**Figure 1-3: Authoritarianism Model**

Scholars subscribing to this model are too numerous to mention, but they include Harry Harding, Kenneth Lieberthal, and Quansheng Zhao, just to name a few. Harding named the model of China’s policy formulation as “consultative authoritarianism.”<sup>21</sup> In 1992, Lieberthal and Oksenberg labeled it as “fragmented authoritarianism.”<sup>22</sup> The fragmented authoritarianism model asserts that the local level of the Chinese political system is actually “fragmented and disjointed” and “the fragmentation is structurally based and has been enhanced by reform policies regarding procedures.” They emphasized the concept of “bargaining” and “reciprocity.” According to Lieberthal, the fragmented authoritarianism increased the chances of bargaining by the lower level bureaucracies.<sup>23</sup> However, as realized by Lieberthal himself, this model has been questioned by the authors of the major works that once contributed to this model. In their view, this model is

<sup>21</sup> See Harry Harding, *Organizing China: The Problem of Bureaucracy, 1949-1976* (Stanford: Stanford University Press, 1981); See also Harry Harding, *China’s Second Revolution: Reform After Mao* (Washington, D.C.: Brookings Institution, 1987).

<sup>22</sup> See Kenneth G. Lieberthal and David M. Lampton, eds., *Bureaucracy, Politics, and Decision Making in Post-Mao China* (Berkeley: University of California Press, 1992).

<sup>23</sup> Kenneth G. Lieberthal, “Introduction,” in Kenneth G. Lieberthal and David M. Lampton, eds., *Bureaucracy, Politics, and Decision Making in Post-Mao China* (Berkeley: University of California Press, 1992): 8-9; See also Kenneth G. Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures, and Processes* (Princeton, N.J.: Princeton University Press, c1988).

more applicable to economic decision-making.<sup>24</sup> In the same year, Quansheng Zhao brought up the concept of describing the Chinese foreign policy making process as from “vertical authoritarianism” to “horizontal authoritarianism.”<sup>25</sup> By “vertical authoritarianism” he refers to a paramount leader dominating the policy-making process, while “horizontal authoritarianism” means a policy-making process that is “essentially authoritarian and highly centralized but with several power centers at the top level representing and coordinating various interests and opinions.”<sup>26</sup> Since horizontal authoritarianism is less personalized and more institutionalized, it is more likely to develop into a more pluralistic policy-making system.<sup>27</sup> Later Suisheng Zhao and Carol Lee Hamrin further borrowed the “bureaucratic authoritarianism” concept from Guillermo A. O’Donnell in describing China’s policy-making paradigm.<sup>28</sup>

Leadership succession has actually accelerated the changes in the foreign policy making model. As observed by Michel Oksenberg, if we consider Mao as a totalitarian leader, Deng was an authoritarian.<sup>29</sup> In Mao’s era, policy-making was under his strict control. He has the final say in almost all the policies, while in

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<sup>24</sup> For Example, Andrew Walder argued, “The key characteristic of the municipal fiscal environment is that of concentration of power rather than of its fragmentation”. See Andrew G. Walder, “Local Bargaining Relationships and Urban Industrial Finance,” Chapter 11, in Kenneth G. Lieberthal and David M. Lampton, eds., *Bureaucracy, Politics, and Decision Making in Post-Mao China* (Berkeley: University of California Press, 1992): 308-333. See also Kenneth G. Lieberthal, “Introduction,” in Kenneth G. Lieberthal and David M. Lampton, eds., *Bureaucracy, Politics, and Decision Making in Post-Mao China* (Berkeley: University of California Press, 1992): 19.

<sup>25</sup> Quansheng Zhao, “Domestic Factors of Foreign Policy: From Vertical to Horizontal Authoritarianism,” *Annals of the Academy of Political and Social Science*, Vol.519, China’s Foreign Relations (January, 1992): 158-175.

<sup>26</sup> *Ibid.*, 161.

<sup>27</sup> *Ibid.*

<sup>28</sup> See Carol Lee Hamrin and Suisheng Zhao, “Introduction,” in Carol Lee Hamrin and Suisheng Zhao, eds, *Decision-Making in Deng’s China: Perspectives from Insiders* (Armonk: M. E. Sharpe, 1995): xxi-xlviii; and Guillermo A. O’Donnell, *Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics* (Berkeley: Institute of International Studies, University of California, 1979).

<sup>29</sup> Michel Oksenberg, “Economic Policy-Making in China: Summer 1981,” *The China Quarterly*, No.90 (June, 1982): 170.

Deng's era, although he was still held in high regard, his personal power was limited. Under the third and fourth generation of leadership led by Jiang Zemin and Hu Jintao, the power of the paramount leaders has been further reduced since both lack the revolutionary credentials. "Personal authority" is no longer applicable on them. What has replaced personal authority is "institutional authority," which Suisheng Zhao defined as "a means of controlling and mobilizing material resources through the bureaucratic bargaining process."<sup>30</sup> In other words, top leaders are not able to enjoy personal power over other government officials due to historical changes and the new situation that has evolved. Their power is framed and legalized by formal institutional arrangements. In contrast to the old practice where local governments obey the imperative orders issued by top officials, lower bureaucracies and local government officials now enjoy more freedom in the bargaining process.

With regard to the two seemingly contradictory arguments, we can refer to two scholars who specialize in the field of Chinese foreign policy making. On the one hand, as pointed out by Doak Barnett, new changes in the Chinese foreign policy making process diverted its system from totalitarianism where the paramount leader has the final say to a "collective decision making" system.<sup>31</sup> On the other hand, new changes in Chinese foreign policy making have confirmed the model of "vertical authoritarianism," instead of "horizontal authoritarianism." The essence of Barnett's insights is that the decision-making process in China has remained authoritarian in nature while it has remained "highly centralized,

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<sup>30</sup> Suisheng Zhao, "The Structure of Authority and Decision-Making: A Theoretical Framework," in Carol Lee Hamrin and Suisheng Zhao, eds., *Decision-Making in Deng's China: Perspectives from Insiders* (Armonk & London: M. E. Sharpe, 1995): 236.

<sup>31</sup> A. Doak Barnett, *The Making of Foreign Policy in China: Structure and Process* (Boulder: Westview Press, 1985): 16.

personalized and lacks institutionalization.”<sup>32</sup> In fact, as discussed in detail in the following chapters, these two arguments do not necessarily contradict each other. Since they both take into account the new changes in the Chinese foreign policy making process, the solution is to figure out a new model that can explain such new changes.

### *Pluralism Model*

“Pluralism” in the policy-making model means that different groups within society exert influences on the policy-making process. Pluralism can be divided into two forms: bureaucratic pluralism and social pluralism. Bureaucratic pluralism is inside-system pluralism, where bureaucratic interests are different and bureaucracies lobby on the basis of their individual interests. In social pluralism, there are also interest groups, but this model emphasizes more on outside government factors, such as enterprises. In this study, pluralism refers to social system pluralism (See Figure 1-4). Nevertheless, there still exists one fundamental distinction between the pluralism in this study and the pluralism in democratic countries.

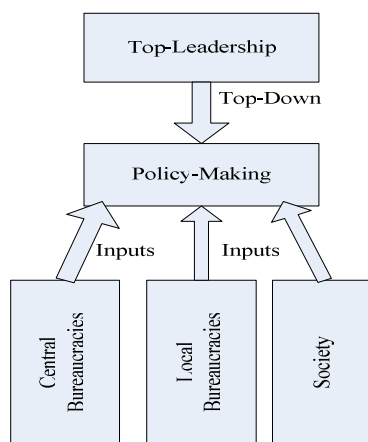
Suisheng Zhao uses the two terms “individual pluralism” and “institutional pluralism” to differentiate China’s increasing pluralism from the Western pluralism.<sup>33</sup> “Individual pluralism” is actually the decision-making mechanism of the Chinese government, the so-called decision making by consensus or collective decision-making. He borrowed the idea of “institutional pluralism” from Jerry Hough, which Hough used to explain the post-Stalin system in the Soviet Union,

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<sup>32</sup> Quansheng Zhao, “Domestic Factors of Foreign Policy: From Vertical to Horizontal Authoritarianism”, *Annals of the Academy of Political and Social Science*, Vol.519, China’s Foreign Relations (January, 1992): 158-175.

<sup>33</sup> Suisheng Zhao, “The Structure of Authority and Decision-Making: A Theoretical Framework”, in Carol Lee Hamrin and Suisheng Zhao, eds., *Decision-Making in Deng’s China: Perspectives from Insiders* (Armonk & London: M. E. Sharpe, 1995): 241.

to describe the functional division of authorities.<sup>34</sup> In fact, to name it “institutional pluralism” is misleading to some extent. In China, different institutions carry different responsibilities and thus have different powers. It is hard to use the word pluralism to describe the power distribution among the complex bureaucracies. In my view, pluralism in democratic countries is more institutionalized, and thus more “unlimited,” whereas the pluralism in China is actually a much-limited form of pluralism.<sup>35</sup> “Limited pluralism” can be considered as one characteristic of authoritarianism. This is the main reason why I still include authoritarianism in the new model that I am about to propose without including the word “pluralism.” This study argues that the Chinese foreign economic policy model comprises some elements of authoritarianism and of pluralism.<sup>36</sup>



**Figure 1-4: Pluralism Model**

*Notes: Society here refers to academics, enterprises, and etc.*

<sup>34</sup> Jerry F. Hough, *The Soviet Union and Social Science Theory* (Cambridge: Harvard University Press, 1977): 22.

<sup>35</sup> Juan J. Linz, *Totalitarian and Authoritarian Regime* (boulder & London: Lynne Rienner Publishers, 2000): 161.

<sup>36</sup> Evidence of this can be gleaned from China’s policy of letting enterprises “go-out”: As is well-known, the power of the central government has decreased, and under its authorization, local governments can now contact and sign contracts with foreign countries directly.

Scholars who tend to adopt the pluralism model argue that since the death of Mao Zedong, especially after the reform and opening-up policy in 1978 that led to radical changes in China, it is no longer accurate to continue to just regard the state as a mere policy maker and actor in international sphere. Under such circumstances, some works analyze the influence of social forces over China's foreign policy making process.<sup>37</sup>

In a special issue of *China Quarterly*, many scholars discussed the role of think tanks, research institutes and organizations in China's foreign policy making process. As argued by Bonnie Glaser and Phillip Saunders, since Chinese foreign policies tend to be more pragmatic and its policy-making process tends to be more bureaucratic, the opportunities for China's civilian research institutes to affect foreign policy have increased. Beijing now takes a more active attitude and is enthusiastically involved itself in the international community. The complex international environment has created increased demand for research and analysis to aid Chinese leaders in making informed decisions: "A more pluralistic and competitive policy environment has given analysts and think tanks more influence."<sup>38</sup> At the end of their article, Glaser and Saunders listed four types of policy influences of the civilian research institutes, they are "positional influence based on where an analyst works in the bureaucracy; expertise influence based on the analyst's expert knowledge; personal influence based on the analyst's personal connections with policy makers; and experiential influence based on the analyst's

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<sup>37</sup> Yufan Hao and Lin Su, *China's Foreign Policy Making: Societal Force and Chinese American Policy* (Hampshire & Burlington: Ashgate, 2005). For similar works refer to David Shambaugh, "China's International Relations Think Tanks: Evolving Structure and Process", *The China Quarterly*, Vol.171 (September, 2002): 575-596; Bates Gill and James Mulvenon, "Chinese Military-Related Think Tanks and Research Institutions", *The China Quarterly*, Vol.171 (September, 2002): 617-624 and Barry Naughton, "China's Economic Think Tanks: Their Changing Role in the 1990s", *The China Quarterly*, Vol.171 (September, 2002): 625-635.

<sup>38</sup> Bonnie S. Glaser and Phillip C. Saunders, "Chinese Civilian Foreign Policy Research Institutes: Evolving Roles and Increasing Influence", *The China Quarterly*, Vol. 171 (September, 2002): 597-616.



career history and personal experience.”<sup>39</sup> Correspondingly, Quansheng Zhao generalized seven channels at work between the central and periphery when defining Chinese foreign policy, such as consultations with policy makers, internal reports via government channels, conference and public policy debates, policy NGOs, outside-system discussions, overseas scholars and highly specialized professional communities. “The Center,” he defined as including key policy making individuals and organizations in the party and the government, while “the Periphery” is defined as including the news media, universities, and think tanks.<sup>40</sup> In another newly published work that focuses on the societal force in China’s foreign policy making, the role of Chinese elites, and media sources such as the Internet are discussed in various articles compiled within it.<sup>41</sup> Quansheng Zhao proposed an analogy on the future directions of the role of social forces in foreign policy making, i.e., positioning its role as the glass half-filled with water, for which “the glass is half full in that there has been a noticeably increasing influence of intellectuals and think tanks in foreign policy communities; the glass is half empty in that there are still limitations in terms of policy inputs.”<sup>42</sup> This may be considered an insightful description of the present role of intellectuals and think tanks in China.

It has already been widely accepted that China’s foreign policy-making is becoming more pragmatic and professional by taking on board more insights from various sources. However, in the case of foreign economic policy-making, which

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<sup>39</sup> Ibid., 608.

<sup>40</sup> Quansheng Zhao, “Impact of Intellectuals and Think Tanks on Chinese Foreign Policy,” Chapter 6, in Yufan Hao and Lin Su, *China’s Foreign Policy Making: Societal Force and Chinese American Policy* (Hampshire & Burlington: Ashgate, 2005): 123-138.

<sup>41</sup> See Yufan Hao and Lin Su, *China’s Foreign Policy Making: Societal Force and Chinese American Policy* (Hampshire & Burlington: Ashgate, 2005).

<sup>42</sup> Quansheng Zhao, “Impact of Intellectuals and Think Tanks on Chinese Foreign Policy,” Chapter 6, in Hao & Su, op. cit. p.135.

was once considered as one of the most applicable fields due to its less sensitivity, the real role that is being played by the society needs further elaboration.

### ***Review of Approaches on Policy Implementation***

The most widely accepted definition of implementation was formulated by Daniel Mazmanian and Paul Sabatier. They state,

*Implementation is the carrying out of a basic policy decision, usually incorporated in a statute but which can also take the form of important executive orders or court decision. Ideally, that decision identifies the problem(s) to be addressed, stipulates the objective(s) to be pursued, and in a variety of ways, “structures” the implementation process.*

*The process normally runs through a number of stages beginning with passage of the basic statute, followed by the policy outputs (decisions) of the implementing agencies, the compliance of target groups with those decision, the actual impacts- both intended and unintended- of those outputs, the perceived impacts of agency decision, and finally, important revisions (or attempted revisions) in the basic statute.<sup>43</sup>*

In brief, as one stage of the policy making process, policy implementation is actually a process to answer that once a policy has been made, how shall it be carried out and whether it has been completely and effectively implemented or not.

One method to classify policy implementation process is whether a policy is conducted by a top-down approach or a bottom-up approach. The former is centered on a hierarchical system, under which the policy is formed by the central government and performed by local governments.<sup>44</sup> Some argue that the

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<sup>43</sup> Daniel A. Mazmanian and Paul A. Sabatier, *Implementation and Public Policy* (Glenview, Ill.: Scott, Foresman, 1983): 20-21.

<sup>44</sup> For further works on top-down approach of policy implementation see: Pressman Jeffrey L. and Aaron Wildavsky, “Implementation,” (1973) in Jay M. Shafritz, Albert C. Hyde, *Classics of*

successful implementation of a policy depends on several factors, such as the availability of resources, the nature of the policy and the administrative structure.<sup>45</sup> The latter approach focuses more on the different factors that have direct influence on the result of the implementation.<sup>46</sup> Obviously, the definition of implementation by Daniel Mazmanian and Paul Sabatier is a top-down perspective. If we take the view from bottom-up, the definition by Andrew Dunsire is most concise and vivid. He defined it as “pragmatization.”<sup>47</sup> Any ready-made policy shall have some space of flexibility when it is being carried out. Therefore, policy implementation is considered as another possible interest distribution process, during which the concerned parties exert their efforts to bargain for their own advantages. In this study, policy implementation refers to local government carrying out the policies made by the central government. Two implications of this definition shall be noted here. First, policy implementation in this study is a process in which local governments are major actors. Second, it emphasizes the interactive relationship between the central government and local governments.

Mazmanian and Sabatier pointed out three perspectives to study policy implementation: the center, the periphery and the target groups.<sup>48</sup> Nevertheless, it is hard to separate the three actors distinctively. Jae Ho Chung illustrated a “triple

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*Public Administration* 3<sup>rd</sup> ed. (Pacific Grove, Calif.: Brooks/Cole Pub. Co., 1992): 406-410; and Daniel A. Mazmanian and Paul A. Sabatier, *Implementation and Public Policy* (Glenview, Ill.: Scott, Foresman, 1983).

<sup>45</sup> For further information on the application of the top-down approach, see Jeffrey L. Pressmen and Aaron Wildavsky, *How Great Expectations in Washington Are Dashed in Oakland* (California: University of California Press, 1973); related arguments see Marcus Powell, Chapter 1, “Policy Implementation,” in *An Analysis of Policy Implementation in the Third World* (Aldershot: Ashgate, 1999): 1-20.

<sup>46</sup> For further works concerning the bottom-up approach of policy implementation see: Michael Lipsky, *Street-Level Bureaucracy: Dilemmas of the Individual in Public Services* (New York: Russell Sage, 1980) and Benny Hjern and D. O. Porter, “Implementing Structures: A New Unit of Administrative Analysis,” *Organization Studies*, Vol.2, No.3 (1981): 211-227.

<sup>47</sup> Andrew Dunsire, *Implementation in a Bureaucracy* (Oxford: Martin Roberson, 1978): 178.

<sup>48</sup> Daniel A. Mazmanian and Paul A. Sabatier, *Implementation and Public Policy* (Glenview, Illinois: Scott, Foresman and Company, 1983): 12.

mix” typology as the pattern of local policy implementation, which oscillates between the two extreme situations, i.e. complete compliance and total non-compliance. The three forms of local policy implementation he referred to were the forms of “pioneering,” “bandwagoning” and “resisting.”<sup>49</sup> Just as the name implies, pioneering means performing ahead of others; bandwagoning means keeping at a moderate performing speed, while resisting means unwillingness to follow-up with the policy of the central government. His division method of policy implementation is quite reasonable and inclusive. However, it focuses more on the attitudes of local governments on the policies made by the central government by neglecting a major actor closely related to the policy implementation process, that is, the central government.

Giandomenico Majone and Aaron Wildavsky held the idea that a justification of policy was needed. In their view, when a policy was implemented, it ought to be changed due to either the interaction among actors or as a response to new circumstances. Implementation in their opinion was in fact an evolutionary process of the ready-made policy.<sup>50</sup> Their idea was novel by considering the policy implementation as a dynamic process. Nevertheless, they neglected one of the most important aspects of the policy implementation, that is, the interaction between policy implementer and policy formulator. Neither top-down nor bottom-up approach is inclusive enough to be applied in this study. Like the approach adopted in this study on the policy formulation process, an interactive approach is also more suitable when discussing the process of policy

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<sup>49</sup> Jae Ho Chung, “Introduction,” in Chung, *Central Control and Local Discretion in China: Leadership and Implementation during Post-Mao Decollectivization* (Oxford: Oxford University Press, 2000): 6-8.

<sup>50</sup> Giandomenico Majone and Aaron Wildavsky, “Implementation as Evolution,” in Jeffrey I. Pressman and Aaron Wildavsky, eds., *Implementation* (Berkeley: University of California, 1984): 163-180.

implementation. The interactive approach or adaptive approach was first supported by Eugene Bardach.<sup>51</sup> This approach emphasizes adjustments made to policy during the implementation process and the various strategies adopted by the implementers.

Literature on policy implementation is concerned mostly with the congruence or incongruence between policy intention and the actual outcome, and focuses either on the different stages or the difficulties encountered during the policy implementation process.<sup>52</sup> However, due to the level of sensitivity in China, scholarly works on China's policy implementation process are few. As discussed by David Lampton, it is actually hard to define success and failure depending on the level of congruence between intention and outcome mainly for three reasons: first, it depends on the analyst's standpoints; second, unintended consequences produced by the interaction among policies and goal conflicts within policies, come along together with the original intentions; third, there exists the problem of a "hidden agenda," which means the principal objective of policy remains unspoken.<sup>53</sup> Therefore, this study will also take the procedural approach by focusing on the policy implementation process to discuss whether the central government's idea or policy is strictly implemented or not. Interactive behaviors such as bargaining and reciprocity are here to stay.

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<sup>51</sup> See Eugene Bardach, *The Implementation Game* (Cambridge, Mass.: MIT Press, 1977).

<sup>52</sup> For more information, see Helen Ingram, "Policy Implementation through Bargaining", *Public Policy*, Vol.25, No.4 (Autumn, 1977): 499-526; see also Robert T. Nakamura and Frank Smallwood, *The Politics of Policy Implementation* (New York: St. Martin's Press, 1980) and Randall Ripley and Grace Franklin, *Bureaucracy and Policy Implementation* (Homewood: Dorsey Press, 1982).

<sup>53</sup> David M. Lampton, "The Implementation Problem in Post-Mao China," Chapter 1 in David M. Lampton, ed., *Policy Implementation in Post-Mao China* (Berkeley: University of California Press, 1987): 5-7, and 13.

*Integrating Policy Formulation and Implementation: The Perspective of Dynamic Authoritarianism*

The existing literature on policy formulation and implementation has three common limitations. First, rarely has any literature touched on the foreign economic policy making process despite the fact that literature on foreign policy formulation is not hard to find. In other words, the existing literature mainly focuses on a discussion of the foreign policy making process by granting no specific attention to the foreign economic policy making process. Although the foreign economic policy making process and the foreign policy making process cannot be fully separated from each other, foreign economic policy making is still different from foreign policy making in terms of both the organizations involved, as well as the power distribution structure between the central and local governments. Second, the policy implementation process has also been largely neglected. However, the fact is that the policy implementation process makes more sense in terms of foreign economic policies in China. It is the area of policymaking that local governments are able to play more roles. On the one hand, the overall government policy is always very general. During the policy implementation process, such policies will be more specified. On the other hand, the actual policies local governments are implementing may have been modified within certain permissible limits.

David Lampton's work, *Policy Implementation in Post-Mao China*, while not on foreign policy implementation, is still relevant as a general discussion on policy implementation.<sup>54</sup> He generalizes the value of the implementation approach by arguing that this approach "moves the level of analysis downward by

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<sup>54</sup> See David M. Lampton, ed., *Policy Implementation in Post-Mao China* (Berkeley: University of California Press, 1987).

viewing central politics in its interactive relationship with the multitude of subordinate functional and territorial entities;" it also "disaggregates 'the Center,' making it clear that central authority in the national capital is itself highly fragmented"<sup>55</sup> Peter Cheung and James Tang concluded that although the power of foreign policy making is still dominated by the central government, "the expansion of provincial foreign affairs, driven by competing economic interests and diverse strategic considerations, is already making an impact on the international behavior of China."<sup>56</sup> Similarly, in their famous work on public policy implementation, Michael Hill and Peter Hupe divided the policy implementation paradigm into three phases: the age of interventionism (1930-1980); market and corporate government (1980s and 1990s) and the age of pragmatism (from the 1990s to the present).<sup>57</sup> The paradigm shifts of China's policy implementation are quite similar to this classification, especially by taking the present stage as the pragmatic one. Local governments are not independent actors at all in the foreign economic policy decision-making process in China's case. This is different from Panayotos Soldatos' conclusion of taking sub-national governments as foreign policy actors.<sup>58</sup> However, the autonomy and space of local governments in Chinese foreign economic policy implementation has unquestionably increased. A popular Chinese saying helps to illustrate why more attention is needed to focus more on the policy implementation process: "the order

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<sup>55</sup> David M. Lampton, "The Implementation Problem in Post-Mao China," Chapter 1, in David M. Lampton, ed., *Policy Implementation in Post-Mao China* (Berkeley: University of California Press, 1987): 4.

<sup>56</sup> Peter T. Y. Cheung and James T. H. Tang, "The External Relations of China's Provinces," Chapter 4, in David M. Lampton, ed., *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000* (Stanford: Stanford University Press, 2001): 120.

<sup>57</sup> Michael J. Hill and Peter Hupe, "The Rise and Decline of the Policy-Implementation Paradigm," Chapter 5, in Michael J. Hill and Peter Hupe, *Implementing Public Policy: Governance in Theory and in Practice* (London: Sage, 2002): 85-115.

<sup>58</sup> Panayotos Soldatos, "An Explanatory Framework for the Study of Federated States as Foreign-Policy Actors", *Federalism and International Relations: the Role of Sub-National Units* (Oxford: Clarendon, 1990): 35.

cannot go beyond *Zhongnanhai* (the headquarters of the CCP and the Chinese central government)” (*zhengling buchū zhongnanhai*) and “even though specific policies are made by the top, the bottom is always able to produce their own counterstrategies” (*shangyou zhengce xiayou duice*). Therefore, more emphasis on the policy implementation process serves as “a window on Chinese politics.”<sup>59</sup>

Third and more importantly, the existing models do not consider the policy formulation and the policy implementation processes as one. In fact, policy implementation is a continuation of policy formulation. As argued by Michael Hill, policy formulation and implementation are not separate. During the stage of policy implementation, policy making still continues.<sup>60</sup> Policymaking is actually left to those involved in the planning and implementation stages.<sup>61</sup> Even in the 1970s, Fritz Scharpf had already pointed out that the process of policy formulation and implementation “are inevitably the result of interactions among a plurality of separate actors with separate interests, goals and strategies.”<sup>62</sup> The distinction between policy formulation and implementation is blurred mainly due to the following two reasons, as argued by Donald Calista: “one is the overwhelming evidence of the significance of implementation in determining policy outcomes, and the other is the realization that implementation independently affects formation.”<sup>63</sup>

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<sup>59</sup> David M. Lampton, “The Implementation Problem in Post-Mao China,” Chapter 1, in David M. Lampton, ed., *Policy Implementation in Post-Mao China* (Berkeley: University of California Press, 1987): 4.

<sup>60</sup> Michael J. Hill and Peter Hupe, “Introduction,” Chapter 1, in Michael J. Hill and Peter Hupe, *Implementing Public Policy: Governance in Theory and in Practice* (London: Sage, 2002): 8.

<sup>61</sup> See Michael J. Hill, *The Policy Process in the Modern State*, 3<sup>rd</sup> ed. (New York: Prentice Hall, 1997).

<sup>62</sup> Fritz W. Scharpf, “Inter-organizational Policy Studies: Issues, Concepts and Perspectives,” in Kenneth I. Hanf and Fritz W. Scharpf, eds., *Inter-organizational Policy Making: Limits to Coordination and Central Control* (London: Sage, 1978): 347.

<sup>63</sup> Donald J. Calista, “Policy Implementation,” Chapter 6, in Stuart S. Nagel, ed., *Encyclopedia of Policy Studies*, 2<sup>nd</sup> ed. (New York: Marcel Dekker, 1994): 130. Similar views calling for synthesis of the two approaches, also see Paul A. Sabatier, “Top-down and Bottom-up Approaches to



This is true in China's case, where the state functions as the policy-maker of general policies and rules which are the principles and disciplines of local governments. Nevertheless, while local governments implement the central government's policies, they have to make adjustments accordingly to meet the new situations and challenges. Thus, more interaction between the central government and local governments comes along. In the process of the interaction between the two-level governments, the original policy will be modified or new supplementary policies will be made. Therefore, policy implementation can be considered as a part of policy making. There ought to be one perspective that can include the two processes.

Two puzzles arise when mulling over a suitable model that incorporates China's foreign economic policy-making and implementation. First is "national interests vs. local interests." The foreign economic decision-making process is based on national interests, while policy implementation depends on the local governments' own efforts on the basis of their specific natural and social conditions. Second, since China is a big country, it is hard to define a specific policy that applies to all provinces. Thus, the second puzzle is "losers vs. winners," which means some provinces will gain more compared to others. Thus, what is the trade-off between the central government and local governments? Furthermore, what is the trade-off between local governments themselves? In one word, there might be a conflict of interests between the state and provinces, and among provinces under certain policies. Sometimes, the central government of China has to keep a balance between the relative gains and losses of local

governments and exerts efforts in the redistribution of gains and losses. The new perspective shall take into account these above puzzles and questions that follow.

Although local government can play a part in policy justification and implementation, in my view, it is still too early to describe the current policy-making process as pluralistic. Civil society, and other powers that can be described as one “pillar” of policy-making are still at the nascent stage. Thus, what is China’s mechanism of foreign economic policy-making now? I labeled China’s foreign economic policy formulation and implementation mechanism by considering central-local relations as “dynamic authoritarianism.” This perspective is hybrid of the second and third model I have discussed earlier.<sup>64</sup> It is similar to what Robert Scalapino advocates, that is, the pattern of “authoritarian pluralism” by “keeping a rein on political rights yet enabling initiatives to operate in such areas as enterprise and religion.”<sup>65</sup> From this perspective, some aspects of foreign policy-making are coercive while some other parts have bargaining power. Bureaucracies both at the central and local level as well as society are all able to provide inputs to the policy making process (See Figure 1-5). Obviously, this perspective admits in the first place that Chinese foreign economic policy making is still authoritarian in nature, which will be proven by the case studies in the following chapters. Nevertheless, a more important reason to name it “dynamic authoritarianism” is to indicate my emphasis on this new perspective, that is, the dynamic characteristics of policy-making and remaking procedures. The policy-making process refers to the policy formulation period, whereas the

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<sup>64</sup> For works on neo-authoritarianism see Barry Sautman, “Sirens of the Strongman: Neo-Authoritarianism in Recent Chinese Political Theory”, *China Quarterly*, No.129 (March 1992): 72-102; and Elizabeth J. Perry, “China in 1992: An Experiment in Neo-Authoritarianism”, *Asian Survey*, Vol.33, No.1, A Survey of Asia in 1992: Part I (January, 1993): 12-21.

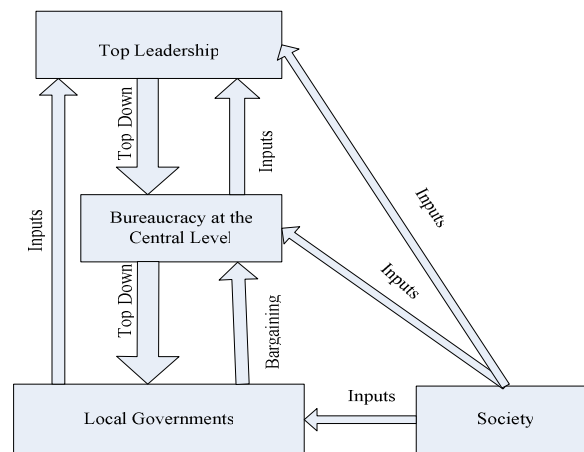
<sup>65</sup> Robert Scalapino, *The Politics of Development: Perspectives on Twentieth-Century Asia* (Cambridge: Harvard University Press, 1989): 127.

policy-remaking process happens during the policy implementation period. This new perspective enables us to put the two processes into the same explaining model.

The new perspective I have proposed has two advantages compared to the existing models: first, it explains well the dynamic nature of both the policy formulation and the policy implementation process in China. It is dynamic first because more input is added to the policy-making process. Contrary to the totalitarian model and authoritarian model, bureaucracies at the central level and the local level as well as society have all become active participants in the policy-making process, either via the form of policy initiative or policy justification. It is dynamic because of the increasing interaction between different actors, such as the interaction between the top leadership and the central bureaucracies, between central and local bureaucracies, and between bureaucracies and society (See Figure 1-5). It is dynamic because before a policy initiative is finalized into policy, it often undergoes a policy justification process, where interaction is a common phenomenon. It is also dynamic because when a policy is made, it is not static and will undergo a policy-remaking process. This refers to the policy implementation process. In the policy implementation process, new initiatives and modifications for the original policy will be made in most cases.

Second, it distinguishes from the previous models by combining the two processes of policy formulation and policy implementation into a synthetic one, thus keeping them as a whole. As mentioned earlier, in China's case, two-level games do not apply. Domestic constraints are not as powerful to the Chinese decision makers compared to western democratic countries. Besides this, different

interest groups, referring to different provinces in this case, have more autonomy in policy implementation than policy formulation compared with the west. This new perspective can analyze not only the foreign economic decision-making process, but also the policy implementation process. From this perspective, a top-down approach comprises the key characteristics of the Chinese foreign economic policy formulation process, while bargaining is the key aspect of the process of policy implementation. Nevertheless, integrating the processes of policy formulation and policy implementation is not the sole intention of the author. Such an effort would be an attempt to attract attention on the policy implementation process from the bureaucracies as well as from academia.



**Figure 1-5: Dynamic Authoritarianism Perspective**

### **III. Research Design: Research Questions and Methodologies**

In the study of China's foreign economic policy-making process and the policy making towards ASEAN in the China-ASEAN Free Trade Agreement (CAFTA) case, two groups of questions have been raised. An attempt to answer these questions is the initial motivation of this research.

**Group 1:** This group of questions is used to generalize the process of foreign economic policy-making. Such questions include: What is the relation between policy-making and policy justification in China? How do local governments and the central government interact with each other during the policy implementation process? What is the Chinese foreign economic policy-making model?

**Group 2:** The second group of research questions concerns China's policy initiative towards ASEAN in terms of the CAFTA. The major questions in this group include: where did the concept of the CAFTA originate? Was it the fact that Chinese former Premier Zhu Rongji brought it up first, then mobilized research power to justify this concept? Was political leadership the decisive factor that paved the way to the CAFTA? Did local government lobby for the CAFTA? Before Zhu brought up the idea, has any research been done on the CAFTA? Did think tanks do research? After the initiative, what did the think tanks or researchers do? Were there any policy justifications and deliberations? Moreover, what are the tangible economic benefits, and the strategic and political agendas behind China's current efforts to promote the CAFTA? Why did China spend so much time and take such an active attitude towards the CAFTA? Why did China choose ASEAN to develop the CAFTA with?

Since the influence of international constraints is the same as the model of two-level games, this study will focus on "the domestic front." This study will decode the black box of the Chinese foreign economic policy-making process from the angle of central-local government relations. The implementation of foreign economic policy by local governments will also be discussed. In doing so, it will first explain whether local governments have gained more roles in the foreign policy-making process, especially foreign economic policy process, and

the underlying reasons behind it. Afterwards, the study will explain how local governments deal with the central government's demands on them concerning the policy implementation process. To be more specific, the aims of this research are from the following three aspects: the first is to understand Chinese foreign policymaking and reconfigure the domestic factors. The second is to systematically evaluate the influence of domestic sources on the process of foreign economic policy making in China. The third is to differentiate as well as synthesize policy formulation and policy implementation, and to identify the differences and compatibilities between them in the case of the CAFTA. Three major hypotheses will be tested and are as follows:

**Hypothesis One:** *More inputs have been added into China's policymaking process now, such as bureaucracies at both the central and local levels, and the academia. Nevertheless, China's foreign economic policy-making process is still dominated by the central government.*

**Hypothesis Two:** *Policy justification has become an integral part of policy formulation. Although the academia is not actively participating in initiating policies, they are usually indispensable in developing policy initiatives into government policies.*

**Hypothesis Three:** *While local governments do not have an important say in the decision-making process, they have more autonomy when it comes to the process of policy implementation. There is increasing interaction between the central and local governments during the policy implementation process.*

Starting with a review of Robert Putnam's two-level games and a critique of his theory, the study is mainly based on the case of the CAFTA to illustrate the processes of Chinese foreign economic policy formulation and implementation. When analyzing China's foreign policy, Quansheng Zhao adopted a new approach of the micro-macro linkage model, where he emphasized the channels and mechanisms connecting a wide variety of factors at different levels, such factors include system, structure, institutions and decision makers.<sup>66</sup> It is a rather broad approach concerning Chinese foreign policy. In trying to understand foreign policy making, political scientists often take three alternative levels of analysis: system-level, domestic-level and cognitive level. In most cases, cognitive level can be categorized into domestic-level analysis, which is in contrast to system-level. Kenneth Waltz described system-level analysis as studied from the "outside-in," while domestic-level analysis from the "inside-out."<sup>67</sup> Both methodologies have their attractions. However, it seems insufficient to use either of them. Thus, in this study, two levels of analysis are applied, with more emphasis on the vital role played by the domestic factors in channeling the formation and direction of the FTA.

Diplomacy is geared to serve domestic priorities. Against this backdrop, the role of China's foreign policy is to create a favorable international environment within which these domestic priorities can be met. While most scholars focus on the international-level approach to analyze China's policy transformation from economic bilateralism to multilateralism, more focuses on the influence of its internal level will be necessary and important. This study explains and interprets

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<sup>66</sup> See Quansheng Zhao, *Interpreting Chinese Foreign Policy: The Micro-Macro Linkage Approach* (Oxford and New York: Oxford University Press, 1996).

<sup>67</sup> Kenneth N. Waltz, *Theory of International Politics* (Reading, Mass.: Addison-Wesley, 1979): 63.

the domestic impetus and motivations of China's foreign economic policy changes towards ASEAN and argues that the transition has also served the country's overall national interests well. Here I will discuss the policy making process of China by focusing on different inputs, and how the final decision is made as a result of balancing between different interests. What makes my analysis different is that instead of only discussing what the inputs are, I will focus on how to balance the interests of different inputs. Domestic factors will be considered as independent variables to explain China's economic policy towards ASEAN. This study will take the approach of analyzing the actual procedures of the policy-making process, i.e. the structural approach as well as the procedural approach. It will focus more on the interactive relations between the central and local governments. Moreover, this study will try to connect domestic politics with international economic relations, which is different from the present work on central-local relations.

When designing this research, three prerequisite questions need to be addressed. First, why does this study focus on the foreign economic policy making process specifically? This question will be answered in greater detail in the following chapters. A brief clarification: the foreign policy making process, especially those policies vital to the national interests of the country on the whole, is still a completely centralized process. There is little space for inputs from other actors to take a part in it. In contrast, in the foreign economic policy making process, factors such as decentralization of power resulted from the market reform of China and the comparatively more technical requirements in dealing with economic issues, have made the participation of lower bureaucracies and local governments in the policy making process more applicable and necessary. It is



undeniable that there are also new changes in the Chinese foreign policy making process, some of which have similar aspects to the changes in the foreign economic policy making process. However, they are less obvious compared to foreign economic policymaking, which is considered as the making of “low politics.”

The second question is: why take the CAFTA as the case study? First, trade is the most critical feature of economic relations in the Asian Pacific region. This also applies in the case of China and ASEAN. The CAFTA was the first FTA China signed with foreign countries. Moreover, the CAFTA is more about policy making than economic gain.<sup>68</sup> According to Kenneth Lieberthal, there is far more evidence of bargaining relationships in an economic cluster than in any other clusters in the decision making and policy implementation process.<sup>69</sup> From this case study, the roles of both the academia and local governments in the policy formulation and implementation processes can be clearly revealed. Second, the initiative of the CAFTA is a major step of transition in China’s policy orientation towards ASEAN. China has been adopting a policy of bilateralism with the ASEAN states until the 1990s. It was at the turn of the 21<sup>st</sup> century that China switched to adopt a pro-active multilateralism policy towards ASEAN. The initiative of the CAFTA came into being under such a policy transformation background. Third, the analysis of China’s motivation behind this policy transformation reflects China’s foreign policy calculation in general. China’s foreign economic policy as well as overall foreign policy is consistent. In

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<sup>68</sup> This argument will be discussed further in the following chapters of the study.

<sup>69</sup> Kenneth G. Lieberthal, “Introduction,” in Kenneth G. Lieberthal and David M. Lampton, eds., *Bureaucracy, Politics, and Decision Making in Post-Mao China* (Berkeley: University of California Press, 1992): 17.

analyzing the reasons for the establishment of the CAFTA, the strategic considerations of China's foreign policy can be better understood.

Last but not least, the study makes additional contributions to the existing literature on the CAFTA. There is much literature written on globalization, regionalization and free trade in recent years. Almost all the countries around the world today are related in some way to FTAs, perhaps only with the exception of Mongolia.<sup>70</sup> According to the World Trade Report of the World Trade Organization (WTO), up to July 2005, over 300 regional trade agreements had been notified to the WTO.<sup>71</sup> With the sharp increase in FTAs since the 1990s and with more of them being put into effect, FTAs have also become a hot topic among political scientists. Even though there is a lot of controversy over the formation of FTAs in the world, it is hard to completely disregard this global trend. The CAFTA has been widely studied in many academic disciplines since it was first proposed by Chinese premier Zhu Rongji in 2001. Numerous articles and books on the CAFTA are readily available. Some of them concentrate on the economic aspects while others examine the political and security considerations. Economists tend to analyze the economic benefits and costs by focusing on whether the economies of China and ASEAN are competitive or complementary, and whether China's economic gains are at the expense of the ASEAN states.<sup>72</sup> Giovanni Maggi applied a statistical model in the analysis and suggested "a multilateral approach is particularly important when there are strong imbalances in bilateral trading relationships. Because there are strong imbalances in bilateral

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<sup>70</sup> Until now, both ASEAN and its member state have already signed different FTAs with other countries. The also applies to China.

<sup>71</sup> Hong Kong WTO Ministerial 2005: Briefing Notes, "Building blocks or stumbling blocks?"; available online at: [http://www.wto.org/english/thewto\\_e/minist\\_e/min05\\_e/brief\\_e/brief09\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min05_e/brief_e/brief09_e.htm); retrieved on August 4, 2007.

<sup>72</sup> See John Wong and Sarah Chan, "China-ASEAN Free Trade Agreements: Shaping Future Economic Relations", *Asian Survey*, Vol.43, No.3 (May/June, 2003): 507-526.

trading relationships, forming multilateral institutions will be the rational choice of the weak side concerning the ASEAN and China FTA.”<sup>73</sup> When analyzing the comparative advantage between the economies of China and ASEAN, some scholars consider the possibility of product differentiation, wherein each product category, goods could be differentiated according to quality and brand (horizontal specialization) or they could be further differentiated into sub-parts and components with differing factor intensities (vertical specialization). As such, even if any ASEAN country’s factor intensities happen to broadly coincide with the various regions in China, it can still develop its own export market niche by specializing in differentiated products.<sup>74</sup> According to political scientists, the economic rationale for the proposal of the China-ASEAN FTA is not evident.<sup>75</sup> They tend to focus more on the political and security considerations of China in proposing the CAFTA.<sup>76</sup> They have argued that economic relations towards ASEAN depended on bilateral economic complementarities as well as common political and strategic interests, rather than expectation of purely economic gain.<sup>77</sup>

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<sup>73</sup> Giovanni Maggi, “The Role of Multilateral Institutions in International Trade Cooperation”, *The American Economic Review*, Vol.89, No.1 (March, 1999): 190-214.

<sup>74</sup> Ramkishen S. Rajan and Rahul Sen, “The New Wave of FTAs in Asia: With Particular Reference to ASEAN, China and India”, June 2004, available online at: <http://www.economics.adelaide.edu.au/staff/rrajan/pubs/RAJAN-SENFTATEXT.pdf>; retrieved on October 10, 2005.

<sup>75</sup> See Markus Hund, “ASEAN Plus Three: Towards a New Age of Pan-East Asian Regionalist: A Skeptic’s Appraisal”, *The Pacific Review*, Vol.16, No.3 (September, 2003): 383-417; Fred Herschede, “Trade Between China and ASEAN: The Impact of the Pacific Rim Era”, *Pacific Affairs*, Vol.64, No.2 (Summer, 1991): 179-193.

<sup>76</sup> See Lijun Sheng, “China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations”, *ISEAS Working Paper*, No.1 (Singapore: Institute of Southeast Asia Studies, 2003): 1-34.

<sup>77</sup> See Aileen S. P. Baviera, “The Political Economy of China’s Relations with Southeast Asia,” Chapter 6, in Ellen H. Palanca, ed., *China’s Economic Growth and the ASEAN* (the Philippines: Raintree, 2001): 229-267; see also Jianwei Wang, “China’s Multilateral Diplomacy in the New Millennium,” Chapter 7, in Yong Deng and Fei-Ling Wang, eds., *China Rising: Power and Motivation in Chinese Foreign Policy* (Lanham, Boulder, New York, Toronto and Oxford: Rowman & Littlefield Publishers, 2005): 159-200.

China's strategy is to secure the leadership in the region by way of soft power, i.e. economic means.<sup>78</sup>

As such, the works of the CAFTA up until the present mainly focus on the economic, political or strategic gains of the two sides. Much curiosity has been aroused in academia as well as among ordinary persons concerning what the real policy-making process is and how much input has been given by society. The roles of social factors in the decision-making process are different on a case-by-case basis. Nevertheless, under the new changes in the Chinese foreign policy making process, there shall be some general paradigms. Moreover, rarely do scholars concentrate on the central-local interactions when they conduct studies on the formulation and implementation of foreign economic policy of China. This study is different from existing literature that adopts either a "top-down" or "bottom-up" approach; it will focus on the interactive process between the central and local governments.

The third question that needs to be answered as a prerequisite is why Yunnan Province and Guangxi Zhuang Autonomous Region were selected as the cases in explaining the interactive behaviors between the central and local governments in the building of the CAFTA. The two provinces were picked as case studies of the CAFTA mainly because they share common borders with Myanmar, Laos and Vietnam. They are the most exposed provinces to both the benefits and costs of the CAFTA implementation process. In addition, Guangxi and Yunnan have the

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<sup>78</sup> See Denny Roy, "China and Southeast Asia: ASEAN Makes the Best of the Inevitable", *Asia-Pacific Center for Security Studies*, Vol.1, No.4 (November, 2002): 1-4; Daojiong Zha, "The Politics of China-ASEAN Economic Relations: Assessing the Move towards a Free Trade Area," Chapter 12, in Kanishka Jayasuriya, ed., *ASEAN Regional Governance: Crisis and Change* (New York: Routledge, 2000): 232-253.

strongest motivation for pushing into the ASEAN market.<sup>79</sup> Since their interests are tightly linked to the agreement, they are more likely to exert their efforts in the process of policy formulation, justification as well as implementation. In consideration of the same reasons, the central government tends to draw more input from them. Such an interactive regime and process attracted the author's attention and interests.

#### **IV. The Structure of the Study**

Following a brief review and discussion on China's foreign economic policy-making model and based on a large number of interviews conducted during the year of 2006 and 2007, Chapter Two examines and analyzes the structure and organs of Chinese foreign economic policy formulation and implementation processes. These interviews were conducted in Beijing, Guangxi Zhuang Autonomous Region and Yunnan Province from September to November 2006 and from January to March 2007. Three layers of the aforementioned foreign economic policymaking organs refer to the top leadership nuclear circle at the first layer, central and local bureaucracies at the second layer and think tanks at the third one. An introduction and analysis of the different roles they play in China's decision-making and policy implementation processes will enable us to understand the dynamics and paradigms of the two processes more. Chapter Three essentially discusses how ideas are transformed into policies by focusing on the general process of foreign economic policy formulation, justification and

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<sup>79</sup> It is worth noting that although the trade volumes of such provinces as Fujian and Guangdong with the ASEAN states are far more than Guangxi and Yunnan, they are not selected as my fieldwork locations. It is mainly because those developed Chinese provinces have more important trading partners and the trade volumes with the ASEAN states are not vital in the trade structure.

implementation. New changes in the Chinese foreign policy making process are illustrated as well as explained.

Chapter Four outlines the three stages of China's overall economic policy background towards ASEAN, i.e., the process from adopting a bilateral approach to a reactive multilateral approach, and further to a pro-multilateral approach. It was one of the most important transitions in China's economic diplomacy towards ASEAN and tends to be the dominant concept of China's policy-makers now in dealing with the economic relations with ASEAN. Such a transformation symbolizes the general foreign policy changes in China. The Chinese government tends to be committed to multilateral cooperation in the region and has taken several initiatives in this regard. It is under such a framework that the CAFTA came into being. Placing such a transformation as a necessary policy background and guidance to the formulation of the CAFTA as well as taking the CAFTA as a case study, this chapter analyzes the policy calculations behind such a new trend in China's foreign policy.

Chapter Five and Chapter Six are the case studies of the CAFTA. The policy initiation, justification, coordination as well as implementation processes of the CAFTA are discussed. Such analyses intend to illustrate that China's foreign economic policy-making is still dominated by the central government, although there is an increase in input. In terms of the policy implementation, local governments actually have more autonomy and more room to maneuver. Active interaction between the central and local governments takes place during the process of policy implementation, which is considered as a part of the policy-making process by this study. The dynamic nature of both policy formulation and implementation has been revealed from these two chapters.

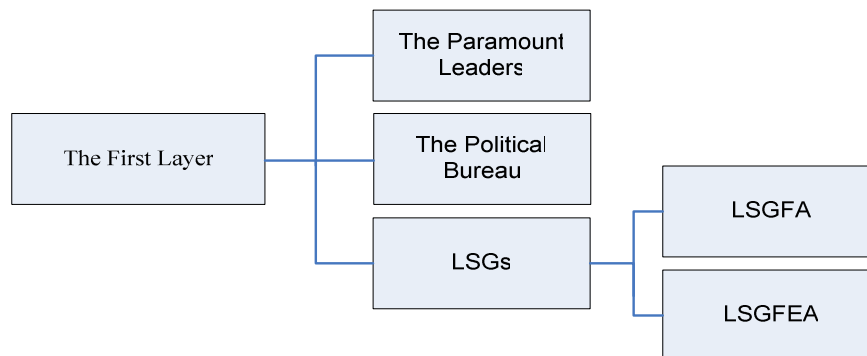
Chapter Seven, the conclusion, is a review and offers a deeper analysis of the main arguments of the previous chapters. It will also highlight some related questions that deserve further study.

## CHAPTER TWO

### STRUCTURE AND ORGANS OF CHINA'S FOREIGN ECONOMIC POLICY FORMULATION AND IMPLEMENTATION: THREE LAYERS

This chapter together with Chapter Three will discuss the overall structure and processes of foreign economic policy formulation and implementation in China. China's foreign economic policy formulation and implementation processes are still very bureaucratic. Different actors, not only government bureaucracies but also think tanks, play distinctively different roles in the two processes. Based on their influencing power on policy-making, China's foreign economic policy formulation and implementation organs can be structured into three layers, namely the top leadership nuclear circle as the core layer, bureaucracies at both the central and local levels as the second layer, and think tanks as the third layer.

#### I. The First Layer: The Top Leadership Nuclear Circle



**Figure 2-1: The First Layer: The Top Leadership Nuclear Circle**

As shown in Figure 2-1, the first layer includes three key actors and organizations, the paramount leaders, the Political Bureau and the LSGs, which mainly refer to the Leading Small Group (LSG) on Foreign Affairs (LSGFA) and the Leading Small Group on Financial and Economic Affairs (LSGFEA).



### ***The Paramount Leaders***

Although current Chinese leaders do not dominate as much as the former paramount leaders, such as Mao and Deng, China still adopts a top-down approach and the power of the decision-making is still very concentrated at the central level in terms of foreign economic policy making. After Deng's era, it was former President Jiang Zemin and Premier Zhu Rongji, and current President Hu Jintao and Premier Wen Jiabao as the third and fourth generation of leadership who played the paramount role in the foreign economic policy making process during the period of the 1990s and the new millennium respectively. Besides these two pairs of paramount leaders, other members of the Political Bureau Standing Committee and the highest officials in the party also play a vital role in different fields of foreign economic policy making. Among them, Vice-Premier Wu Yi and Zeng Peiyan are two key figures taking charge of economic affairs. Compared to Zeng, Wu is more responsible for foreign economic affairs.

### ***The Political Bureau***

In order to understand the relationship between the Political Bureau and other highest organs in China, we have to clarify the present power structure between the party and the government in China in terms of policy making. The first and foremost issue concerns which organ is actually the supreme power under China's power structure. According to the Constitution of the PRC, the National People's Congress (NPC) is the highest organ of state power. The NPC has the power to select, empower, and remove leadership and members of the highest state organs. For example, it can elect the President and Vice-President, and appoint and approve the Premier, Vice-Premier, and State Councilors. Based on such powers, the NPC is the final authority among all state organs. Its permanent body is the

Standing Committee of the NPC, which performs the duties of the highest organ of the state power when the NPC is not in session. The NPC and its Standing Committee exercise the legislative powers of the state. The Communist Party of China is the party in power in the country, at the top of which is the Central Committee (CC). When the CC is not in session, the Political Bureau and its Standing Committee whose members are elected by the plenary session of the CC, exercise its power. In fact, the real supreme power is not in the NPC but in the Standing Committee of the Political Bureau.

The Political Bureau stands at the center of the foreign policy-making structure. Important country issues, such as the declaration of war and major policy shifts of the state are deliberated ultimately by the Political Bureau. Besides top leaders of the Party, the country's administrative, legislative and military bodies, its members also include those elected from the provincial level and are thus relatively large in size. The current Political Bureau has 24 members and one alternate member. Since it is rather difficult to make a decision on foreign policy under such a big entity especially in times of emergencies, the Standing Committee of the Political Bureau is considered the inner circle of the Political Bureau and the most powerful decision making body. Usually its members include the President of the State, the General Secretary of the CCP, the Chairman of the Central Military Commission, the Chairman of the Chinese Consultative Conference, and the Chairman of the Standing Committee of the National People's Congress.

The Standing Committee meets regularly to discuss and decide on key foreign policies. The Secretariat of the CC of the CCP is an administrative body of the Political Bureau and its Standing Committee. Its function is to oversee the

implementation of the policy decisions of the Political Bureau, and thus does not play a major role in foreign policy making. According to the observation and experience of Ning Lu as well as interviews conducted by the author, the Political Bureau and the Secretariat generally serve as “the providers of a rubber stamp to lend legitimacy to decisions made by the paramount leader, the leading nuclear circle, or the Political Bureau Standing Committee; a consultant to the paramount leader in making some key decisions; a forum for building consensus or constructing a coalition among the inner elite; an architect providing the blueprint for a new foreign policy orientation often outlined by the paramount leader; and a command center providing direction for achieving major foreign policy goals.”<sup>1</sup>

### ***The Leading Small Group***

Another highest foreign policy organ is the LSGFA. Such LSGs also include the LSGFEA as well as the CCP National Security LSG, the LSG on Hong Kong and Macao Affairs, and the LSG on Taiwan Affairs. The committee of the LSGs usually consists of some members of the Political Bureau Standing Committee, a senior military officer and top officials from the state bureaucracies involved in foreign affairs. The LSGs have gained increasing importance since the 1990s mainly because the Chinese leadership has become more institutionalized and less personalized. The LSGs report directly to the Political Bureau Standing Committee. Since there is an overlap of the members in Political Bureau Standing Committee and the LSGs, this procedure of submitting reports is considered a mere formality.

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<sup>1</sup> Ning Lu, “The Central Leadership, Supra-ministry Coordinating Bodies, State Council Ministries, and Party Departments,” Chapter 2, in David M. Lampton, *The Making of Chinese Foreign and Security in the Era of Reform, 1978-2000* (Stanford: Stanford University Press, 2001): 44.

First established in 1958, as a tool for coordinating the work of various agencies as well as for supervision on foreign affairs, the LSGFA of the Communist Party of China (*Zhongyang Waishi Gongzuo Lingdao Xiaozu*) takes the paramount role in China's foreign policy making. Presently the LSGFA is headed by President Hu Jintao with Premier Wen Jiabao as his deputy. Other members include Tang Jiaxuan, Wu Yi, Li Zhaoxing, Cao Gangchuan, Wang Jiarui, Xu Yongyue, Bo Xilai, Jiang Enzhu, and Dai Bingguo. In the last term of the LSGFA when the CAFTA was signed, its head was Jiang Zemin with Zhu Rongji and Qian Qichen as its deputy heads. The LSGFA used to take a major role in foreign economic policy making with China's closed economy, and took charge of foreign economic affairs as well. However, since China's economic reform and opening-up, along with the relative importance of taking economic development as the top priority of state policy, the LSGFEA becomes more important in terms of policy deliberation and implementation in economic and trade decision-making. It was headed by former Premier Zhu Rongji in the last term with Wu Bangguo as his deputy. Other members included Zou Jianhua and Chen Jinhua, Liu Zhongli, Zhou Zhengqing, and Jiang Chunyun. Wen Jiabao was its Secretary General. Zeng Peiyan and Hua Jianmin were its deputy Secretary Generals. Presently the LSGFEA is under the leadership of President Hu Jintao with Premier Wen Jiabao as its deputy head. The other members of the LSGFEA include Wu Yi, Zeng Peiyan, Hua Jianmin, and Wang Chunzheng. Hua Jinmin is also Secretary General of the State Council. He is deputy Secretary General of the LSGFEA and the Director of the General Office of the LSGFEA from 1998; from 1996-1998 he

served as deputy Director of the General Office. Wang Chunzheng is the deputy Secretary General of the LSGFEA (See Table 2-1).<sup>2</sup>

**Table 2-1: The Personnel of the LSGFA and the LSGFEA under Jiang and Hu**

	<b>Position</b>	<b>Under Jiang</b>	<b>Under Hu</b>
<b>LSGFA</b>	Head	Jiang Zemin	Hu Jintao
	Deputy Head	Zhu Rongji	Wen Jiabao
		Qian Qichen	/
	Members	/	Tang Jiaxuan
			Wu Yi
			Li Zhaoxing
			Cao Gangchuan
			Wang Jiarui
			Xu Yongyue
			Jiang Enzhu
Liu Huaqiu			
Hu Jintao			
<b>LSGFEA</b>	Head	Zhu Rongji	Wen Jiabao
	Deputy Head	Wu Bangguo	/
	Secretary General	Wen Jiabao	Wang Chunzheng
	Deputy Secretary General	Zeng Peiyan	/
		Hua Jianmin	Wu Yi
	Members	Zou Jianhua	Zeng Peiyan
		Chen Jinhua	Hua Jianmin
		Liu Zhongli	Wang Chunzheng
Zhou Zhengqing		/	
Jiang Chunyun			

Strictly speaking, the LSGs are not decision-making organs. As shown in Table 2-1, the members of the LSGs are top officials from other government bureaucracies. However, important policy recommendations will be submitted to them first before submitting for the consideration of the Standing Committee of

<sup>2</sup> The above information on the LSGs derived from the author's personal interviews with various Chinese officials as well as various issues of *China Directory* (Tokyo: RadiopPress) from 1999-2006.

the Political Bureau. Moreover, recommendations disapproved by the LSGs will almost have no chance to be submitted and transformed into state policies.<sup>3</sup>

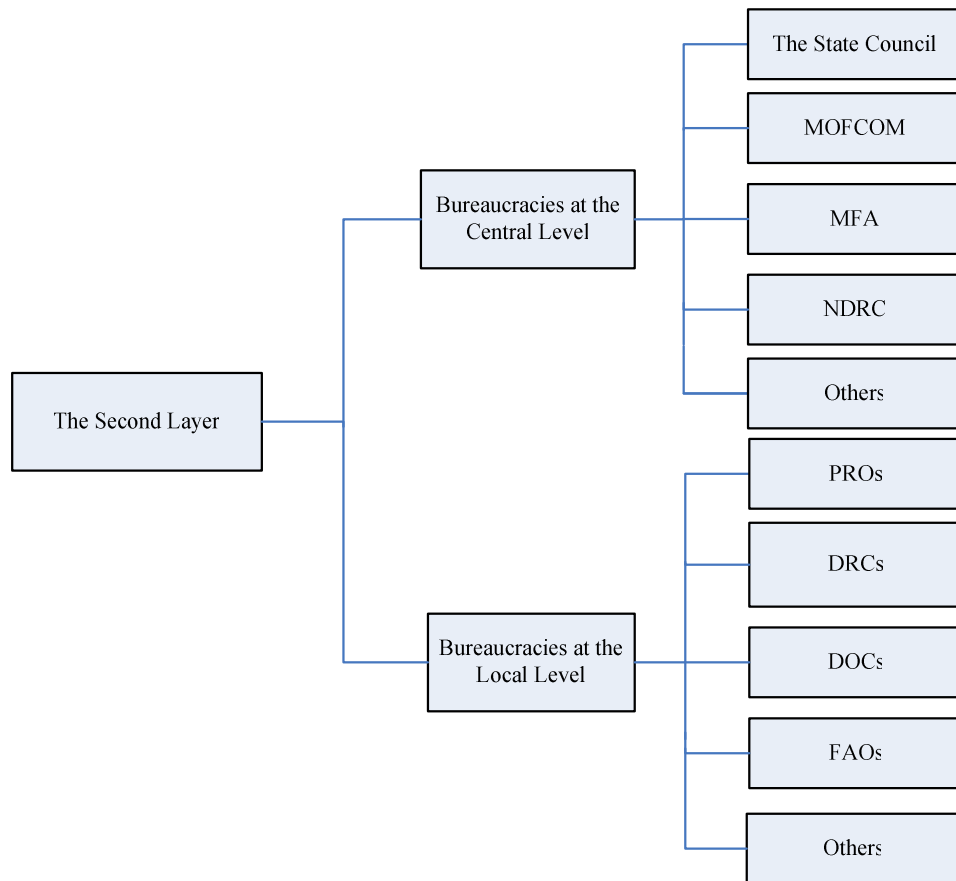
## **II. The Second Layer: Central and Local Bureaucracies**

As institutional politics are becoming more dominant in contemporary China, the power and the legitimacy of top leaders are more institutionally based. Recently, officials at various levels of bureaucracies nowadays are more bound to institutional loyalty instead of personal loyalty, as was the case during Mao's rule. The bureaucracies at the central level mainly comprise the related departments and ministries both under the State Council and the CCP CC as well as the Central Military Commission. There are two sets of organizations in China, one is from the party side, and the other is from the government side. The government bureaucracies include the Ministry of Foreign Affairs (MFA), the Ministry of Commerce (MOFCOM, formerly the Ministry of Foreign Trade and Economic Cooperation, MOFTEC), the National Development and Reform Commission (NDRC) under the State Council, to name a few. From the party side, under the CC of the CCP are such offices and departments as the General Affairs Office, the Organization Department, the Publicity Department, the International Liaison Department, the United Front Work Department and the Policy Research Office as well as the General Staff Department under the Central Military Commission.<sup>4</sup> As confined by the scope of this study, I will concentrate on those bureaucracies that are closely involved in the foreign economic policy formulation and implementation both at the central and local levels (For the structure of the second layer, see Figure 2-2).

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<sup>3</sup> Author's interview with a high Chinese government official, November 2006.

<sup>4</sup> For works on the role of Chinese military in policymaking, see Michael D. Swaine, *The role of the Chinese military in national security policymaking* (Santa Monica, Calif.: Rand, c1998).



**Figure 2-2: The Second Layer: Central and Local Bureaucracies**

***Bureaucracies at the Central Level***

Four central bureaucracies will be introduced and discussed, namely the state council, the MOFCOM, the MFA and the NDRC.

(1) The State Council: The State Council is the main executive body responsible for government-to-government foreign relations. It is the most important body overseeing both foreign policy formulation and implementation. The members of the State Council include the Premier, Vice-Premiers, State Councillors, Secretary-General of the State Council and heads of all ministries and commissions under the State Council. The day-to-day decision-making is conducted by the standing committee members of the State Council, which includes the Premier, Vice Premiers, State Councillors and the Secretary-General. The acting leaders of

the standing committee of the State Council includes Premier Wen Jiabao, Vice-Premiers Huang Ju, Wu Yi, Zeng Peiyan, Hui Liangyu, State Councillors Zhou Yongkang, Cao Gangchuan, Tang Jiaxuan, Chen Zhili and the Secretary General Hua Jianmin.

(2) The MOFCOM: In early 2003, after going through reorganization, it was renamed from the MOFTEC to the MOFCOM. The MOFCOM also incorporates the former State Economic and Trade Commission (SETC) and the State Development Planning Commission (SDPC). It is directly supervised by the State Council.

The mission of the MOFCOM are to formulate development strategies, guidelines and policies on foreign trade and international economic cooperation; to study and put forward proposals on harmonizing domestic legislations on trade and economic affairs, as well as to bring Chinese economic and trade laws into conformity with multilateral and bilateral trade and economic cooperation policies; to be responsible for multilateral and bilateral negotiations on trade and economic issues, to coordinate domestic positions with foreign parties, and to sign the relevant documents and monitor their implementation.<sup>5</sup> Under the organizational structure of the MOFCOM, three departments are in charge of foreign economic affairs in Asia: the Department of Asian Affairs (*Yazhou Si*); the Department of International Trade and Economic Affairs (*Guoji Jingmao Guanxi Si*) and the Department of Foreign Trade (*Duiwai Maoyi Si*).

(3) The MFA: Under the supervision of the State Council, the MFA is one of the most influential foreign policy formulation and implementation bureaucracies. Via the Group members of the LSGFA, the MFA reports to the Political Bureau

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<sup>5</sup> Check the MOFCOM website for further information on its mission, which is available online at: <http://english.mofcom.gov.cn/mission/mission.html>; accessed on June 11, 2006.



Standing Committee directly.<sup>6</sup> This is due to the fact that the Group members in most cases are often members of the Political Bureau Standing Committee, who are designated to take charge of the foreign affairs. The MFA plays a major role in making recommendations for China's foreign policy.

The MFA consists of various departments in charge of the affairs of different regions, such as the Department of European Affairs, the Department of Latin American Affairs, and the Department of North American and Oceanian Affairs. It is the Department of Policy Planning (*Zhengce Yanjiu Si*) and the Department of Asian Affairs (*Yazhou Si*) that takes charge of Asian foreign affairs. The main functions of the Department of Asian Affairs is to “to keep abreast of and study the circumstances and situations in the Asian region and of the countries in Asia; to be in charge of diplomatic contacts with the region and the countries in the region and other concrete matters related to foreign affairs; to coordinate concrete policies on bilateral contacts with the countries in the region; and to guide Chinese embassies and consulates in the region in their diplomatic work.”<sup>7</sup> The Department of Policy Planning analyzes issues of overall and strategic importance in international relations, analyzes and lays out foreign policies, and analyzes economic and financial situations of world regions as well as China's foreign economic policy.<sup>8</sup>

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<sup>6</sup> Ning Lu, “The Organization and Process of the Ministry of Foreign Affairs,” Chapter 2, in Ning Lu, *The Dynamics of Foreign-Policy Decision Making in China*, 2<sup>nd</sup> ed. (Boulder: Westview Press, 1997): 25.

<sup>7</sup> See the MFA website at: <http://www.fmprc.gov.cn/eng/wjb/zzjg/yzs/default.htm>; accessed on June 12, 2006.

<sup>8</sup> See the MFA website at: <http://www.fmprc.gov.cn/eng/wjb/zzjg/zcyjs/default.htm>; accessed on November 21, 2006.

(4) The NDRC:<sup>9</sup> Being a constitute of the State Council, the NDRC is a macroeconomic management agency, which has been formed to study and formulate national policies for China's economic and social development, to maintain a balance of national economic aggregates, as well as to guide the reform and restructuring of the overall economic system. It was founded in 1952 under the name of the State Planning Commission (SPC). The name of the SDPC replaced SPC in 1998 when China launched the administrative reform. After merging with the State Council Office for Restructuring the Economic System (SCORES) and part of SETC in 2003, the SDPC was restructured into the NDRC.

The principal functions of the NDRC are as follows: to formulate and implement the strategies of long-term plans, annual plans, industrial policies and price policies for national economic and social developments; to monitor and adjust the performance of the national economy; to maintain the balance of economic aggregates and optimize major economic structures and to promote the sustainable development strategy, social development; to coordinate the development of the regional economy and implement the Western Region Development Program. Two departments of the NDRC, i.e., Office of Policy Studies (*Zhengce Yanjiu Shi*), Department of Trade (*Jingji Maoyi Si*) are of our concern. Branch agencies of the NDRC are also established at the local level, such as the Development and Reform Commission of Guangxi and the Yunnan Development and Reform Commission.

### ***Bureaucracies at the Local Level***

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<sup>9</sup> The following information of the NDRC is derived from the official website of the NDRC, which is available at <http://en.ndrc.gov.cn/brief/default.htm>; accessed on July 26, 2006. The reason I put it here is that a number of scholars hold the view that the NDRC has played a decisive role in the policy-making process of the CAFTA from the author's interview with them.

Four bureaucracies at the local level will be discussed: Policy Research Offices (PRO) of provincial government, provincial Departments of Commerce (DOC), provincial Development and Reform Commissions (DRC), provincial Foreign Affairs Offices (FAO), which are directly under the supervision of the State Council, the MOFCOM, the NDRC, and the MFA respectively.

(1) The PROs: The PROs under both the provincial government and the Party are one of the most important policy recommendation, justification as well as implementation organs at the local level. PRO is also known as Research Office or Development Research Center. General policy study and policy-making consultation serve as the two major tasks for the provincial PROs. Specifically, the functions of the PROs comprise the following: drafting the annual working report of the provincial governments and the important speeches, reports of the principal provincial-leaders; drafting the report materials for the provincial government and Party Committee to submit to the Central Party Committee and the State Council; leading research and study on the big projects concerning the overall tasks of the province, such as economic construction, social development, and the reform and opening-up; summarizing in a timely manner of the experience of the province and proposing recommendations for decision-making of the provincial governments. Besides this, PROs are also responsible for organizing specialists to conduct research projects of vital importance concerning provincial economic and social development.

(2) The DRCs: Provincial Branch agencies under the NDRC are provincial DRCs. The main functions of provincial DRCs include national policy implementation, policy recommendation and analysis. The first task is to formulate and implement strategies on provincial economic and social

development, and medium to long-term as well as annual development plans. The second task is to put forward recommendations on social and provincial economic development through employing various economic tools and policies. Further, DRCs are required to analyze the provincial economic situation and its development, give further prediction, precaution and recommendation for the development of the macro-economy of the province. In a nutshell, to study and coordinate the economic and social development of the province is the top concern of the provincial DRCs.

(3) The DOCs: Branch agencies under the MOFCOM are provincial DOCs. The major functions of the DOCs are as follows: to implement and execute development strategies, guidelines and policies on domestic and foreign trade and international economic cooperation of the national state; to formulate provincial laws and regulations governing domestic and foreign trade, economic cooperation and foreign investment, and to devise implementation rules and regulations; to be responsible for the foreign economic cooperation affairs of the province; and to be responsible for the administration of supervising and guiding overseas contract projects, labor cooperation, and designing and consulting businesses. DOCs are the most important local bureaucracies of policy recommendation and implementation concerning foreign trade.

(4) The FAOs: The FAOs of the State Council (*Guowuyuan Waishi Bangongshi*) work on behalf of the Office of the Foreign Affairs Directorate of the CCP CC and undertake specific tasks set by the latter. Each province and municipality has their respective FAOs. Provincial FAOs are in charge of political external relations and responsible for the implementation of national foreign policy at the local level. The major functions for the FAO include the following:

to implement the foreign policies made by the central government; to organize the reception of state guests, guests of the party, and other important guests; to manage the external business of provincial leaders; to manage overseas visits and applications of foreign visitors to the province; to assist and coordinate with the party committee and party disciplinary committee in supervising foreign affairs discipline and confidentiality, and punish those who violate the rules; to carry out other tasks prescribed by the provincial government, the MFA, and other central bureaucracies. Although from the above description, it is easy to observe that the main functions of the FAOs are mainly politically related since they are not involved directly in economic affairs. Nevertheless, since the reform and opening up, their main functions have been expanded. Provincial FAOs are showing more interest and playing a larger role in provincial economics. This is, in an important part, due to the performance-based evaluation system of local governments. As I have just discussed, the FAOs are in charge of organizing the reception of state guests, guests of the party, as well as managing the overseas trips of provincial leaders, which have created important occasions for the provincial leaders to take the opportunity to introduce the advantages and preferential policies of their respective governments so as to attract more investment and foreign aid.

The role of the above-mentioned local bureaucracies will be further discussed, taking Guangxi Zhuang Autonomous Region and Yunnan Province as case studies in the policy formulation and implementation processes of the CAFTA when discussing the case of the CAFTA in Chapter Five and Chapter Six.

### III. The Third Layer: Think Tanks<sup>10</sup>

Whether being translated as *Zhinang Tuan* or *Sixiang Ku*<sup>11</sup>, the third layer of policy input can all be grouped under the think tanks of China. Although it is hard to reach a universally accepted definition on think tanks that is able to “accurately describe what think tanks are and the activities they perform,” as pointed out by James Smith,<sup>12</sup> this study prefers the definition provided by Yehezkel Dror. A think tank is “an island of excellence applying full-time interdisciplinary scientific thinking to the in-depth improvement of policy-making, or as a bridge between power and knowledge.”<sup>13</sup> The research units discussed in this part have two common features: on the one hand, they are conducting professional research; on the other hand, they are acting as a connection between “power and knowledge,” and are able to make contributions to the government policy-making process. These think tanks provide new avenues of information and new perspectives on problem-solving. As discussed by Nana Halpern, those centers affiliated with ministries under the State Council are able to promote policy coordination by increasing the leadership’s information of policy externality.<sup>14</sup>

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<sup>10</sup> Other societal factors, such as business and agricultural groups, matter a great deal in the policy-making process in western democratic countries. Nevertheless, China’s foreign economic policy is more policy-oriented than economic-oriented. That is, the Chinese government finalizes foreign economic policies by considering highly political and strategic interests of the state than economic interests. Therefore, the role of business people and farmers are limited, as proven by quite a number of interviews conducted by the author during the four months’ of spent interviewing government officials and academic scholars in China. For this reason, those factors will not be touched in this study.

<sup>11</sup> Xuanli Liao, *Chinese Foreign Policy Think Tanks and China’s Policy towards Japan* (Hong Kong: the Chinese University Press, 2006): 54-59.

<sup>12</sup> James Smith, “Think Tanks and the Politics of Ideas,” in David C. Colander and Alfred William Coats, eds., *The Spread of Economic Ideas* (New York: Cambridge University Press, 1989): 178.

<sup>13</sup> Yehezkel Dror, “Think Tanks: A New Invention in Government,” in Garol H. Weiss and Allen H. Barton, *Making Bureaucracies Work* (Beverly Hills, Calif.: Sage, 1979): 141.

<sup>14</sup> Nina P. Halpern, “Information Flows and Policy Coordination in the Chinese Bureaucracy,” Chapter 5, in Kenneth G. Lieberthal and David M. Lampton, *Bureaucracy, Politics, and Decision Making in Post-Mao China* (Berkeley: University of California Press, 1992): 146.

The importance of think tanks in Chinese foreign policy making is increasing. This is mainly due to the following reasons: first, the regular and occasional communications between those institutes and their corresponding institutes abroad are increasing. Second, the academic staff of those research institutes have closer personal relations with foreign researchers, especially overseas Chinese specialists. These two avenues provide Chinese scholars with more first-hand information and thus enable them to understand foreign countries more. Based on the information derived, their analyses have become more appropriate and thought-provoking. Third, the general educational level of the staff in those research institutes is increasing. Many of them have PhD degrees from famous universities in China and from foreign countries. Their analyses are more professional compared to their predecessors. Last but not least, those think tanks have closer relations with decision-making bureaucracies and policy-makers, which provide them with a more direct avenue to express their policy recommendations and for the government officials to seek their opinions more frequently. Under such circumstances, the increasing leverage of their opinions is being taken into consideration by the Chinese government.

Generally speaking, there are three available ways for academic scholars to participate and exert their influence on the policy making process. The first is to submit their reports directly to the provincial leaders or top officials of the central government. Sometimes the topics of the report are initiated by the academia, while at other times topics are assigned by the central or local governments. The central government has set up a national social sciences fund (*Guojia Sheke Jijin*) and invites public bidding every year. Every scholar can apply for such funding. The projects liable to be approved are all issues of great concern by the central

government. The research findings are summarized as “Substantial Issue of Social Sciences” (*Sheke Yaobao*) and may be submitted directly to the Standing Committee of the Political Bureau according to the importance of the topic.<sup>15</sup>

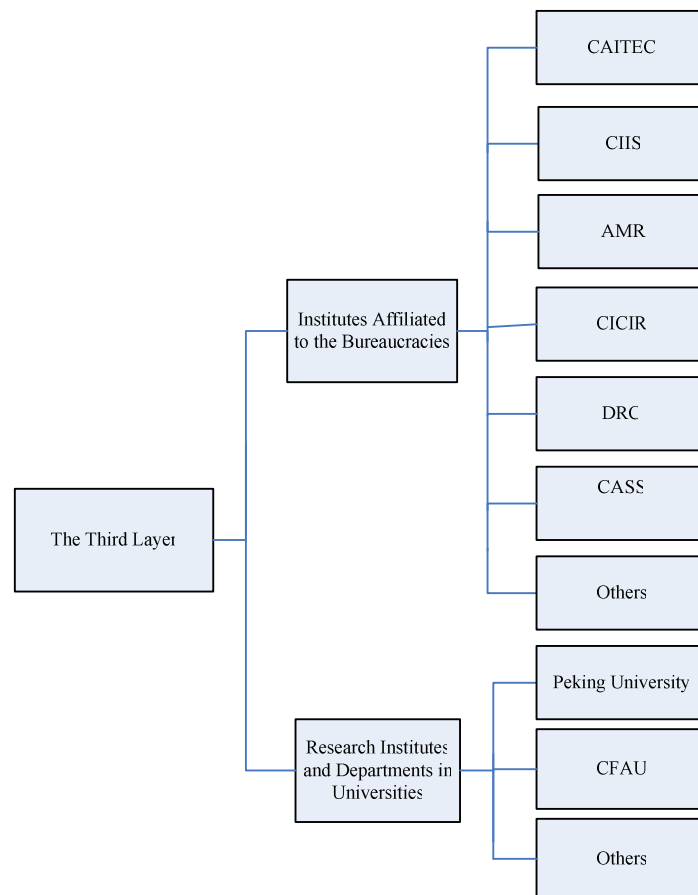
The second way is to participate in research projects or become involved in discussions of policy-related issues organized by provincial governments or the central government. It has become more common for the central government bureaucracies to organize conferences or workshops to draw upon the insights and ideas of related specialists and scholars. The third way is via publications or interviews with research scholars by the media. Along with the increasing role played by the media, the opinions of the scholars are more widely publicized, which on occasion, may attract the attention of government officials.

Think tanks can be divided into two categories according to their different affiliations to government bureaucracies: research institutes affiliated with government bureaucracies and independent research institutes or departments in universities (See Figure 2-3). Based on the level of their affiliation to government bureaucracies, their influencing abilities also vary. These policy research units of government bureaucracies are considered a part of government bureaucracies. They have been categorized in the second layer, as has been discussed.

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<sup>15</sup> Author’s interviews with several specialists in government-attached research institutes, November 2006.





**Figure 2-3: The Third Layer: Think Tanks**

***Institutes Affiliated with Government Bureaucracies***

First and foremost, the institutes affiliated with government bureaucracies serve as the analytical unit of the government agencies they are linked to. In most cases, the government bureaucracies they are affiliated with will assign research topics to them as needed. Reports from those institutes will be sent directly to those government branches and may go further to the top leaders of the party and the government. Seminars or informal discussions with invited senior researchers are sometimes conducted. At other times, those institutes also initiate their own research topics, which are of concern to the central government. Since they have more chances to discuss and converse directly with government officials, staff in such institutes enjoy close personal relationship with them. This enables them to better understand topics the government is currently interested in, and their reports

will be more acceptable by the top leaders and thus more welcomed by them. While possessing such advantages, these research institutes also suffer big disadvantage. Since they are affiliated with the government bureaucracies, they will have to follow the general rule of the government. In their reports to the government, they have to be attuned to the tone and to the rhythm of the central government. They have to exercise caution and provide suggestions that are not overly sensitive to the government. Therefore, their ideas and suggestions are more “restricted.” Since this study mainly focuses on the foreign economic policy making process, I will touch only on research institutes related to foreign economic affairs. Such institutes include the following:

(1) Chinese Academy of International Trade and Economic Cooperation (CAITEC) (*Guoji Maoyi Jingji Hezuo Yanjiuyuan*) affiliated with the MOFCOM: Regarded as a research and advisory arm of the MOFCOM with a particular focus on foreign economic and trade issues, the CAITEC mainly performs three key tasks, i.e. research, information analysis, and consultancy. Serving the policy-makers is the key role for CAITEC. The predecessor of CAITEC is the International Economics Research Institute, which was established in 1948 in Hong Kong. After the founding of the PRC, it was first moved to Guangzhou before moving to Beijing in 1951. To some extent the staff of CAITEC enjoys both the rights of researchers and civil servants. For example, as researchers, they receive funding from the MOFCOM and even receive rewards in the form of special subsidies based on their contributions from the State Council. As “civil servants,” they can be dispatched as commercial diplomats to Chinese embassies and consulates or sent to work at international organizations as representatives of the Chinese government.

Under the present organizational structure, the major research departments of CAITEC are the Department of World Economy and Trade, Department of International Market, Department of China's Foreign Trade and Economic Relations, Department of Foreign Investment Utilization, and Department of Asian and African Studies. Major inter-faculty centers comprise the WTO Research Center, APEC Research Center, China International Trade Research and Training Center for Asia and Pacific Region, and the Regional Economic Cooperation Research Center. It has a regular mechanism to submit reports to the government in the form of a *Blue Book on China's Foreign Trade* (yearly), *Report on the Situation of China's Foreign Trade* (biannually), and *Research Report* (30 issues a year). It also has its own monthly-issued magazines and journals, *International Trade*, *International Economic Cooperation*, *Foreign Investment in China* to name a few.

Another institution directly affiliated with the MOFCOM, i.e., China International Economic Cooperation Society (CIECOS) (*Zhongguo Guoji Jingji Hezuo Xuehui*) is also worth mentioning. Established in Beijing in 1983, CIECOS specializes in research on international economic cooperation theory and policy. It is engaged in China's strategic planning in cooperation with foreign economies. It acts as a bridge between government bureaucracies and research institutions as well as enterprises. It co-issues with CAITEC the monthly magazine titled *International Economic Cooperation*.

(2) China Institute of International Studies (CIIS) (*Zhongguo Guoji Wenti Yanjiusuo*) affiliated with the MFA: CIIS is under the direct supervision of a vice foreign Minister of the MFA. The director of the institute is usually a former high-ranking official in the MFA. First established in 1956, CIIS consists of seven

research divisions, i.e., International Politics, World Economy, American Studies, Asian-Pacific Studies, Western European Studies, South Asian, Middle Eastern and African Studies, and East European, Central Asia and Russian Studies. China's foreign policy is one of the research areas conducted by the Division of International Politics of the institute, also called Division of Comprehensive Studies, while the area on East Asian economy and regional economic cooperation are conducted by the Division of World Economic Studies. Many staff were former senior diplomats from the MFA as well as area-study specialists and preeminent experts in major fields of foreign affairs. Research at the CIIS focuses mainly on issues of strategic importance with an aim of finding strategic and forward-looking solutions. The research findings of the Institute are either distributed as reports for restricted circulation or published as special papers, books and translated works. The Institute publishes a bimonthly *Journal of International Studies*.<sup>16</sup> It also publishes an English journal on diplomacy and international politics entitled *China International Studies* since December 2005.

(3) The Academy of Macroeconomic Research, National Development and Reform Commission (AMR) (formerly as SDPC) (*Guojia Fazhan he Gaige Weiyuanhui Hongguan Jingji Yanjiuyuan*) affiliated with the NDRC: Its major functions include two fields, i.e., conducting policy research and consultancy. The major tasks of AMR include tracking and supervising the situation and developmental tendency of the national economy, as well as social development and bringing forward countermeasures; analyzing the important problems that have to be solved urgently in the economic operating process and bringing

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<sup>16</sup> Refer to the website of the Institute at: <http://www.ciis.org.cn/english/aboutus.html>; accessed on July 18, 2006.

forward countermeasures; studying the important theories and practical problems in the course of economic and social development, and preparing them into research reports. Besides this, it is also responsible for collecting and providing international and domestic economic information, as well as providing strategies and policy consultancies based on it. The president of the Academy is Zhu Zhixin, who was the former Director General of the National Bureau of Statistics of China and former Deputy Director General of National Development and Reform Commission. He is also an alternate member of the 16<sup>th</sup> CC. AMR has around 300 staff members, of which around 200 members are senior research fellows. Important projects are often conducted under the sponsorship of the central government, especially on the macroeconomic situation and the direction of its future development.

Seven institutes and one research center are directed under the AMR, such as the Institute of Economic and Social Development, the Institute of Foreign Economy, the Institute of Investment, the Institute of Industrial and Technical Economy, and Information Research and Consultation Center. Among them, the Institute of Foreign Economy mainly researches on the international economy, finance and trade. Its main research fields include the study of changes in the international economic situation and the influences to the Chinese economy; the study on China's foreign trade, the utilization of foreign investment and the new problems associated with China's accession to the WTO. This institute also conducts research on the mechanisms and effects of economic globalization and regional economic integration. It is an important government-affiliated research organization that makes recommendations on China's regional and international cooperation and foreign economic development strategies. Among its four

research offices, i.e. Research Office of International Economy, Research Office of International Trade, Research Office of International Finance, and Research Office of International Cooperation, the second and the fourth are more related to our study. The Research Office of International Trade conducts research on the international trade situation, China's foreign trade policy and development strategy, WTO and multiple trade regimes. The Research Office of International Cooperation is responsible for the study of new trends of international economic cooperation, principal regional economic cooperation organizations and foreign economic development strategies.

(4) China Institutes of Contemporary International Relations (CICIR) (*Zhongguo Xiandai Guoji Guangxi Yanjiuyuan*) affiliated with the Ministry of State Security: CICIR was first set up in 1980 as the China Institute of Contemporary International Relations under the directive of the State Council. The institute was renamed and upgraded into CICIR in 2003. CICIR has around 400 staff, with 300 doing research work and others taking charge of the administration work. Considered as the largest research institute on international affairs, it comprises seven research institutes, two of which are closely related to Chinese foreign economic policy making (Institute of Asian and African Studies and Institute of World Economic Studies). The studies of various regional economic cooperation regimes on ASEAN, ASEAN Regional Forum (ARF), ASEAN Free Trade Area (AFTA), ASEAN+3, the CAFTA, Asia-Pacific Economic Cooperation (APEC) are among the important research projects of the Institute of Asian and African Studies. The Institute of World Economic Studies engages in the research on the world economic situation, the assessment of economic policies, world trade, international economic relations, regional

economic integration and China's foreign economic relations. CICIR also acts both as an academic institution and the "arm" of the government. Their research results are regularly submitted to the Standing Committee of the Political Bureau in the form of reports.

(5) Development Research Center of State Council (DRC): Founded in 1981, DRC is a comprehensive policy research and consulting institution affiliated directly to the State Council. The current President of DRC is Professor Zhang Yutai. Vice Presidents include Sun Xiaoyu, Li Jiange and Liu Shijin. It has around 160 staff members with a total number of 120 doing research work. The main functions of the center include: to conduct follow-up and advanced studies on strategic and long-term issues concerning economic and social development of the state; to offer advice and proposals for mid- and long-term development plans and regional development policies, and participate in development programs; to study development trends in the national economy and analyze the macroeconomic situation in order to provide advice and proposals on the full application of macroeconomic policies; to study new issues in China's opening-up process, foreign trade policy, and the utilization of foreign investment and identify trends in world economic development; to conduct international cooperative research and exchanges with related international organizations and research institutions, among others. One of the most important journals published by DRC is *China Development Review*, which is considered the only influential bilingual journal on economics in China.

The institutes that conduct studies on foreign economic affairs under DRC include the International Technology Economy Institute, European Asian Social Development Institute, Institute of World Development, and Asian African

Development Research Institute. DRC has played an active role in drafting the five-year plans for the national economic and social development of China, as well as formulating major policies on China's reform and opening-up.

(6) Chinese Academy of Social Sciences (CASS): Under the direct administrative control of the State Council, CASS is funded by the central government directly. There are fourteen research institutes and units under CASS. The institutes are both academic and policy oriented. I will mainly discuss two of them, which are closely related to the foreign economic policy making of my focus. They are the Institute of World Economics and Politics and the Institute of Asia-Pacific Studies Academy of Social Sciences. Institutes in CASS can report directly to the General Office of the State Council via the form of *Yaobao*, which is also a form to submit the ideas of the government officials to their higher level bureaucracies and top leaders.

The Institute of World Economics and Politics, Chinese Academy of Social Sciences (*Zhongguo Shehui Kexueyuan Shijie Jingji yu Zhengzhi Yanjiusuo*) consists of the Department of International Finance, Department of International Trade, Department of International Politics, Department of International Strategy, and other departments. Major journals of the Institute are the bimonthly English journal *China & World Economy*, the monthly *Journal of World Economy* (*Shijie Jingji*), *World Economic and Politics* (*Shijie Jingji yu Zhengzhi*), and the bimonthly *International Economic Review* (*Guoji Jingji Pinglun*). As described in the introduction on its own website, it is "a leading research center in China in the



fields of world economics and international politics, and a think tank for the government.”<sup>17</sup>

The Institute of Asia-Pacific Studies Academy of Social Sciences (*Zhongguo Shehui Kexueyuan Yazhou Taipingyang Yanjiusuo*) conducts research on the issues of contemporary politics, economic development, foreign relations, social and cultural issues as well as regional integration and cooperation in the Asia-Pacific region. It has four major research departments: Department of Economic Studies, Department of Security and Foreign Relations, Department of Political and Social Studies, Department of Culture Studies. The Department of Economic Studies is closely related to foreign economic decision making, which carries out studies on economic growth, macro-economic policy, foreign trade and investment, regional economic integration and cooperation, with special focus on East Asian economic development, Asian Pacific economic cooperation, and East Asian cooperation.

The Academies of Social Sciences are also widely established in provinces and municipalities. The Institute of Southeast Asian Studies under Guangxi Academy of Social Sciences and the Institute of Southeast Asian Studies under Yunnan Academy of Social Sciences will be discussed later when studying the policy formulation and implementation in the CAFTA case.

### ***Research Institutes and Departments in Universities***

One of the biggest differences between normal academic research institutes and those affiliated with government ministries is that the former usually conduct long-term research topics whereas the latter tends to study more time-sensitive,

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<sup>17</sup> See the website of the Institute of World Economics and Politics, CASS, online at: [http://www.iwep.org.cn/about\\_us/jianjie.htm](http://www.iwep.org.cn/about_us/jianjie.htm); accessed on November 16, 2006.

short-term contemporary topics. The research topics of the latter are very specific. It is well-recognized by many that there is still a big gap in their influencing power to policy-making between the research institutes and those research agencies affiliated with the government. Generally speaking, it is still the government's own research agencies that make more contributions to the policy decisions. However, compared with the past, the influence of these research institutes and university departments in policy-making has been increasing, which one cannot ignore. In fact, some scholars in those institutions are very active and are often able to add input to China's foreign policy making, for example, by attending seminars or conferences organized by the government.

Most of the top-ranked universities in China have study institutes or research centers focusing on China's foreign and domestic economic policy. To name a few which have possible and potential influence on foreign economic policy making, are the China Center for Economic Research (*Zhongguo Jingji Wenti Yanjiu Zhongxin*), the School of Economics in Peking University, and the China Foreign Affairs University (CFAU). The China Center for Economic Research undertakes projects delegated from the state. Their research findings are sometimes submitted to the decision-making bureaucracies in the form of *Briefing Reports (Jianbao)*. The School of Economics conducts research on contemporary international economy and economic problems aroused from the opening-up policy. CFAU, affiliated with the MFA, was first founded by the late Chinese Premier Zhou Enlai. Chen Yi, then Vice Premier and Minister of Foreign Affairs, acted as President of the University between 1961 and 1969. The incumbent President is the former ambassador to France, Wu Jianmin, who is also the Vice Director of the Committee of Foreign Affairs of the Chinese People's

Consultative Conference. One of the main functions of CFAU is to prepare personnel of high standard for the foreign services of the state.

One point which needs to be noted here is that sometimes the specialists as individuals are able to participate actively in the policy formulation process due to their reputation and professional knowledge in their related fields, but not because of the reputation of the universities or research institutes. We may note the role played by Wang Huning, first as a professor at Fudan University, then as the Director of China Policy Office of the CCP CC, in Chinese political policy making during Jiang's era. In particular, Wang played a key role in drafting Jiang's Theories of "Three Represents" and "Keep Pace with the Times." The role of Yifu Lin, Director of China Center for Economic Research, Peking University, in the economic policy of China under present government. In the policy formulation process of the CAFTA, the role of Yunling Zhang, Director of the Institute of Asian Pacific Affairs, CASS, is also considered vital by many scholars in this field.<sup>18</sup>

#### **IV. Conclusion**

For the majority of this chapter, I have discussed the formal institutional structure and the functions of the organs in China's foreign economic policymaking process. Although their relative status and relations to each other in the policy formulation and policy implementation processes have yet to be examined, they clearly

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<sup>18</sup> Author's interviews with Chinese specialists, who attended the High-Level Seminar on China-ASEAN Relations organized by the China Foreign Affairs University, September 25, 2006. Some scholars also pointed out that the role of School of Economics of Peking University in China's decision-making process was also decisive by the personal relationship of its Director, Yuesheng Wang, with Yining Li. Li is a well-known economist, also as Member of the Standing Committee of National People's Congress and Vice Chairman of the Financial and Economic Committee of the National Committee of the National People's Congress.

demonstrate the hierarchical nature of the structure of foreign economic policy formulation and implementation in China. The first layer enjoys much more power in the policy formulation process compared with the other two layers. In the second layer, the central bureaucracies have more power in the decision-making process compared to the local bureaucracies. In the third layer, institutes affiliated with the government bureaucracies play more roles compared to research institutes and departments in universities.

This chapter has provided a general structure of the foreign economic policy formulation and implementation organs. The authoritarian and hierarchical nature of the decision-making process will further be revealed and proven in the next chapter. It will focus on both the processes of foreign economic policy formulation and implementation in China, and the interactions among different actors in the two processes.

## **CHAPTER THREE**

### **POLICY FORMULATION, JUSTIFICATION AND IMPLEMENTATION: FROM IDEA TO POLICY, AND FURTHER TO PRACTICE**

After an idea is formed and brought forward, it will normally go through a justification process before it becomes a policy in contemporary China's decision-making process. If such an idea is accepted by the decision-makers, a new policy is formed. From policy to practice is the process of policy implementation. Although policy formulation and policy implementation are separated processes, they can still be integrated into one new perspective. In this study, policy implementation is considered more as a process of policy reformulation although they will be discussed in separate sections. Moreover, policy justification is also considered as one part of policy-making. After reviewing the new changes that have taken place after Deng's China, this chapter will discuss the general process of China's foreign economic policy formulation, followed by a general examination of China's foreign economic policy implementation process. From this, the authoritarianism and dynamic nature of China's foreign economic policy formulation and implementation processes will be revealed.

#### **I. New Changes in China's Foreign Economic Policy Making Process**

David Lampton examined the changes in Chinese foreign and security policy in the reform era, namely from 1978 to 2000, and also went further to analyze the policy implications of such changes for China's policy-making process. He argued that the Chinese foreign policy making structure is undergoing several interesting and simultaneous changes such as pluralization, institutionalization and

professionalization.<sup>1</sup> He seems to have already summarized well the new changes in Chinese foreign policy making. Many characteristics he described are still applicable to Chinese foreign policy making now. However, under the consideration of some newly-added changes after year 2000, a more appropriate summary would be that compared with Mao's era, the quality and the nature of foreign economic policy-making has changed (from totalitarianism to authoritarianism). Compared with Deng's era the new changes embody quantitative changes or more changes in extent. I will discuss both qualitative and quantitative changes in China's decision-making separately and in greater detail.<sup>2</sup>

### *New Qualitative Changes*

The major qualitative change is that China's foreign economic policy decision-making has become an action of collective leadership. Chinese foreign policy making has been transformed from a personality cult to an emphasis on collective leadership. Some scholars argue that the transformation from one person-domination to collective decision-making was originally made as a rule by Deng, who realized the limitations in the abilities of his successors.<sup>3</sup> Quansheng Zhao labeled this new phenomenon as from vertical authoritarianism to horizontal authoritarianism, which simplified the progressive political development of China and its gradual departure from the regime of one-person domination.<sup>4</sup> To put it another way, the decision-making has become more institutionalized. It was an

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<sup>1</sup> See David M. Lampton, ed., *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000* (Stanford: Stanford University Press, 2001).

<sup>2</sup> Since the changes in Chinese foreign economic policy are closely connected to China's general decision-making process, especially the foreign policy making process, it is inevitable to broaden the focus in this section by touching on the new changes in the general decision-making process.

<sup>3</sup> Author's interview with a scholar in Beijing specializing in Chinese politics, September 2006.

<sup>4</sup> See Quansheng Zhao, *Interpreting Chinese Foreign Policy: The Micro-Macro Linkage Approach* (Oxford & New York: Oxford University Press, 1996).

insightful plan adopted by the top leaders to share the responsibilities whenever a certain policy fails, thus keeping their legitimacies.<sup>5</sup>

Another qualitative change is the relatively more important role of policy justification in the policy-making process. In most cases, a formal process of policy justification is added into China's decision-making process, although as discussed in the introduction chapter that policy justification in China is often conducted after a policy has been made, in contrast to western democratic countries. This phenomenon is connected closely to the authoritarian nature of Chinese policy-making after Deng's era. A more complicated policy-making environment is also accountable for such a change.

In fact, the CCP has realized the importance of policy justification and consultation both in domestic and foreign affairs. At the Fourth Plenum of the 16th CPC CC, held in Beijing from 16-19 September 2004, the CPC CC adopted the document titled "Decision on the Enhancement of the Party's Governance Capability." It called for reform and improvement of the decision-making mechanism so as to push forward scientific and democratic decision-making. In the document, it reads, "The rules and procedures of important decisions must be perfected; on big events concerning the overall economic and social development, specialists' reasoning, technological consultation and decision-making evaluation are needed; the government shall try to broaden the contact with specialists and the academia, and set up more mechanisms on decision-making and consultation as well as information supportive systems."<sup>6</sup> Such arguments will be further

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<sup>5</sup> Author's interviews with research fellows in government-linked research institutes, September 2006.

<sup>6</sup> The full text of the document of "Zhonggong Zhongyang Guanyu Jiaqiang Dangde Zhizheng Nengli Jianshe de Guiding" (Decision on the Enhancement of the Party's Governance Capacity), available online at: <http://www.china.org.cn/chinese/2004/Sep/668376.htm>; retrieved on August 22, 2006.

discussed in section two of this chapter, which focuses on the procedures of the policy formulation process.

### *New Quantitative Changes*

Six new quantitative changes have been summarized as follows:

- (1) Foreign economic policy-making becomes more decentralized.

Under the central-planning system, both domestic and foreign policies were made directly via a top-down approach. Local governments had almost no power to bargain with the top. They acted mainly as policy implementers. Their enthusiasm had been largely stifled. Since the reform and opening up, local governments have gained more power to add more input to the foreign economic policy formulation and implementation processes. For example, since they are responsible for the economic development of their own provinces, more power has been granted to them to conduct trade directly with foreign countries. Moreover, more avenues for provincial governments to participate in the policy-making process are available in recent years. Provincial leaders have learned to take every possible opportunity to bargain with the central government by acting as “policy entrepreneurs.”<sup>7</sup>

- (2) The officials in charge of foreign affairs as well as foreign trade relations have become more professional.

The overall quality of government officials including their education level, language skills as well as their ability to express, argue and negotiate have

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<sup>7</sup> The concept is borrowed from John W. Kingdom, *Agendas, Alternatives, and Public Politics*, 2<sup>nd</sup> ed. (Boston: HarperCollins, 1995): 122, 179. The author describes policy entrepreneurs as “advocates who are willing to invest their resources-time, energy, reputation, money- to promote a position in return for anticipated future gain in the form of material, purposive, or solidary benefits”. For the concept of policy entrepreneurs, see also Jack L. Walker, “Performance Gaps, Policy Research, and Political Enterprises,” *Policy Studies Journal*, No.3 (Autumn, 1974): 112-116.



improved tremendously. Generally speaking, civil servants today tend to have a better understanding of their country and the world. The relatively high quality of civil servants is due to the rigorous series of stringent tests they have to go through before being admitted as civil servants. Although it is true that some civil servants are recruited based on their personal relations with higher-ranking officials in the very agency or related agencies, in most cases it becomes harder for them to be recruited as government officials as more professional knowledge is required. Several rounds of tests are required to be taken before one becomes a regular staff in those government agencies, such as the administrative ability test, the psychological test, the language test, the communication skills test, and the writing skills test. Before gaining the rights to take those tests designed by individual departments and ministries, one has to pass two elementary public tests as a prerequisite, namely the Administrative Aptitude Test and the Writing Skills Test (*Shenlun*). In these two tests, both the reaction and writing skills are examined, which are the basic requirements for civil servants.

The second reason accountable for their higher professional skills is the sharp improvement of their educational level. There are more newcomers admitted into various government agencies who have received higher education. In recent years, the number of civil servants who have gained a master as well as a doctorate degree is increasing by a large scale. Meanwhile, the leaders in charge of those government agencies emphasize more on the training of the incumbent staff. The training opportunities for regular staff in government agencies are currently more easily available. Their training is designed based on the tasks they are performing, including the training of language skills, theoretical grounding as well as administrative skills. Besides this, more training opportunities in foreign countries

for both ordinary civil servants and cadres at various levels are provided. They have more opportunities to go abroad and learn from developed countries. Top leaders have also become more professional by frequently traveling overseas. In contrast, Mao traveled overseas (to the Soviet Union) only twice in his lifetime.

(3) More inputs are added in the foreign economic policy making process.

In the new millennium, we can obviously see the diversification of the sources of policy analysis. Besides the decentralization of the foreign policy-making process by emphasizing on the increasing power of local governments, other actors have also begun to take more roles in foreign policy making, such as academic scholars and the public. A significant advancement in policy formulation in contemporary China is that the concepts and ideas of scholars have attracted more attention from the government. As compared to before, the ideas of scholars conducting research on policy-related areas are more likely to be considered by the policy makers. For example, the scholars in the institutes as well as universities are often invited to attend conferences and seminars organized by government agencies, during which their opinions and arguments on issues of great concern by the government are expressed. After the discussions, the main arguments and recommendations of the scholars will be reorganized by the government officials present at the conference and summarized in the form of reports. The reports will be sent to top-level government officials for further consideration. As a scholar put it, "To academic scholars, the problem is not a lack of the avenue to transform scholarly ideas to state policies, but of a lack of knowledgeable and practical ideas itself. If good ideas and recommendations can

be provided, there is no need to worry about avenues to translate them into policies.”<sup>8</sup>

(4) Public opinion and reactions have been taken more seriously in the decision-making process.

Another advancement is that there is a growing trend of public discussion on China’s foreign affairs. The trend of globalization contributes much to the development of modern technologies, and the advancement of modern technologies contributes to such new changes as the widespread use of the Internet. “The fluid freedom and plebiscitary nature of the Internet makes computer-mediated communication a powerful instrument to facilitate the formation and broadcast of public sentiments and even public campaigns.”<sup>9</sup> Information flow makes the public more informed. At the same time, their opinions can be easily expressed via modern technologies. Information technology facilitated political participation and helped transform traditional elite democracy to popular direct-participation.<sup>10</sup>

The government becomes more concerned with public opinion and reactions although civil society is still far from being mature in China. For example, to meet the embedded hatred among the Chinese people to the provocative behaviors of the Japanese government, the Chinese government has to provide arenas for the public to express their concerns. Here it refers to the anti-Japanese protests conducted by the Chinese people in March/April 2005 due to two incidents, namely the revision in Japanese history textbooks and Japan’s application to

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<sup>8</sup> Author’s interviews with research scholars in government-linked research institutions, September 2006.

<sup>9</sup> Xin-An Lu, “Ministry of Foreign Affairs in the Age of the Internet,” Chapter 5, in Yufan Hao and Lin Su, *China’s Foreign Policy Making: Societal Force and Chinese American Policy* (Hampshire & Burlington: Ashgate, 2005): 119.

<sup>10</sup> See L. K. Gorssman, *The Electronic Republic: Reshaping Democracy in the Information Age* (New York: Viking, 1995).

become a permanent member of the Security Council of the United Nations. Although Beijing knew clearly that any diplomatic reaction would impair the normal economic and bilateral relations with Japan, it had to take into consideration the emotions of the Chinese people and took corresponding measures to show its firm stance towards the issue.<sup>11</sup> We cannot overemphasize the role of the public in this event by drawing to a conclusion that it was under the public pressure of the anti-Japanese protests that the Chinese government took the corresponding measures, which included the Chinese government canceling the visit of Japanese Foreign Minister Nobutaka Machimura and Vice-Premier Wu Yi canceling the meeting with Japanese Prime Minister Junichiro Koizumi during her visit to Japan. Nevertheless, the Chinese government tends to think twice about public opinion and reaction now, as compared to decades ago.

(5) The policy-making process has become more rational and deliberative.

In great contrast with the former one-person-dominated decision-making process, most policies have to undergo a long process of debate and evaluation before becoming policies. Ideas from “bottom-up” are first brought up by scholars or officials at a lower level. Top officials need to think about it twice and discuss with the initiators if necessary before submitting it to a higher level. Ideas from “top-down” brought about by top leaders need a process of feasibility study by lower government officials or scholars who are specialists in the related fields. The central government or the bureaucracies at the central level also assign some policy-oriented projects to research institutes and seek policy recommendations from them. This phenomenon of policy justification is more common nowadays.

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<sup>11</sup> I would like to point out here that Chinese Vice-Premier Wu Yi abruptly cancelled the meeting with Japanese Prime Minister Junichiro Koizumi during her visit in Japan on May 23, 2005. Analysis on the role of public opinion on China-Japan relations, see Lam Peng-Er, ed., *Japan's Relations with China: Facing A Rising Power* (London: Routledge, 2006); especially in the introduction: 17.

Since the bureaucracies are often engaged in everyday affairs, the projects conducive to the long-term and strategic development of the country are more likely to be conducted by research institutions. Moreover, some important projects have even begun to take the form of bidding among various research institutes, which provides more opportunities for more professional and capable research institutes. Besides this, more coordination has taken place among government bureaucracies. Coordinating meetings and conferences are often convened to discuss certain policy issues with various bureaucracies involved.

(6) The policy-making process has become more transparent.

The Chinese foreign policy-making process used to be described as a black box by many scholars who studied the related topics in the 1970s.<sup>12</sup> However, as realized by many famous scholars in this field, such as Kenneth Liberthal and David Lampton, it has become comparatively easier nowadays to decode the black box due to more access to the information as well as more chances to conduct interviews with top government officials. Chinese government officials at different levels are more open-minded now. The general policy tendency of the government explains this. To improve the impression of people around the world on China, the Chinese government tends to propagate more Chinese policies, both domestic and foreign policies to the world. They perceive that a better understanding of Chinese policies can make the world understand China more. The MFA has done a lot in the demystification of China's foreign affairs. The headquarters of the MFA has been opened to the public, on occasion, since

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<sup>12</sup> For example, when reviewing A. Doak Barnett's work, *The Making of Foreign Policy in China: Structure and Process*, Steve Chan complimented Doak by saying "it clarifies many questions that heretofore have been assigned to the policy-making 'black-box' in Peking". See Steve Chan's review articles, *American Political Science Review*, Vol.80. No.2 (June, 1986): 691-692.

September 2003.<sup>13</sup> On 23 December 2003, Foreign Minister Li Zhaoxing unprecedentedly conversed with the public via Internet. On 19 October 2004, an Office of Public Diplomacy was established and the MFA was opened to the public for visitations.<sup>14</sup> Some may consider such behaviors as symbolic. Obviously, it is premature to assert that China's transparency level is high at the present stage. Nevertheless, one has to admit that such behaviors were beyond the imagination of many Mainland Chinese not so long ago, not to mention foreigners.

## **II. China's Foreign Economic Policy Formulation Process: Three Procedures**

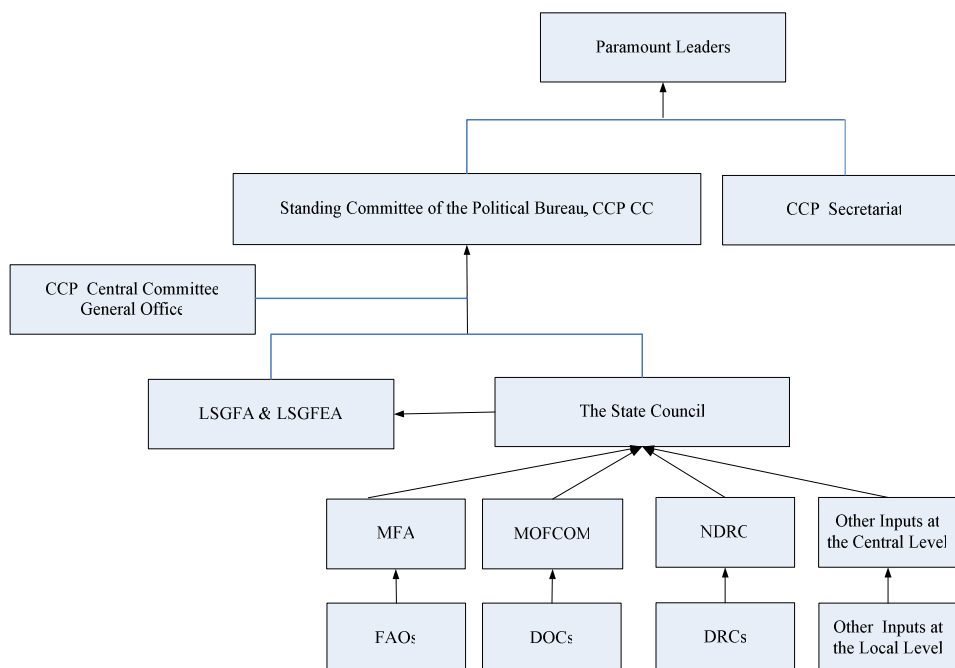
The new qualitative and quantitative changes, detailed earlier, have provided bases for the dynamic nature of China's decision-making. The process of foreign economic policy formulation in China can be illuminated by Figure 3-1, which describes in detail the Chinese foreign economic policy formulation network. Ideas and suggestions born from local academic scholars will be handed over to the related bureaucracies at the local level in respective provinces. The documents will be further submitted to bureaucracies at the central level, such as the MFA, the MOFCOM and the NDRC, and will be passed on to the General Office or the Foreign Affairs Office of the State Council (FAOSC) (*Guowuyuan Waishi Bangongshi*) for review. The FAOSC has the power to prepare the agenda for all the LSGFA meetings, to supervise and coordinate document flows and bureaucratic interactions among the components of the LSGFA. Sometimes, it

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<sup>13</sup> Related reports on the Ministry of Foreign Affairs' initial opening to the public see online at <http://news.enorth.com.cn/system/2003/09/07/000628603.shtml>; retrieved on July 16, 2006.

<sup>14</sup> See related online news at: [http://news.xinhuanet.com/newscenter/2004-04/05/content\\_1401465.htm](http://news.xinhuanet.com/newscenter/2004-04/05/content_1401465.htm) and [http://news.xinhuanet.com/newscenter/2005-04/15/content\\_2834825.htm](http://news.xinhuanet.com/newscenter/2005-04/15/content_2834825.htm); retrieved on June 12, 2006.

even takes the full functions of the LSGFA.<sup>15</sup> After information processing and analyzing, the reports will be sent to the General Office of the LSGFA or the LSGFEA if they are deemed important. Important ideas and reports will finally be submitted to the top leaders of the LSGFA or the LSGFEA, and then on to the Political Bureau for approval. Of course, before the documents and reports finally reached the top leaders, their secretaries will read them first. After being selected by their secretaries, only those documents considered of vital importance are submitted to the top leaders. For insightful ideas and suggestions, the top leaders will sign the document to the relevant bureaucracies and demand for further information and investigation. When needed, a meeting is organized among those senior members of the LSGFA, the LSGFEA and the Standing Committee of the Political Bureau.



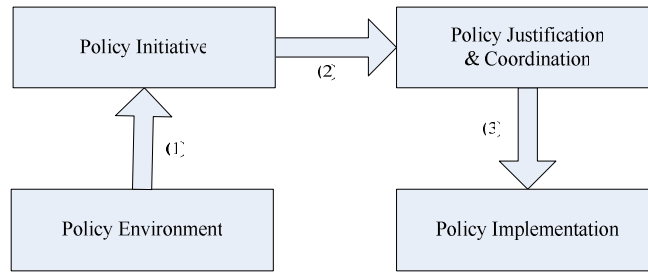
**Figure 3-1: Chinese Foreign Economic Policy Formulation Process**

<sup>15</sup> Michael D. Swaine, *The Role of the Chinese Military in National Security Policymaking*, revised ed. (Santa Monica, Calif.: Rand, 1998): 25-26.

The central bureaucracies, such as the MFA and the MOFCOM, each have their own type of documents and reports to submit to the leadership nuclear circles mentioned earlier. These reports include newly updated information and analysis of long-term issues. One of the common features of such documents is that they all comprise one type of content, that is, policy recommendation content. In most cases, the composers of the documents will give their own views on what are the alternative choices of the government right after general analysis of the issue. What needs to be pointed out here is that the reports and analysis of the bureaucracies are not completely composed by a single civil servant. After a lower ranked civil servant in the unit made the first draft, their leaders in the *Chu* unit level will first discuss it and make revisions. The draft will then be sent to the director of the bureau or department as well as the minister or vice minister of the department or ministry for further revision. If the issue is of vital importance, a meeting will be organized. The relevant persons related will then meet and discuss the issue. Therefore, any report and analysis is not the production of individuals under the Chinese bureaucratic system. They are the production of collective ideas.

Generally speaking, the foreign economic policy making process includes the following procedures, namely policy initiation, policy justification, policy coordination as well as policy implementation. As illustrated in Figure 3-2, a policy idea is first formed and thus is influenced by the environment. Stage (1) explains where the policy ideas come from. Stage (2) explains how a policy is made after policy ideas are justified. The final stage, stage (3) is the policy implementation process. I will discuss the first three procedures in this section and will touch on policy implementation in the next section.





**Figure 3-2: The Mechanism and Process of Policy-Making**

*Notes:*

*(1) Inputs: where did the policy ideas come from?*

*(2) Policy justification and decision-making: how to put the idea into policy?*

*(3) Policy outputs and implementation: how to coordinate different interests?*

### ***Policy Initiation***

Based on the direction and source of the policy initiative, there are also two major ways in which a policy is initiated. First is the top-down initiation, where the idea is initiated by the top leaders themselves. Then it is the turn of bureaucracies to justify these ideas. The ideas may have come to them via different means, such as their own thinking based on the reports and documents submitted to them, or based on their own experiences after drawing lessons from foreign countries, or the ideas just formed via conversations with top officials of foreign countries as well as with top Chinese government officials. This kind of policy initiation is not large in number, but as long as the ideas or concepts are formulated in the minds of those top leaders, it is easier for a policy to be approved and for its further implementation in the whole country. The CAFTA is just such a case in point.

The bottom-up initiation consists of two types. One is initiated by the bureaucracies at the central level, while the other is by local bureaucracies. We can further divide the two types of bottom-up initiation by the standard of whether it is initiated in a formal way. Both formal and informal means are adopted whether the initiator is at the central or local level. In most cases, a formal

procedure of processing shall be followed whether it is initiated by the central bureaucracies or local ones. Nevertheless, sometimes a policy is submitted and processed informally or via informal means. At the central level, as mentioned earlier, policy can be initiated during the informal conversations of central officials and top leaders. At the local level, some local governments push hard for their policy ideas to be accepted and implemented by taking advantages of their personal relationships with top leaders of the central government.

### ***Policy Justification***

Policy justification is a process of policy calculation by means of discussing an issue thoroughly and persuasively. It is quite obvious that policy justification took place among the few top officials during Mao's era, such as Mao Zedong and Zhou Enlai. The tendency of decentralization, pluralization and institutionalization of policy-making provides more opportunities for various input in the policy making process in the reform era. Policy justification may be conducted by central or local bureaucracies, by institutes affiliated with those bureaucracies, or by think tanks. Policy justification has become increasingly important because of the following recent situations and challenges:

First, no one has absolute power to control the state like Mao. The first generation of Chinese leaders was legitimated to a large extent by their devotion to the revolution. They were respected and legitimate in the eyes of the people and the state since they had contributed much to the founding of the PRC. We may also want to include the former Chinese leader Deng Xiaoping as a tough and authoritative leader since he was somewhat of a follow-up of the first generation. However, under the third and the acting fourth generation led by Jiang Zemin and Hu Jintao, the situation has changed greatly. They do not enjoy the paramount

authority as their predecessors any more. The legitimacy of their ruling status depends more on their economic contribution to the country. The one-man domination of policy-making has certainly run out of date after the death of Deng Xiaoping, if not even before his death.

Second, both the decision-making and the international situation have become more complicated, which makes it harder for a single person, or a few government organs to make the wisest choice for the country. As a famous Chinese saying goes, “easy problems shall be solved in an easy way while the complex one must be solved in a more complex way.” China is not what it used to be. For example, in 2005 China has formal diplomatic relations with 166 countries. In contrast, in the first ten years of the PRC, only 13 neighboring countries had diplomatic relations with China. Moreover, the international situation has become hard to control due to its uncertainties and inconsistencies. Those emergencies add more pressure to the central government and top leaders, and require for their timely responses, such as the bombing of the Chinese embassy in Belgrade by the U.S.-led North Atlantic Treaty Organization (NATO) in 1999, the American-led war towards Iraq in 2003, the launch of a missile by North Korea in July 2006 as well as the world-wide outbreak of SARS in 2003. Thus, it is urgent to improve the detection and response in crisis management.

The functions of the government bureaucracies have to adjust according to domestic and international change. For example, the task of the MOFCOM to coordinate overall trade policy has become much more complicated. Therefore, more policy justification and deliberation, via further input is needed. There are three main elements in the policy justification process. First is evaluating the different positive and negative sides of one forthcoming policy. Whether a policy

itself is good or bad for the country is immediately decided upon. The second element is the consideration of opinions from various sources. The policy makers sometimes recruit different ideas from those sources other than the bureaucracies. Academic think tanks or learned scholars have more access to provide intellectual construct to the policy now. The third element is the consideration of public reactions and opinions. For example, when defining foreign economic policies, governments need to consider the interests of the related conglomerates.

Nevertheless, whether different inputs of foreign policy making can reach the ideal state of “speaking truth to power (one’s boss),” this depends on two basic elements, both subjective and objective. The subjective element refers to the courage of the analysts to tell the truth. The information provided by the bureaucracies and academia is not always one hundred percent correct, sometimes with a mixture of fake figures. It also creates conditions for subjective policy inputs to be made. For example, in order to get promoted, local government officials may make up figures to raise the level of their performance since the present assessment system of government officials in China is mainly done by gauging local GDP growth. The reason for this is that they do not even have enough information to get closer to the truth in the first place.

### ***Policy Coordination***

No matter what kind of a bureaucratic system one country has, one of the common problems for all is the policy coordination among various bureaucracies. The existing literature has defined policy coordination in different ways.<sup>16</sup> Based on the observation of Aaron Widavsky, “coordination means achieving efficiency

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<sup>16</sup> For such works refer to Aaron Widavsky, *Speaking Truth to Power: The Art and Craft of Policy Analysis* (Boston: Little, Brown, 1979): 131-133 and I. M. Destler, *Making Foreign Economic Policy* (Washington: The Brookings Institution, 1980): 8.

and reliability, consent and coercion.” Generally speaking, policy coordination means to achieve a harmonious policy solution via give-and-take. It is quite certain that a policy would have to go through a bargaining process which may include trade-offs and paradoxes between various bureaucracies.

Under the new changes in Chinese foreign economic policy making, such as pluralization and decentralization, policy coordination becomes even more necessary. To begin with, wise and practicable policy coordination requires more reliable information resources. Different bureaucracies may focus on their own special fields of concern. For example, the MFA is more interested in political affairs and international relations while the MOFCOM in most cases focuses more on international trade and economic issues. Due to their different focuses and functions, complementary information may have been derived in different ways. Coordinating with each other by means of exchanging their information and ideas among related bureaucracies contributes to a better understanding of the issue under common concern. Obviously, more access to the real information leads to a more reasonable policy decision. Secondly, policy coordination is likely to increase the efficiency of bureaucracies. Although the administrative affairs of the country are divided into a number of divisions taken up by various bureaucracies, it is hard to delimit a clear boundary in reality. Unnecessary overlapping and redundancy could be avoided by policy coordination to a large extent, although not completely. Last but not least, it is quite obvious that good policy coordination is the foundation of good governance. As mentioned earlier, the process of policy coordination includes bargaining behaviors so as to reconcile the differences among bureaucracies. A well-managed final policy will be more applicable if it

contributes to the actual process of policy implementation. Good governance is more likely to be reached after the fine attuning of all these procedures.

For example, in terms of foreign trade policy, communication and coordination is needed between the MFA and the MOFCOM. Whenever there are big differences in opinion, a meeting may be convened to discuss the issues face-to-face. If a consensus cannot be reached, a report on the issue will be submitted to the LSGFEA. The decisions made by the top officials shall be followed by the bureaucracies. In a hierarchical decision making mechanism, the final decision-making power is still in the hands of a few top leaders. Thus, the authoritarian nature of China's foreign economic policy-making is here to stay.

The top leaders certainly do not act as a coordinator among various bureaucracies, they are merely acting as the final decision-makers: "Policy coordination is conducted in the name of the LSGs through its staff office. Or more often, when an issue is too technical, a bureaucracy is identified in the document as the lead coordinator and the interpreter of the rule(s) established in the document."<sup>17</sup>

### **III. China's Foreign Economic Policy Implementation Process: Formal and Informal Avenues**

In the process of implementation, more information will be available to the implementers, which in fact provides the possibility for local governments to revise the decisions made by the central government. The rules defined by the central government may be revised to some extent so as to be applicable to the different situations in the local area. In this sense, the policy implementation

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<sup>17</sup> Ning Lu, "The Organization and Processes of the Ministry of Foreign Affairs," Chapter 2, in Ning Lu, 2<sup>nd</sup> ed., *The Dynamics of Foreign-Policy Decision Making in China* (Boulder: Westview, 2000): 40.

process may be considered as a continuity of the policy-making phase in terms of the adjustments, which may involve continuing flexibility, the concretization of policy in action, or a process of movement back and forth between policy and action.<sup>18</sup>

Policy implementation has never been a complete procedure that is strictly followed according to the policies made. Not only does China have a problem of putting a policy under strict implementation, so do most developed countries. For instance, Randall Ripley and Grace Franklin summarized four categories of policies of the United States, i.e., distributive policies, competitive regulatory policies, protective policies, and redistributive policies. They argued the first two categories are more easily implemented compared to the latter two.<sup>19</sup> In China's case, Zhong Yang divided the policy issue areas into four categories, namely crucial issues, spotlight issues, guideline issues and regulative issues. Considered as the most important policies from the Central government and the Party, crucial issues are usually strictly implemented by local governments due to the tough requirements and inspections from above; Local governments usually try to cover up those spotlight issues which have been exposed to the public by the media; For those guideline issues which are passed down through vague guidelines, local governments tend to implement with creativity; legal and regulation issues are the most problematic areas in terms of policy implementation.<sup>20</sup> In fact, it so happens that the central government is given only disparate information in some policy areas.

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<sup>18</sup> Michael Hill, "Implementation," Chapter 6, in Michael Hill, 3<sup>rd</sup> ed., *The Policy Process in the Modern State* (New York: Prentice Hall, 1997): 137.

<sup>19</sup> See Randall Ripley and Grace Franklin, *Bureaucracy and Policy Implementation* (Homewood: Dorsey Press, 1982).

<sup>20</sup> Zhong Yang, "Policy Implementation at Country and Township/ Town Levels," Chapter 5, in Zhong Yang, *Local Government and Politics in China: Challenges From Below* (Armonk & London: M. E. Sharpe, 2003): 128-157.

After discussing the decision making process, I will examine the dynamic policy implementation process in this section. As observed by Steve Smith and Michael Clarke, “the most important issue that implementation raises for the study of foreign policy behavior is that it shifts the focus from the decision to behavior itself.”<sup>21</sup>

### ***The Increasing Bargaining Power of Local Governments***

According to Robert Alan Dahl, “bargaining commonly means reciprocity among representatives of hierarchies.”<sup>22</sup> Bargaining is considered as interactive behavior. Under the Chinese political system and power structure, bargaining in this study means the behaviors of local governments towards the central government to seek for more benefits offered by the central government. During the 1990s, as observed by Denny Roy, “certain provincial and municipal governments became both more autonomous foreign policy actors and more powerful lobbyists with Beijing.”<sup>23</sup> The special status of local governments as “bidirectional agents”<sup>24</sup> or “agents for multiple principals”<sup>25</sup> is the basis of bargaining behavior: on the one hand, local governments are agents of the central government in charge of supervising and regulating local economies; on the other hand, local governments

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<sup>21</sup> Steve Smith and Michael Clarke, “Foreign Policy Implementation and Foreign Policy Behavior,” Chapter 1, in Steve Smith and Michael Clarke, eds., *Foreign Policy Implementation* (London & Boston: George Allen Unwin, 1985): 3.

<sup>22</sup> Robert Alan Dahl, *Politics, Economics, and Welfare: Planning and Politico-Economic Systems Resolved into Basic Social Processes* (New York: Harper, 1953): 498.

<sup>23</sup> Denny Roy, “The Structure and Process of Foreign Policy-Making,” Chapter 4, in Denny Roy, *China’s Foreign Relations* (Lanham: Rowman & Littlefield, 1998): 66. See also Quansheng Zhao, *Interpreting Chinese Foreign Policy: The Micro-Macro Linkage Approach* (Oxford and New York: Oxford University Press, 1996).

<sup>24</sup> Ruilong Yang and Qijing Yang, “Jietishi de Jianjin Zhidu Bianqian Moxing: Zailun Difangzhengfu zai Woguo Zhidu Bianqian zhong de Zuoyong” (The Model of Increasing System Transition: Re-Demonstration of the Role of Local Governments in the System Transition), *Economic Research Journal*, No.3 (2000): 24-31.

<sup>25</sup> Peter T. Y. Cheung, “Introduction: Provincial Leadership and Economic Reform in Post-Mao China,” in Peter T. Y. Cheung, Jae Ho Chung, and Zhimin Lin, eds, *Provincial Strategies of Economic Reform in Post-Mao China: Leadership, Politics and Implementation* (Armonk & London: M. E. Sharpe, 1998): 14.



are agents of non-governmental entities (such as local enterprises), which implement the decision of the central government and seek support so as to maximize local economic interests.

The increase of the bargaining power of local governments is a direct result of China's economic reform. As correctly observed by Gerald Segal in his discussion of foreign economic policy in communist states, reform of foreign economic policy and the reform of the domestic economy are more closely related to each other.<sup>26</sup> In order to provide the social and local incentives to support the reform, the central government had to devolve some power and give more free space to local governments and society. "Economic reforms mean that the national government withdraws from economic affairs and decentralizes economic decision-making powers to individuals and local units."<sup>27</sup> We need to discuss China's economic reforms, notably trade policy reforms in greater detail for the reason that economic reforms have increased the power of local governments in the decision-making process and led to greater freedom in conducting foreign trade directly with foreign countries. Moreover, since China's trade policy towards ASEAN in the case study of the CAFTA will be discussed in this study, it is necessary to touch on the reform of China's trade policy specifically.

Modeled on practices of the Soviet Union, the PRC established a highly centralized planned economy after its founding in 1949. Foreign trade was strictly determined by the central planning authorities in the Mao era, such as the State Planning Commission, the Economic Commission, and the State Council. China's foreign trade was monopolized by 12 foreign trade corporations of the state. All

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<sup>26</sup> Gerald Segal, "Foreign Economic Policy," Chapter 1, in Gerald Segal, *Openness and Foreign Policy Reform in Communist States* (London & New York: Routledge, 1992): 18.

<sup>27</sup> Yongnian Zheng, *Will China Become Democratic: Elite, Class and Regime Transition* (Eastern University Press, 2004): 106.

activities concerning imports and exports were based on the unified plan made by the central government, which also took full responsibility of the losses and benefits of any foreign trade decision. The trade system of China before the reform was considered as an “extreme example of import substitution.”<sup>28</sup> Based on the supply-and-demand theory, goods would be imported from foreign countries only when supply fell short of demand. Border trade was strictly controlled by the central government for fear of the ideological influence of those neighboring countries and due to security concerns. China remained an inward-looking economy that seldom participates in international trade. Under these circumstances, local governments had no way to participate in the policy-making process and almost no autonomy in conducting trade directly with foreign countries. The amount and scope of trade were strictly controlled by the state under the centrally planned economic system. “Centralization” has its advantages and disadvantages. In China’s case, on the one hand, a highly centralized mechanism can provide sufficient resources to reach a compromising resolution in a shorter time; on the other hand, however, it results in the suffocation of local enthusiasm. It “caused low efficiency or sheer waste in resource allocation, not to mention the heavy burden of administration imposed on a giant country.”<sup>29</sup> Moreover, China originally adopted a political system of democratic centralism<sup>30</sup>, in which the subordinate should be obedient to the superior level. Once the policy has been made by the CC, it should be obeyed and

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<sup>28</sup> Nicholas R. Lardy, “The Pre-reform Foreign Trade System”, Chapter 2, in Lardy, *Foreign Trade and Economic Reform in China, 1978-1990* (Cambridge & New York: Cambridge University Press, 1992): 16

<sup>29</sup> Hao Jia and Zhimin Lin, eds., *Change Central-Local Relations in China: Reform and State Capacity* (Boulder: Westview Press, 1994): 3.

<sup>30</sup> “Democratic Centralism” is not only a principle of organization but also a principle of the decision-making process in Leninist countries. The term “democratic” defines the equal participation of all members in the organization, while “centralism” refers to the mandate that all members uphold all the decisions made by the organization.

implemented unconditionally. Under such a system, the local governments' enthusiasm and passion to develop their own interests were stifled.

Such a situation has been transformed fundamentally since the Third Plenum of the 11<sup>th</sup> National Party Congress of the CCP in 1978, when the party leaders made the decision to change from a centrally planned economy from Mao's era to a more market-oriented economy by conducting market-oriented reforms and economic liberalization and modernization. From then on, the foreign trade regime slowly changed from "a highly centralized and mainly administrative system towards a free market regime."<sup>31</sup>

Under the new economic policy, local governments are granted some legal rights to deploy trade relations with bordering nations directly. In order to boost the economy and follow Deng Xiaoping's idea of decentralization, many essential decision-making powers were granted to the local governments at different levels, together with some forms of property rights and fiscal power. Since the conditions and level of economic development of the provinces were vastly different, it was extremely hard to enforce a policy that applied to all. Favorable policies were first granted to those Special Economic Zones and coastal provinces. They were considered as the forerunners in the development of the Chinese economy by taking important roles in integrating with the outside world. As the local governments' power increased, they were able to deal with their own situation accordingly. For the coastal provinces, they were assigned overall economic decision-making powers. The central government was willing to share some of its superior powers mainly under the consideration that it was an effective way to

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<sup>31</sup> Jiadong Tong, "The Reform of China's Foreign Trade Regime in the First Decade of the New Millennium," Chapter 4, in P. W. Preston and Jurgen Haacke, eds., *Contemporary China: The Dynamics of Change at the Start of the New Millennium* (London & New York: RoutledgeCurzon, 2003): 64-72.

boost the economic development of those regions. This was also under the philosophy of Deng Xiaoping's "letting some people and regions get rich first." Due to geographical advantage, the provinces bordering foreign countries also benefited from the preferential policies from the central government and began to take border trade as one of their development strategies.

During his South China tour in 1992, Deng Xiaoping reemphasized the importance of economic development as the country's top priority. In the same year, the central government opened five cities and towns along China's border, i.e. Nanning, Kunming, Dongxing, Pingxiang, and Hekou. Preferential policies were granted to local governments, such as the right to examine and approve investment projects, and to reduce or remit tariffs or taxes, just to name a few. Deng pointed out that there was no need to argue about which is better, the socialist system or the capitalist system. It was at that time the "Cat Theory" came up.<sup>32</sup> After the foreign trade decentralization reform, China changed from a monopolistic to a market-oriented economy system.<sup>33</sup> The policy of decentralization has further improved the autonomy of the local bordering provinces. As Zhimin Chen argued after investigating the decentralization process of China, the decentralization process has internationalized the provinces and made them relatively active players in Chinese foreign policy. They even made policy initiatives at times.<sup>34</sup>

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<sup>32</sup> Deng's Cat Theory says, "Black or white, it is a good cat that catches mice". See Deng Xiaoping, *Deng Xiaoping Wenxuan* (Selected Works of Deng Xiaoping), Vol.1. (Beijing: Renmin Chubanshe, 1990)

<sup>33</sup> See Amei Zhang and Gang Zou, "Foreign Trade Decentralization and Its Impact on Central-Local Relations," Chapter 7, in Hao Jia and Zhimin Lin, eds., *Chang Central-Local Relations in China: Reform and State Capacity* (Boulder: Westview Press, 1994): 153-173.

<sup>34</sup> Zhimin Chen, "Coastal Provinces and China's Foreign Policy Making," Chapter 9, in Yufan Hao and Lin Su, *China's Foreign Policy Making: Societal Force and Chinese American Policy* (Hampshire & Burlington: Ashgate, 2005): 187-208.

With an initial intention to encourage exports so as to increase foreign exchange, the reform of the foreign trade planning system induced the implementation of a regional foreign-trade contract responsibility system. Local governments and enterprises were encouraged to develop their foreign trade actively and entitled to take full responsibility for their own trade behavior, whether it were gains or losses. The central government has actually been loosening the restriction on the types of border-traded goods, the form of border trade and the number of corporations dealing with border trade. Local governments have gained more autonomy in terms of economic policy implementation based on their own specific conditions. For example, in 1991, the border trade policy was further relaxed. Under the new policy made by the MOFTEC, the locations of border trade can be decided by the provincial and local governments. Although the general rules were defined by the MOFTEC at the time, the implementation policies are made by the provincial and local governments themselves.<sup>35</sup>

Benefiting from the economic reform of liberalization and integration, local governments argue strongly for the expansion of border trade, notably by joining the process of economic integration with the outside world. The initiation of the CAFTA, regardless of whether it originated from the central government, has to be warmly welcomed by local governments of Guangxi and Yunnan. Moreover, under the tidal wave of globalization, more contacts with the outside world from

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<sup>35</sup> The official document, “*Guanyu Jiji Fazhan Bianjingmaoyi he Jingjihezuo Cujin Bianjiang Fanrong Wending Yijian de Tongzhi*” (The Notice on developing border trade and economic cooperation actively to facilitate a prosperous and stable border region), The State Council [1991] No. 25; available online at: <http://alpha.hwcc.gov.cn/cgi-bin/tripnet?base=fg1&rid=13409&usname=TRIPNET&passwd=iht6q2i&fmt=6&kw=>. Such policies see also the document made by the State Council, “*Guowuyuan Guanyu Bianjing Maoyi Youguanweni de Tongzhi*” (The Notice of the State Council on the issues related to the border trade); available online at: <http://www.china.org.cn/chinese/zhuanti/xbjmy/656383.htm>; retrieved on Jul y 15, 2006.

all levels have appeared. China has to integrate into the world under the concept of Deng Xiaoping's opening-up policy by turning away from Mao's central planning and autarky policy. China's developmental strategy and foreign economic policy has changed from being one of self-reliance to interdependence.<sup>36</sup> More reliance on the outside world is one of the main explanations given for how China's policy-making has changed from vertical to horizontal authoritarianism.<sup>37</sup>

Characterized by the decentralization of foreign trade rights, the reform has greatly improved China's trading status in the world. In the meantime at the domestic level, the reforms have also increased the autonomy of local governments, improved their bargaining power with the central government and broadened their space for policy implementation. A "bargaining range" in the foreign economic field existed. The role of local governments was transformed from "simply implementing Beijing's policies to pursuing provincial interests ranging from tourism, receiving provincial visitors and improving their image in the international community, largely for economic reasons" with the rapid development in economic capacity.<sup>38</sup> It was perceived at that time that economic reform meant the development of the power of local governments. Thus, with the economy stepping in the right path, the decentralization of central power as a

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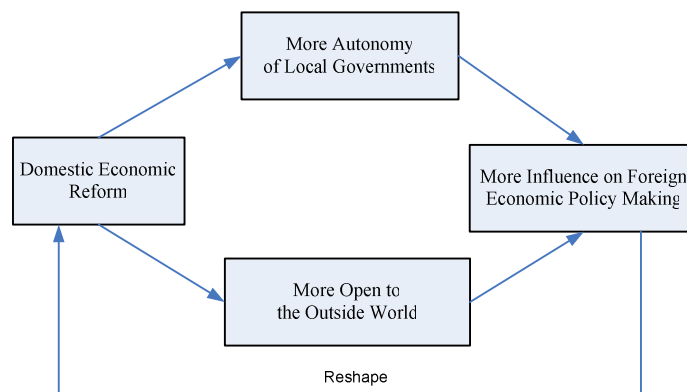
<sup>36</sup> Friedrich W. Y. Wu, "From Self-Reliance to Interdependence: Developmental Strategy and Foreign Economic Policy in Post-Mao China", *Modern China*, Vol.7, No.4 (October, 1981): 445-482.

<sup>37</sup> Quansheng Zhao, "Domestic Factors of Chinese Foreign Policy: From Vertical to Horizontal Authoritarianism," *The Annals of the American Academy of Political and Social Science*, Vol.519 (January, 1992): 158-175. Zhao's view is introduced in the study. However, I would like to suggest that the process of policy formulation and policy implementation be differentiated when describing the changes in Chinese foreign policy. It seems to the author that the policy-making process is still more vertical although there are increasing inputs, while the policy implementation process tends to be more appropriately described as from vertical to horizontal.

<sup>38</sup> Stuart Harris, "Globalization and China's Diplomacy: Structure and Process", *Working Paper*, the Department of International Relations, Australian National University (September, 2002): 13.

result of the state economic reform policy also led to significant structural changes in the state's power structure and the decision-making process.<sup>39</sup>

From the analysis above, as illustrated by the following figure (See Figure 3-3), we can observe that the Chinese domestic economic reform granted more autonomy to local governments and made it more open to the outside world at the same time. More autonomy of local governments increased its bargaining power in Chinese foreign economic policymaking. For example, local governments have been granted such rights as the approval of investment projects and the delineation of border trade areas. With China opening up to the outside world, the increased interdependency at different levels of government provides more input opportunities for local governments to push for their own interests in foreign economic policy making.



**Figure 3-3: The Interaction between Domestic Economic Reform and Foreign Economic Policy Making**

Nevertheless, after the decentralization process had been enforced for several years, the central government found their authority challenged. For example, it became harder for the center to collect fiscal revenue from local governments after reforms in the taxation system. With rapid economic growth, those coastal

<sup>39</sup> Jae Ho Chung, "Studies of Central-Provincial Relations in the People's Republic of China: A Mid-Term Appraisal", *China Quarterly*, No.142 (1992): 487-508.

provinces became wealthier than most other provinces. Because they contributed a lot to the central government coffers, sometimes they even challenged the central authority to show their displeasure of paying more taxes or contributing more to the state's fiscal revenue. Alongside the increasing volume of border trade, the border provinces tend to consider their own interests more than national interests. The border region is still regarded as a sensitive area by the central government, which may pose potential threats to the security of the country if it became unstable. The common concern that economic decentralization could endanger the smooth functioning of the nation state became more popular in China in the 1990s. There was fear that if the central government ran out of measures to cope with the negative consequences of decentralization, this would cause national instability and chaos on a large scale. To maintain stability and order, the central government had no choice but to implement systematic adjustments to consolidate its power. Consequently, the central government began to make every possible effort to reshape the central and local relations. The recentralization on the political front reinforced the leading role of the central over the local. To some extent, the traditional relationship between central and local governments was restored. The central government "continues to be the ultimate decision-maker while provincial and local governments are merely secondary players that function within an established framework laid down by the central government."<sup>40</sup> Since the PRC was founded in 1949, the process of

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<sup>40</sup> Kuah Khun Eng, "Negotiating Central, Provincial, and Country Policies: Border Trading in South China", in Grant Evans, Christopher Hutton, and Kuah Khun Eng, eds., *Where China Meets Southeast Asia: Social & Cultural Change in the Border Regions* (New York & Singapore: St. Martin's Press, 2000): 72-97.



“centralization-decentralization-recentralization” keeps recycling.<sup>41</sup> Nevertheless, the fact is that once power is devolved, it is hard to regain it completely. For example, when the central government tried to recentralize the investment and financial powers, the governor of Guangdong refused to do so and he was followed by some other governors, which can be considered as one validation of the increase of the power of local governments.<sup>42</sup>

### ***The Motivations of Bargaining***

Since the policy implementation process is long, even after the policy has been made, it can still be modified according to the interests of those who implemented it. Due to the essential nature of the Leninist political system, a certain amount of give-and-take to the ready-made policies is inevitable. First, the central government has to be responsible for all kinds of policy making, which reduce its relative veracity and practicability. China’s political system is overloaded, according to David Lampton.<sup>43</sup> Second, as a fragmented country, each province has its particularity. It is hard to formulate a policy that applies to all, especially in the case of those policies related closely to the economic interests of individual provinces. Third, it is a natural practice that the central government usually takes more roles in making general guidelines for the country. Due to technical problems or unexpected situations, it is not unusual that complex implementation processes lead to a result that is hard to anticipate. Last but not least, although there is a trend of pluralization in the policy formulation process, sometimes the

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<sup>41</sup> Details on the Chinese history of centralization, decentralization and recentralization see Harry Harding, *Organizing China: The Problem of Bureaucracy 1949-1976* (Stanford, California: Stanford University Press, 1981).

<sup>42</sup> For details, see Gabriella Montinola, Yingyi Qian, and Barry R. Weingast, “Federalism, Chinese Style: The Political Basis for Economic Success”, *World Politics*, No.48, Vol.1 (October, 1995): 50-81.

<sup>43</sup> David M. Lampton, “Water: Challenge to a Fragmented Political System,” Chapter 6, in David M. Lampton, ed., *Policy Implementation in Post-Mao China* (Berkeley: University of California Press, 1987): 187.

opinions of local governments are not fully absorbed. Thus, local governments need to maximize their benefits during the policy implementation process. This case study found that it is out of the question that such an agreement be signed within one year if consultation with local governments had been well conducted during the negotiation process with the ASEAN states.

Moreover, potential conflicts of interests between the central and local governments make local governments more likely to exert their efforts in foreign economic policy making so as to protect their own interests. As pointed out by Peter Cheung and James Tang, economic fields such as foreign trade “enables the provinces to play to their comparative advantages, loosening central government restrictions and developing greater access to overseas markets” and “expanding foreign economic relations has become the most important theme of provincial external affairs.”<sup>44</sup> Fundamentally, bargaining is under the concept of “local interests first instead of national interests.” The ultimate goal of this concept is to gain the legitimacy of local governments.

According to Max Weber, legitimacy of system domination contributes to the system stability and authority. He has classified three pure types of legitimate rule, i.e, legal domination based on a system of rules applied administratively and judicially to all members of the group; traditional domination based on inheritance from the system; charismatic domination based on the charisma of the leader.<sup>45</sup> Obviously, based on his standard, the legitimacy of Chinese leadership has transformed from the latter two to the first one which emphasizes more on the economic performance as the *raison d'etre* of the ruling status. We may recall the

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<sup>44</sup> Peter T. Y. Cheung and James T. H. Tang, “The External Relations of China’s Provinces”, Chapter 4, in David M. Lampton, ed., *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000* (Stanford: Stanford University Press, 2001): 112.

<sup>45</sup> Max Weber, “The Three Pure Types of Legitimate Rule,” Chapter 7, in Sam Whimster, *The Essential Weber: A Reader* (London & New York: Routledge, 2004): 133-145.

conclusion drawn by Lucian Pye that an authority crisis arose under the process of modernization.<sup>46</sup> Although still an authoritarian state, both the central and local government officials have realized quite clearly that the development of the economy and the continuous improvement in the people's living standards are the ultimate guarantees for the legitimacy of their ruling status. As observed by Samuel Kim when analyzing Chinese foreign policy changes under the challenges of globalization, to some extent China has "shifted from ideological or nationalistic legitimation to performance-based legitimation."<sup>47</sup> Such transformation in the standard of legitimacy can also be helpful in explaining why local governments sometimes do not quite follow orders from the central government since there are delicate differences in terms of the standard of legitimacy between the local and central governments. The central government has to keep in mind the interests of the country as a whole while local governments have to should strive to meet the demands of the local people, which sometimes deviate from the state's track (See Figure 3-3 for elaboration.). This can also explain why local governments have to bargain with the central government and even act seemingly indifferent to the demands of the central government while the central government has to think of every means possible to keep a balance of interests between provinces to avoid internal discord.

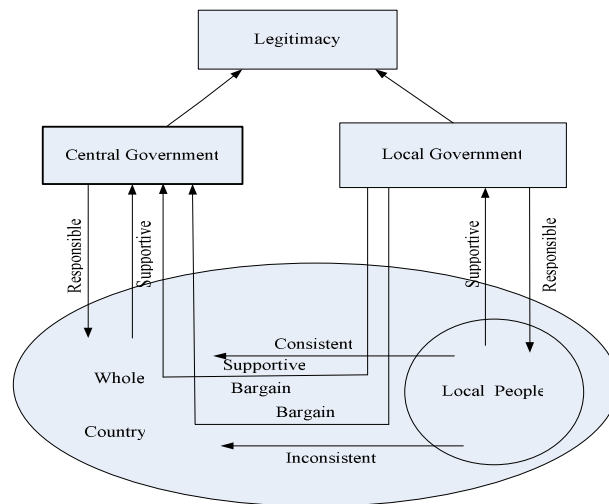
In a word, the fundamental consideration of local governments in their bargaining activities with the central government is to gain their own legitimacy. Bargaining may happen under the two circumstances as shown in Figure 3-4. The first situation is when the interests are inconsistent with the interests of the whole

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<sup>46</sup> Lucian W. Pye, "The Authority Crisis in Modernization," Chapter 1, in his new edition work, *The Spirit of Chinese Politics* (Cambridge: Harvard University Press, 1992): 1-11.

<sup>47</sup> Samuel S. Kim, "Chinese Foreign Policy Faces Globalization Challenges," Chapter 10, in Alastair Iain Johnston and Robert S. Ross, eds. *New Directions in the Study of China's Foreign Policy* (Stanford: Stanford University Press, 2006): 288.

country. Local governments are sure to bargain with the central government for policy modification or changes so as to lose less. Secondly, even when the two-level of interests are consistent, bargaining still may happen. Under such circumstances, some local governments are trying to gain more compared with other local governments guided by the general policies of the central government.



**Figure 3-4: Two-Level Legitimacy and the Central-Local Interaction**

Local governments have become more experienced at making flexible interpretations of the central government’s policies. To be more specific, when discussing the distribution of the existing resources and interests, local governments are actually bargaining for either material resources or policy priorities.

*Bargaining for More Material Resources*

Material resources include two types: financial resources, such as funds and subsidies, and such resource as raw materials and industrial products or quotas on specific products.

Even under the assumption that local governments enjoy more autonomy during the policy implementation process compared to the policy formulation

process, local governments still depend more on the central government than vice versa. Financial support is still needed by local governments for the increase of the scale of investment or the development of basic constructions of infrastructures, such as the construction of local transportation. Under the present macro-regulation and financial system, bargaining for more direct investment on certain basic and important projects such as environmental protection and social welfare is necessary, especially for relatively backward provinces. For example, during the period of the 10<sup>th</sup> Five-Year plan, the central government granted Guangxi Zhuang Autonomous Region RMB 39.156 billion for investment in transportation, energy and social welfare.<sup>48</sup> According to officials in Guangxi, “Guangxi is able to complete the tasks that it has desired for years by utilizing such capital issued by the state.”<sup>49</sup> Nevertheless, since the reform and opening up, as China’s economy is changing from a completely central-planned economy towards a more market-oriented one, the monopolistic power of the central government in using such resources has declined. Therefore, the bargaining for the second type of resources is more common nowadays.

#### *Bargaining for More Policy Priorities*

Since the reform and opening-up, China’s preferential policies have experienced a process of reorientation from South to North, from the eastern coastal region to the western and central regions. Under Deng Xiaoping’s “letting some people get rich first” plan, special treatment was first granted to the Pearl River Delta economic region and coastal areas in the 1980s. It was followed by the Yangtze River Delta economic region with a focus on the Shanghai Pudong

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<sup>48</sup> Development Research Center, Guangxi Zhuang Autonomous Region, ed., *Guangxi Development Report* (Nanning: Guangxi Kexue Jishu Chubanshe, 2006): 191.

<sup>49</sup> Author’s interviews with Guangxi government officials in Guangxi, October 2006.

area in 1990, and the West Development Strategy began in 2000. The guideline of the 11<sup>th</sup> Five-Year plan prioritized the Yangtze River Delta, Beijing-Tianjin-Hebei, Chengdu-Chongqing and the old industrial base in Northeast China.

Moreover, the central government keeps its monopoly in the finance, securities and telecommunications. Local governments often demand further delegation of such rights so as to deepen the liberalization in trade in services. In many cases, local governments bargain with the central government to put local projects into the overall arrangements of state development. In this way, both national policies and financial support will lean towards certain provinces.

Besides the strategic development strategy of the state, each province has its own special situations to face with and tasks to fulfill. Competition exists among the provinces in the same region. As will be discussed in detail in the case studies in the following chapters, to compete for a better position in boosting local economic development and increasing border trade with the Southeast Asian countries, bordering provinces such as Guangxi and Yunnan both take an enthusiastic attitude towards regional economic cooperation. The top officials of these provinces are actually competing to bargain for more policy priorities, such as in the case of winning over the hosting rights of the China-ASEAN Expo.<sup>50</sup>

### ***The Avenues of Bargaining***

Generally speaking, two avenues are available for local governments to adopt when bargaining with the central governments: formal means and informal means.

The study of informal politics has become a hot topic ever since the 1970s when Andrew Nathan's pioneering article on advocating a factionalism model for

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<sup>50</sup> The bargaining of the hosting rights of the China-ASEAN Expo of Nanning City will be discussed in Chapter 6.

Chinese politics was first published.<sup>51</sup> The disputes on the topic have become heated since Tang Tsou's rebuttal article shot off shortly afterwards by substituting the term "informal group" for Nathan's concept of "faction."<sup>52</sup> One contradictory opinion of them was on Nathan's argument that "the hierarchy and established communications and authority flow of the existing organization provides a kind of trellis upon which the complex faction is able to extend its own informal, personal loyalties and relations."<sup>53</sup> Tsou argued that it was inappropriate to make the existing organization the pre-condition rather than the product of the development of informal groups, since by doing so "one already makes certain important assumptions about the nature of these groups."<sup>54</sup> It is really hard to clarify which one is the pre-condition or result since the relationship between formal structure and informal groups are far from simple. Although there are many disagreements among scholars including Nathan and Tsou, the fundamental elements of their arguments are similar. They both emphasize the relative importance of informal politics under the Chinese political structure. The formal bureaucratic structure is what the Chinese government has emphasized more these days, but informal politics still plays a vital part.

### *Formal Avenues of Bargaining*

#### (1) Via the form of submitted reports

One routine way to bargain with the central government is through the formal bureaucratic system. After the formal application report is completed, it is

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<sup>51</sup> Andrew J. Nathan, "A Factionalism Model for CCP Politics", *The China Quarterly*, No.53 (January-March, 1973): 33-66.

<sup>52</sup> Tang Tsou and Andrew J. Nathan, "Prolegomenon to the Study of Informal Groups in CCP Politics", *The China Quarterly*, No.65 (March, 1976): 98-117.

<sup>53</sup> Andrew J. Nathan, "A Factionalism Model for CCP Politics", *The China Quarterly*, No.53 (January-March, 1973): 44.

<sup>54</sup> Tang Tsou and Andrew J. Nathan, "Prolegomenon to the Study of Informal Groups in CCP Politics", *The China Quarterly*, No.65 (March, 1976): 100.

submitted to different levels of related bureaucracies respectively. From using this method, the application shall follow a long red-tape process and report from one level up to other levels (*zhuji shangbao*). This is the most common way to bargain with the central government especially under the condition that provinces do not have much informal means to resort to.

(2) Via provincial leaders who are members of the CCP CC or members of its Political Bureau

Almost all provincial top leaders are members of the CCP CC, either as full or alternative members. In the plenary sessions of the CC, they are able to access with ease to the top officials at the central level. Even if not being a member of the CC but being deputies to the NPC, some provincial leaders also need to attend the meetings of the NPC. Provincial party secretaries and governors usually take such occasions to impress the central leaders.

(3) When provincial leaders go to Beijing to negotiate directly with the related top officials at the central level on related issues or when central officials go to provinces for inspection

Since the reform and opening-up, provincial leaders have been traveling to Beijing more frequently. They may take the opportunity when reporting their work to discuss specific issues of most concern to them with central government officials. Sometimes, provincial leaders take the opportunity to influence central government officials when they go to the provinces for inspection.

(4) Via the coordination of local provinces

Those provinces that contribute more to the growth of the national economy enjoy more bargaining power. For those provinces contributing less to the national economy, their bargaining power is relatively weak. The coordination among such



provinces increases their bargaining power with the central government. For example, set up in 1984, the Regional Economic Coordination Association of Southwest China (RECASC) (*Xinan Liushengqushi Jingji Xietiaohui*) was considered as the first regional economic cooperation organization set up in China after the reform and opening-up in 1978. The Association covers six Southwest provinces and cities such as Yunnan, Guizhou provinces, Tibet Autonomous Region, Guangxi Autonomous Region, the capital city of Sichuan province Chengdu, and Chongqing Municipality. According to the analysis of Yongnian Zheng, it has been formed mainly because those provinces are weak in bargaining power. To form a coalition among them is a way to increase their collective bargaining power. Zheng argues that joint action has been very effective in getting financial support and preferential policies from the central government.<sup>55</sup>

#### (5) Via Liaison Offices in Beijing

The Liaison Office was first set up as a standing body in Beijing for local governments to contact directly with central government ministries. Its existence has greatly improved the working efficiency of administrations. The first local government office in Beijing was set up by the Inner Mongolia Autonomous Region in 1949. There are now around 50 offices set up in Beijing representing the provinces, major cities and top state-owned enterprises, together with around 520 for cities and 5,000 for counties. Although originally designed as a formal agency to improve government working efficiency and contact more conveniently with the central government, it has become an avenue of informal politics as time goes by. “Some of the agencies are entrusted by local governments to cozy up to

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<sup>55</sup> Yongnian Zheng, “Local Developmentalism and the Formation of an Inter-Provincial Coalition: The RECASC Case,” Chapter 6, in Yongnian Zheng, *Institutional Change, Local Developmentalism, and Economic Growth: The Making of Semi-Federalism in Reform China* (Ann Arbor, Michigan: UMI, 1995): 214-272.

senior officials in central government ministries for financial benefits.”<sup>56</sup> Because of good relations with central government ministries, Liaison Offices play a very important role in bargaining with the central government for more preferable policies. However, corruption is a serious problem in the Liaison Offices. According to a Xinhua report, local government offices spend more than US\$ 2.5 billion annually to build and nurture connections with central government departments.<sup>57</sup> The Ministry of Supervision and the Central Commission for Discipline Inspection of the CC, Communist Party of China has started to take measures to regulate those offices recently. Nevertheless, Liaison Offices will still play a part in bargaining with the central government via informal means unless they are eliminated thoroughly.

#### *Informal Avenues of Bargaining*

The main avenue of informal bargaining is via personal relations with the top leaders. Any close personal relations of provincial officials with central government officials may provide good opportunities for local governments to bargain with the central government. Close relationships between officials at the local and central government levels often come about from their old friendships, such as between former classmates and colleagues. Besides this, with the maturing of the Chinese cadre training system and practice, more top officials at the central government level are assigned to take principal posts at local provinces as a preparation for further promotion. Provincial leadership is considered as “the most

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<sup>56</sup> “Liaison Offices in Beijing Face Overhaul”, September 5, 2006, available online at [http://www.chinadaily.com.cn/china/2006-09/05/content\\_681319.htm](http://www.chinadaily.com.cn/china/2006-09/05/content_681319.htm); retrieved on September 5, 2006.

<sup>57</sup> Ibid.

important stepping-stone to higher national posts.”<sup>58</sup> As early as in 1962 when Hu Yaobang was sent back to Hunan as Party Secretary, the Chinese government began to take local provinces as the training ground for national leaders.<sup>59</sup> Nevertheless, it is not until the 1980s that such a practice became more systematic and widespread.<sup>60</sup> Even the highest officials had such experiences acting as local provincial officials. For example, before becoming a member of the Secretariat of the CCP CC and the Standing Committee of the Political Bureau of the CCP CC, Secretary General Hu Jintao used to be the Secretary of the Guizhou Provincial Party Committee from 1985 to 1988, and Secretary of the Party Committee of Tibet Autonomous Region from 1988 to 1992. Started on a large scale in early 1990s, many top officials at the central level are assigned to act as either Secretary or Governor at the provincial level and need to work there for a number of years before returning and getting promoted. A large proportion of top leaders in the central government have various experiences as top provincial leaders and their proportion in the Political Bureau has increased from 55 percent during the 14<sup>th</sup> CC to 83.3 percent during the 16<sup>th</sup> CC (see Table 3-1 below). During their stints in the provinces, it is common for them to build special relationships or develop a special affinity for the provinces they are posted to. After the attachments are completed, those officials will hold even more important posts at the central government level, which provides more convenient avenues for the local governments to utilize later.

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<sup>58</sup> Cheng Li and Lynn White, “The Sixteenth Central Committee of the Chinese Communist Party: Emerging Patterns of Power Sharing,” Chapter 3, in Lowell Dittmer and Guoli Liu, *China’s Deep Reform: Domestic Politics in Transition* (Lanham: Rowman & Littlefield Publishers, 2006): 92.

<sup>59</sup> Zhiyue Bo, “The Provinces: Training Ground for National Leaders or a Power in Their Own Right,” Chapter 4, in David M. Finkelstein, and Maryanne Kivlehan, eds. *China’s Leadership in the 21<sup>st</sup> Century: The Rise of the Fourth Generation* (Armonk & London: M. E. Sharpe, 2003): 66, 109.

<sup>60</sup> Zhiyue Bo, “The Provinces: Training Ground for National Leaders or a Power in Their Own Right?” in David M. Finkelstein and Maryanne Kivlehan, eds., *China’s Leadership in the 21<sup>st</sup> Century* (New York & London: M. E. Sharpe, 2003): 66-117.

**Table 3-1: Provincial Experience of the Full Members of the Political Bureau (14th-16th Central Committee, CCP)**

<b>No. of Members in the Political Bureau</b>	<b>No. with Provincial Experience</b>	<b>The Proportion (percent)</b>
20 (14th)	11	55
22 (15th)	15	68.2
24 (16th)	20	83.3

*Notes: Provincial experience refers to full members of the Political Bureau who have experience as senior provincial leaders, which include deputy party secretaries, vice governors, and other higher positions.*

Moreover, provincial leaders need to go to the Central Party School to take the training courses in party theories, such as Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping’s Theory of Socialism with Chinese Characteristics and Jiang Zemin’s theory of “Three Represents.”<sup>61</sup> They may also build contacts with central leaders when they take inspection tours of the provinces.<sup>62</sup> China is increasingly recruiting prominent provincial leaders in large numbers to the central government for higher posts in recent years. Personal exchanges of high-ranking officials between the central and provincial levels are very common now. This provides more opportunities to be acquainted with one another.

All together, through various means, the personal relations between central and local leaders have been established. When bargaining for the economic interests of the local level, these relations are utilized by provincial leaders through contacting directly to those whom they are familiar with for support.

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<sup>61</sup> The idea of the “Three Represents” was first proposed by Jiang Zemin in his inspection tour of Guangdong Province in 2000. It was included in the Party Constitution in the 16<sup>th</sup> Party Congress. The idea refers to “the Party must always represent the requirements of the development of China’s advanced productive forces, the orientation of the development of China’s advanced culture, and the fundamental interests of the overwhelming majority of the people in China”.

<sup>62</sup> The above idea was enlightened by the work of Zhiyue Bo, “The Provinces: Training Ground for National Leaders or a Power in Their Own Right,” Chapter 4, in David M. Finkelstein, and Maryanne Kivlehan, eds. *China’s Leadership in the Twenty-first Century: The Rise of the Fourth Generation* (Armonk & London: M. E. Sharpe, 2003): 66-117.

### ***Factors That Affect Policy Implementation***

There is no pure black-and-white dividing line to differentiate between whether local governments are adopting or distorting central policies. As pointed out by David Lampton, a universal standard to check whether policy implementation is successful or not is dubious.<sup>63</sup> Nevertheless, we have to take into consideration the tractability of the policy, and try to figure out under what circumstances will one policy be changed in the policy implementation process. What counts more than merely discussing whether a policy has been effectively implemented or not is the efforts to explain in depth the following puzzles. For example, what are the specific conditions of the implementers? How did they improve their bargaining power and bargain with the policy makers? In what aspects has one policy been modified and what are the underlying reasons accounting for it? Generally speaking, the following factors explain these modifications to the original policies. The first five factors are more objective compared to the last two, as the last two factors are based more on the characters of the performing entities.

(1) The clarity and complexity of the policy

One basic question the policy formulators often ask themselves regards why a policy needs to be changed during the implementation process. The obvious reason is that the policy is too general or ambiguous. Since it is not concrete enough, policy implementers will just consider it as a general guideline and act according to their own understanding of the policies. Besides this, sometimes the policy is too complicated for the implementers to grasp the tenet correctly, which will result in a compromising implementation.

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<sup>63</sup> David M. Lampton, "The Implementation Problem in Post-Mao China," Chapter 1, in David M. Lampton, ed., *Policy Implementation in Post-Mao China* (Berkeley: University of California Press, 1987): 5-7.

(2) The time span over which the policy must be implemented

Some of the government policies need to be implemented right after they are made, while some policies have more flexible deadlines. The modification of policies is frequent during long periods of implementation. The longer the time span of the policy implementation process, the more likely the policy will be modified. One appropriate reason is that the longer it takes before a policy is implemented, the more freedom policy implementers have to bargain with the policy formulators, or the more time for the implementers to think over various strategies to cope with the newly-made policies.

(3) Resources of implementers

The resources of implementers are the decisive factor of whether a policy can be strictly implemented. Resource availability is a fundamental condition for the policy implementation. Without available resources, no policy is possible. Because of this, it is vital for the policy formulators to conduct a comprehensive survey on the possibility of the implementation of each policy. If policy enforcement without such investigation happens frequently, the reliability or the sustainability of the policy formulators will be placed in doubt.

(4) Technical difficulties

This factor is similar to the lack of resources. The willingness to comply with orders is not enough for the enforcement of a policy. If there is a lack of knowledge or skills to enforce a policy, the policy will never be implemented. Technical difficulties include the technologies of implementers and their capability to fully understand the intention of the policy formulators.

(5) Support from the state

Asking for support from the state is one reason why policy implementers need to bargain with the policy formulators. In most cases, the central government of the state is the policy formulator. The state controls a large amount of the country's scarce resources. In order to compete with other policy implementers and to get a better competing position, policy implementers often have to exert their efforts for more preferable policies and more financial support. Those who get the support from the state are more likely to perform well and act more consistently with the original policies made by the state.

(6) Attitudes, commitment and incentives for compliance of the implementers

Mentioned above, there are also two more subjective factors that have influences on the policy implementation process. These two factors depend decisively on the character of the implementers. If the implementers identify with the policy formulators, they are more likely to be committed to the policy, which makes much difference in whether the policy will be implemented. A more compliant attitude towards the policy formulators will result in a more strictly implemented policy.

(7) Leadership skills of implementing officials

The leadership skills of implementing officials also count. Considered as "Street-level bureaucrats"<sup>64</sup> by Michael Lipsky, bureaucratic officials act as the middleman between the state and the target groups, such as enterprises. A skillful middleman who stations between the state and private sectors can contribute significantly to an implementation. As an adjustor, the middleman shall have both the ability to bargain with the policy formulator and the ultimate policy

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<sup>64</sup> The idea is from Michael Lipsky, "Street Level Bureaucracy and the Analysis of Urban Reform", *Urban Affairs Quarterly*, No. 6 (June, 1971): 391-409.

implementers. How to gain the support and reliability from both ends is their challenge.

#### **IV. Conclusion**

The dynamic nature of China's foreign economic policymaking process can be observed in its new changes, both qualitatively and quantitatively. Policy formulation, justification and reformulation are widely discussed by scholars of this field.<sup>65</sup> In fact, all the above-mentioned factors that affect the policy implementation process can result in a policy reformulation process. It is also in this sense that the dynamic nature of the policymaking process is further embodied. I echo the arguments on the decentralization and pluralization of China's decision-making. However, it shall be noted that such a tendency refers to the increasing importance of local governments and other social actors in the processes of policy implementation and justification rather than the conventional decision-making process. Notwithstanding the new changes that have taken place in China's foreign economic policymaking process, the top leaders remain the key actors in the decision-making process, which is a major embodiment of the authoritarian nature of China.

Thus far, the general discussion on China's economic policy formulation and implementation has been completed. The following chapters will examine China's economic policy-making towards ASEAN by taking the CAFTA as a case study.

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<sup>65</sup> Daniel A. Mazmanian and Paul A. Sabatier, "An Introduction to Policy Implementation", and "A Framework for Implementation Analysis," Chapter 1 and Chapter 2, in Daniel A. Mazmanian and Paul A. Sabatier, *Implementation and Public Policy* (Glenview, Illinois: Scott, Foresman and Company, 1983): 1-48.



## CHAPTER FOUR

### CHINA'S ASEAN POLICY: FROM BILATERALISM TO PRO-ACTIVE MULTILATERALISM

After the end of the Cold War, the international environment came under many fundamental changes. Almost every country had to evaluate the ongoing as well as the forthcoming new phenomena and adapt itself to it. China was no exception. China's foreign policy makers had to take a positive attitude towards joining multilateral organizations and had to adopt a multilateral approach in managing her international relations under the pressure of globalization. One of the most obvious changes in China's policy towards ASEAN was the adoption of the process of bilateralism to multilateralism. This chapter aims to draw a general picture of the transformation of China towards ASEAN from the early 1980s up until the present, so as to provide the policy background for the case study of the CAFTA. The underlying rationale behind such policy changes by the Chinese policy-makers will also be explained.

Multilateralism is becoming a central concept in the case of China's ASEAN economic diplomacy, especially after China proposed the concept of the CAFTA years ago. Multilateralism is a strategy deliberately chosen by the Chinese government. While China accepts the constraints embedded in multilateralism, she also aims to introduce gradual changes to the existing multilateral organizations by joining them. By doing so, China expects to have a favorable external environment for its continuous domestic development, while rising peacefully. The definition of multilateralism in this study refers to the use of multilateral international

organizations or agreements to deal with international problems to achieve regional or global stability and the development of the country.<sup>1</sup>

Since the late 1970s, the process of Chinese policy towards the Southeast Asian states can be divided into three stages. The first stage is from the early 1980s to the late 1980s during which China's top priority was the development of bilateral economic relations with the Southeast Asian states. During the second period from the early 1990s to the end of the 1990s, China changed from bilateralism to reactive or reluctant multilateralism. In the third stage (from the end of the 1990s till now), China's ASEAN policy has been characterized by pro-active multilateralism. Since then, China has been showing increasingly greater willingness to engage in ASEAN's multilateral processes and institutions. More importantly, China has begun to take initiatives in building China-ASEAN multilateral economic institutions.

### **I. The First Period: Bilateralism: From the Early 1980s to the Late 1980s**

Benefiting from geographical adjacency, China's early contact with Southeast Asian countries can be traced back to ancient times. Trade between the two sides during that time mainly took the form of border trade and maritime trade. Even border trade and maritime trade were carried out only sporadically. After the founding of the PRC, the

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<sup>1</sup> For works on multilateralism see Lisa L. Martin, "Interests, power, and multilateralism", *International Organization*, Vol.46, No.4 (Autumn, 1992): 765-792; John Gerard Ruggie, "Multilateralism: The Anatomy of an Institution", *International Organization*, Vol.46, No.3 (Summer, 1992): 561-598; James A. Caporaso, "International Relations Theory and Multilateralism: The Search for Foundations", *International Organization*, Vol.46, No.3 (Summer, 1992): 599-632; Miles Kahler, "Multilateralism with Small and Large Numbers", *International Organization*, Vol.46, No.3 (Summer, 1992): 681-708; See also *International Journal*, No.45 (Autumn, 1990), a special issue on multilateralism; John Gerard Ruggie, ed., *Multilateralism Matters: The Theory and Praxis of an Institutional Form* (New York: Columbia University Press, c1993).

trade relations with some Southeast Asian countries worsened due to ideological differences. In the 1950s and 1960s, direct trade between China and Southeast Asia was very limited, and bilateral trade depended heavily on indirect trade via the entrepôts of Hong Kong and Singapore. In the 1970s, the momentum picked up, and economic as well as political relations between China and the Southeast Asian states improved significantly as Malaysia, the Philippines, and Thailand established diplomatic relations with China. It was during this period that, China officially recognized ASEAN in 1975. In the 1980s, China's economic relations with most ASEAN states entered a new phase as China embarked on its four-modernization program, established an open-door policy, and began actively seeking foreign capital investment including investment from the Southeast Asian states.

During the 1980s, China took the development of bilateral economic relations rather than multilateral relations with the ASEAN states as its top priority. Two factors affected its policy-making. First, during the 1980s when the reform and open-door policy just began, China's economic capacity was rather weak. The country was not ready for radical trade and investment liberalization and had not much economic power to influence the outside world. Despite the leadership's strategy to join the world system, China's main goal was to attract foreign investment and promote domestic economic growth. We can draw a safe conclusion that during this time China's ASEAN economic policy was domestically driven. In other words, domestic priority is an independent factor that can explain the policy decision of the Chinese government. The reform and open-door policy demonstrated domestic

priority as China's foreign policy was dominated by domestic issues aiming at creating a secure and cooperative external environment under which economic and social development could proceed smoothly. China was highly skeptical about the value of participating in regional multilateral organizations and preferred to deal with its neighbors on a bilateral basis.

Because of the unwillingness of top Chinese leaders to join multinational organizations combined with low comparative advantages in both productivity and technology, China remained almost insignificant in world trade during this period. As shown in Table 4-1, in 1985 the total value of China's foreign trade was extremely small compared with other developed countries such as the United States, Japan, and Germany. The total imports and exports of China in 1985 only registered 2.1 percent and 1.4 percent against 18.0 percent and 11.3 percent of the United States in the same year. Taking a comparison between the trade of China and that of the United States in year 2004, we can observe that China's total imports and exports accounted for 5.9 percent and 6.5 percent of the world while the total imports and exports of the United States accounted for 16.1 percent and 9.0 percent. Taking a look at the figures of China's imports and exports in 2004 and 1985 and by comparing it with other countries, we can observe how small China's trade shares in the world.

**Table 4-1: Comparison of World Trade among China and Other Countries in 1985, 1995, and 2004**

(US\$ 100 million)

Country	1985		1995		2004	
	Import	Export	Import	Export	Import	Export
<b>World</b>	20062.3	19305.8	52840	51640	94583	91235
<b>China</b>	422.5 (2.1)	273.5 (1.4)	1320.8 (2.5)	1487.8 (2.9)	5612 (5.9)	5933 (6.5)
<b>United States</b>	3616.3 (18.0)	2188.3 (11.3)	5742.8 (10.9)	4311.5 (8.3)	15264 (16.1)	8190 (9.0)
<b>Japan</b>	1294.8 (6.5)	1756.8 (9.1)	3359.4 (6.4)	4432.9 (8.6)	4545 (4.8)	5655 (6.2)
<b>Germany</b>	1585.5 (7.9)	1840.1 (9.5)	3268.6 (6.2)	3739.6 (7.2)	7175 (7.6)	9148 (10.0)
<b>United Kingdom</b>	1092.7 (5.4)	1099.9 (5.7)	1965.6 (3.7)	1777.6 (3.4)	4620 (4.9)	3456 (3.8)
<b>France</b>	1089.1 (5.4)	976.4 (5.1)	2024.6 (3.8)	2110.7 (4.1)	4641 (4.9)	4510 (4.9)
<b>Italy</b>	909.9 (4.5)	789.6 (4.1)	1012.7 (1.9)	1114.1 (2.2)	3490 (3.7)	3461 (3.8)
<b>Canada</b>	764.1 (3.8)	847.8 (4.4)	1263.3 (2.4)	1418.2 (2.7)	2758 (2.9)	3220 (3.5)

*Note: The percentage in the parenthesis is the trade share of the respective country within the world total volume.*

*Source: United Nations: Monthly Bulletin of Statistics, April 1996; WTO Statistical Database; China Statistical Yearbook 2005.*

Moreover, when the open door policy was first implemented in the 1980s, China had almost no investment overseas. The main focus of the government was to attract foreign investment rather than invest overseas. As seen in Table 4-2, China's export share in the world only accounted for less than 2 percent in the 1980s. We can thus observe that China was still an inward-looking economy at that time. Although the reform and opening-up policy had been implemented, its foreign trade was increasing

year by year; it was still early for the Chinese government to be confident enough to face the outside world and to take more roles in international affairs.

**Table 4-2: China's Export Share and Ranking in the World**  
(US\$ 100 million)

<b>Year</b>	<b>World Exports</b>	<b>China Exports</b>	<b>China's Share (Percentage)</b>	<b>Ranking</b>
1980	19906	181	0.9	26
1981	19724	220	1.1	19
1982	18308	223	1.2	17
1983	18078	222	1.2	17
1984	19019	261	1.4	18
1985	19277	274	1.4	17
1986	21157	309	1.5	16
1987	24969	394	1.6	16
1988	28382	475	1.7	16
1989	30361	525	1.7	14
1990	34700	621	1.8	15
1991	35300	719	2	13
1992	37000	849	2.3	11
1993	36870	917	2.5	11
1994	41683	1210	2.9	11
1995	50200	1488	3	11
1996	52540	1511	2.9	11
1997	55364	1827	3.3	10
1998	53750	1837	3.4	9
1999	53595	1949	3.6	9
2000	62201	2492	4	7
2001	61624	2661	4.3	6
2002	64240	3256	5.1	5
2003	74820	4382	5.9	4
2004	91235	5933	6.5	3

*Source: China External Economic Statistical Yearbook 2005.*

Secondly, in terms of its external environment, during this period the Cold War had not ended yet and some ASEAN states were still hostile to China. This was mainly because China's political image in the region remained tarnished for decades

due to its support for communist insurgencies and ethnic movements in the region. China did not have diplomatic relationships with some of the ASEAN states at that time. It was not until the end of the 1980s and the early 1990s, after Vietnam withdrew from Cambodia, and Indonesia normalized its relations with China, did China begin to build normal diplomatic relations with all ASEAN states. Joint communiqués were signed between China and Indonesia, and China and Vietnam respectively. Indonesia's diplomatic relations with China were particularly important since Indonesia was then the “big brother” among the ASEAN states. Sino-Indonesia relations were suspended in 1967 in the aftermath of the 1965 attempted coup. This persisted until 1990 when their mutual confidence restored that the two countries normalized their ties. China’s normalization of its ties with Indonesia paved the way for Singapore’s decision to have formal relations with China. Singapore established formal diplomatic relations with China in October 1990 followed by Brunei in 1991. Only at this time did China and all ASEAN member states normalized their ties.

Needless to say, it was unlikely for China to develop good bilateral economic relations with the ASEAN states without normal diplomatic relations during the 1980s, let alone foster a multilateral economic relationship with ASEAN. Table 4-3 indicates how relatively insignificant China-ASEAN trade was and how little it changed from 1980 to 1989. China only took up 2.7 percent of ASEAN imports and 1.0 percent of ASEAN exports in 1980, with a small increase to 3.1 percent and 2.3 percent in 1989. In contrast, both the imports and exports percentages of ASEAN trade with the developed countries were all two-digit, such as with the United States, Japan and

countries in the European Union. ASEAN's main trading partners by the end of the 1980s were the industrialized countries.

**Table 4-3: Direction of ASEAN Trade (1975-1989)**  
(Percentage distribution) (\$US million)

Industrial Countries								
Year	Total	Percentage of Total	United States	Japan	Europe	Intra ASEAN	China	All Other Countries
<b>Imports</b>								
1975	23494	56.9	15.4	23.8	17.7	12.7	3.0	27.4
1980	63170	52.0	15.4	21.8	14.8	17.6	2.7	27.7
1985	64153	52.0	15.7	20.7	15.6	19.7	5.1	23.2
1986	62289	54.6	16.1	22.2	16.3	17.5	3.9	24.0
1987	76898	54.6	14.8	22.6	17.2	17.4	3.6	24.4
1988	103923	54.9	15.5	23.0	16.4	17.3	3.4	24.4
1989	126386	54.3	15.5	23.7	16.1	16.3	3.1	25.3
<b>Exports</b>								
1975	20811	61.0	19.8	27.0	14.2	17.3	0.6	21.1
1980	66490	57.6	16.9	26.8	13.9	18.1	1.0	23.3
1985	71505	56.4	19.7	25.4	11.3	19.4	1.3	22.9
1986	66558	52.5	20.0	19.6	12.9	17.7	1.8	28.0
1987	82351	56.3	21.3	20.7	14.3	17.6	2.3	23.8
1988	104592	55.5	20.9	19.2	15.4	18.3	2.5	23.7
1989	121407	55.7	21.3	18.9	15.5	18.7	2.3	23.3

*Source: 1975-1989, International Monetary Fund, Direction of Trade Statistics Yearbook (IMF: Washington, D.C., various issues).*

*Note: The figure of ASEAN includes all the ASEAN members except Brunei. Brunei is included after 1983.*

## **II. The Second Period: From Bilateral to Reactive Multilateralism: From the Early 1990s to the Late 1990s**

The 1990s saw further expansion of economic relations between China and the ASEAN states, as the Southeast Asian countries sought to expand their markets in China to help counteract the debilitating effects of world economic recession. After all the members built formal diplomatic relations with China in the early 1990s, China's



relationship with the ASEAN grouping was initiated in 1991. China became ASEAN's consultative partner in 2003. In July 1996, at the meeting of the 29<sup>th</sup> ASEAN Ministerial Meeting (AMM) in Jakarta, China's status was upgraded from a Consultative Partner to a full Dialogue Partner. In 1997, the first informal China-ASEAN summit was held, thus establishing a new mechanism of consultation that has been regularized and institutionalized ever since. During this process, China established a network of multilayer, multilevel dialogue and consultation with ASEAN. China-ASEAN relations have been gradually moving from "dialogue cooperation" to "institutional cooperation." Five parallel frameworks for dialogue between the two sides have been developed and smoothly carried on: the China-ASEAN Political Consultation at Senior Official Level, China-ASEAN Joint Committee on Economic and Trade Cooperation, China-ASEAN Joint Committee on Scientific and Technological Cooperation, China-ASEAN Joint Committee on Cooperation, and the ASEAN Beijing Committee.

As the international situation changes, China's strategy has to change accordingly. The period from the end of the Cold War to the end of the 1990s was a reform period for China's economic policy towards ASEAN. After Deng Xiaoping's southern tour in 1992, China moved in the direction of greater economic liberalization by formally establishing a market-orientated socialist economic system. Domestic economic liberalization pushed China to join the international system. Economic reforms and liberalizations were among the strongest impetus behind China's Good Neighborliness Policy. The policymakers of China were quite clear that their

neighbors, through closer economic integration and cooperation, could play a crucial role in boosting China's economy and further providing a stable environment for its domestic development. Former Chinese Foreign Minister Qian Qichen attended the 24<sup>th</sup> ASEAN Ministerial Meeting in July 1991 as a guest of Malaysia. It was a historical event that marked the beginning of China's multilateral process towards ASEAN. That was followed by China's presence in the ASEAN Meeting as a consultative partner of ASEAN in 1992. China has joined various cooperative mechanisms with ASEAN, such as ASEAN-China and ASEAN Plus Three Summits. From 1997, the leaders of China and ASEAN held China-ASEAN Summits and ASEAN Plus Three Summits annually.

Nevertheless, Deng also called for a policy of keeping a low profile in China's international affairs, meaning that China's policy tendency was still on promoting domestic economic development by joining the world. In other words, in the early 1990s, China was not very enthusiastic about and remained cautious in taking part in the multilateral system. Two important factors accounted for the reactive attitude of the Chinese policy-makers towards multilateralism.

From the understanding of liberalism theory, it is obvious that one of the most important intentions of China's multilateralism policy towards ASEAN was motivated by its underlying aspiration to shape the "rules of the game." Historically speaking, the most important factor that pushed China's policy-makers to let China join the outside economic world and adopt a more positive attitude towards economic cooperation was the severe economic consequences China had to bear after the

Tiananmen event. After the 1989 Tiananmen event, the West and most countries of the Organization for Economic Cooperation and Development (OECD) led by the United States imposed economic sanctions on China by putting sanctions on the transfer of high technology and government loans. As China was facing severe economic sanctions and with new human rights problems being added as pre-conditions of trade relations, the pace of economic development of China was slowed to a great extent. The Chinese government found that China was still very vulnerable to international criticism and isolation. To counteract the sanction by the West, China turned to its neighboring countries, particularly the ASEAN states which were regarded as China's potential trading partners and political allies. To balance the political development and the ever fast-growing global economy, China had to reconsider its policies, particularly its relations with the neighboring countries.

Another factor actually seems more like a hindrance to China's policy changes towards multilateralism with ASEAN. Rapid economic growth after Deng's south China tour led to increasing concerns of the "China threat theory" both in the West and in some of China's neighboring countries. The "China threat" argument maintains that an increasingly powerful China is likely to destabilize regional security in the near future. Such concerns over China's rise increased as China's economy posted exceptional growth in the early 1990s. As many analysts noted, a developed economy could potentially turn China's huge population from being a weakness into one of its strengths, and give China the basis for a world-class military and technological

capability. In short, it could make China a superpower.<sup>2</sup> To convince its neighbors that China would not become a threat, it was rational for China to play a limited role in regional and world affairs.

Overall during this period, while factors pushing for China's move towards multilateralism were apparent, there were also serious constraints on China's policy orientation. Consequently, China's ASEAN policy was characterized by reactive multilateralism.

### **III. The Third Period: From Reactive Multilateralism to Pro-Active Multilateralism: From the End of the 1990s Until the Present**

According to Susan Shirk, "Over the past decade, China has become a born-again regional multilateralist. It has moved from the sidelines to participate actively in all the various regional multilateral arenas; it has founded new regional organizations on its own; and it has given multilateral cooperation a prominent place in its national security doctrines."<sup>3</sup> After around a decade of hesitation, China now has an affirmative commitment to multilateral cooperation and has begun to take initiatives confidently to strengthen it. Chinese top leaders and specialists in foreign affairs now appear to believe that multilateralism is useful to help China shape its neighborly environment in ways favorable to China's national interests. China has reached a stage of opening up further to international competition and to integrate itself to the

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<sup>2</sup> Denny Roy, "The 'China Threat' Issue", *Asian Survey*, Vol.36, No.8 (August, 1996): 758.

<sup>3</sup> Susan L. Shirk, "China's multilateral Diplomacy in the Asia-Pacific" before the U.S.-China Economic and Security Review Commission, "China as an Emerging Regional and Technology Power: Implications for U.S. Economic and Security Interests" (February 12-13 2004). [http://www.uscc.gov/hearings/2004hearings/written\\_testimonies/04\\_02\\_12wrts/shirk.htm](http://www.uscc.gov/hearings/2004hearings/written_testimonies/04_02_12wrts/shirk.htm); retrieved on November 19, 2006.

regional and global economy. The 16<sup>th</sup> CCP Party Congress hailed the mission to build a “well-off society in an all rounded way” and pushed forward the development of a modern society. This is recognized as defining the core issues of public interest for the first 20 years of the 21<sup>st</sup> century. Diplomacy abroad exists to serve the nation at home. Against this backdrop, the role of China's foreign policy can still be seen as creating a favorable international environment within which these domestic targets can be met.

As an agreement to eliminate trade barriers amongst member countries only, as is well known, FTA has a discriminatory aspect towards non-member countries. Since WTO prohibited discrimination and requires each member country to give non-discriminatory or MFN treatment to other member states, an FTA is considered as a violation of the principles and spirit of the WTO. Nevertheless, FTAs do have some benefits, such as enabling participating countries to implement vigorous structural reforms through implementing firm commitments imposed upon it by the FTA and carrying out trade reforms faster than within the WTO. Thus, to pursue a policy combining the WTO and FTA would be a reasonably better choice. This also became a key concept in the Chinese leaders’ mind in the 1990s.

A big advancement on the part of China was its FTA proposal at the ASEAN plus One Summit in 2002 to build the China-ASEAN Free Trade Area. During the meeting, the then Premier Zhu Rongji proposed: “In the long term, China and the ASEAN

countries can also further explore the establishment of a free trade relationship.”<sup>4</sup> In that year, the two sides signed the “Framework Agreement on Comprehensive Economic Cooperation between China and ASEAN,” which launched the process towards a China-ASEAN Free Trade Area and moved bilateral economic cooperation towards greater scope and depth. The leaders of both China and the ASEAN states agreed unanimously that they would commit to establish a China-ASEAN Free Trade Area within ten years, that is, before year 2010.<sup>5</sup>

The CAFTA is a milestone in China’s policy changes towards multilateralism with ASEAN. Based on the discussion on the economic relations between China and ASEAN, we can observe that a significant change in China’s foreign economic policy towards ASEAN has moved from a bilateral approach to adopting more of a multilateral approach. Several factors were conducive to China’s economic diplomacy changes towards pro-active multilateralism.

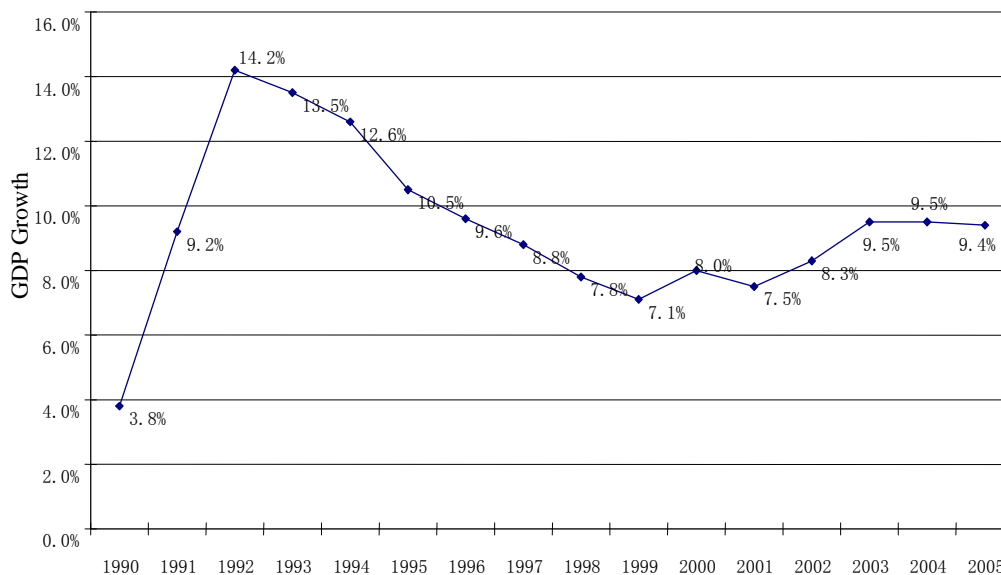
First, a drastic increase in China’s economic power and consequent external economic impacts became salient at the turn of the 21st century. In this period, China’s fast economic development enabled it to open up further to international competition and to integrate itself into the regional and global economy for long-term gains. A more comprehensive proof of the advancement of the Chinese economy is provided by the following economic indicators and figures. First of all, China has

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<sup>4</sup> Carlyle Thayer, “Developing Multilateral Co-operation”, in *Comparative Connections* (Pacific Forum CSIS), available at: [http://www.csis.org/pacfor/cc/0103Qchina\\_asean.html](http://www.csis.org/pacfor/cc/0103Qchina_asean.html); retrieved on November 19, 2006.

<sup>5</sup> See Blas F. Ople’s column Horizons in the Wednesday issue of The Manila Bulletin, November 6, 2002. It is available at: <http://www.dfa.gov.ph/archive/speech/ople/horizon/asean.htm>; retrieved on January 9, 2007.

virtually maintained a double-digit growth rate since the early 1990s of roughly 10 percent per year (See Figure 4-1). Annually, China's GDP increases rapidly (See Figure 4-2), with the total amount of GDP reaching RMB 18,232.1 billion (roughly US\$2,225.7 billion) in 2005. Lin Yifu, a famous Chinese economist, has predicted that China will become the world's largest economy in 2030 by simply keeping an annual growth rate of 5 percent, half of its current growth rate!<sup>6</sup> According to the Inward FDI Performance Index of the United Nations Conference on Trade and Development's (UNCTAD) World Investment Report 2002, China was ranked within the top three of FDI inflows in 2001 and within the top nine of FDI outflows.<sup>7</sup> China is one of the top two recipients of FDI in the world in recent years.



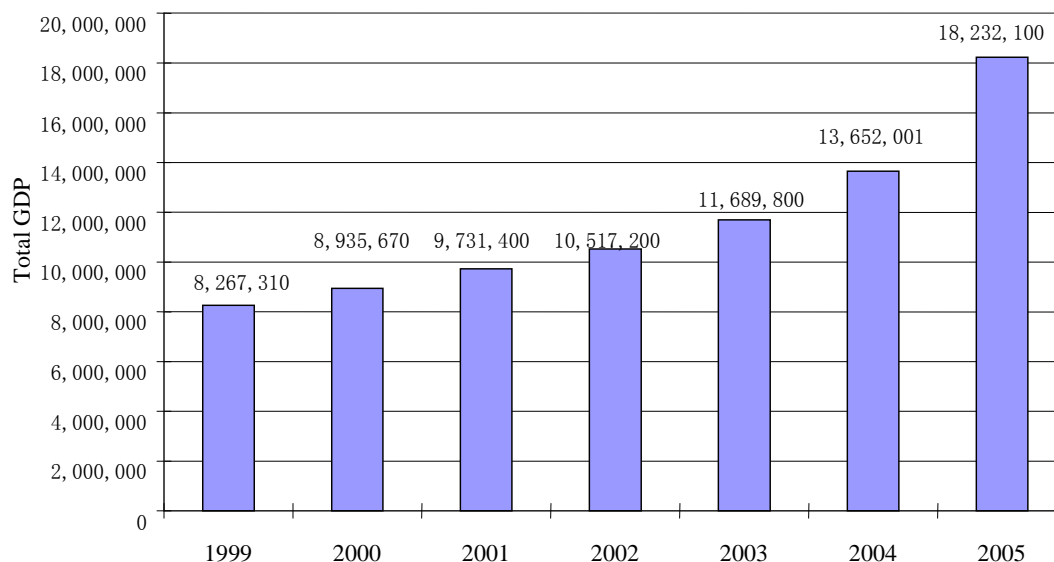
**Figure 4-1: China's Economic Growth (1990-2005)**

*Source: From Statistical Data Books of ADB, Key Indicators 2005: Labor Markets in Asia: Promoting Full, Productive, and Decent Employment; On-line at:*

<sup>6</sup>People's Daily online, "China to Become the World Largest Economic Entity by 2030", January 12, 2005; available at: [http://english.people.com.cn/200501/12/eng20050112\\_170361.html](http://english.people.com.cn/200501/12/eng20050112_170361.html); retrieved on November 23, 2006.

<sup>7</sup> United Nations Conference on Trade and Development, "World Investment Report 2002: Transnational Corporations and Export competitiveness".

[http://www.adb.org/Documents/Books/Key\\_Indicators/2005/pdf/PRC.pdf](http://www.adb.org/Documents/Books/Key_Indicators/2005/pdf/PRC.pdf) in  
[http://www.adb.org/Documents/Books/Key\\_Indicators/2005/default.asp](http://www.adb.org/Documents/Books/Key_Indicators/2005/default.asp).



**Figure 4-2: Total GDP of China (1999-2005) (RMB million)**

*Source: Total GDP: Euro Monitor International from International Monetary Fund (IMF), International Financial Statistics.*

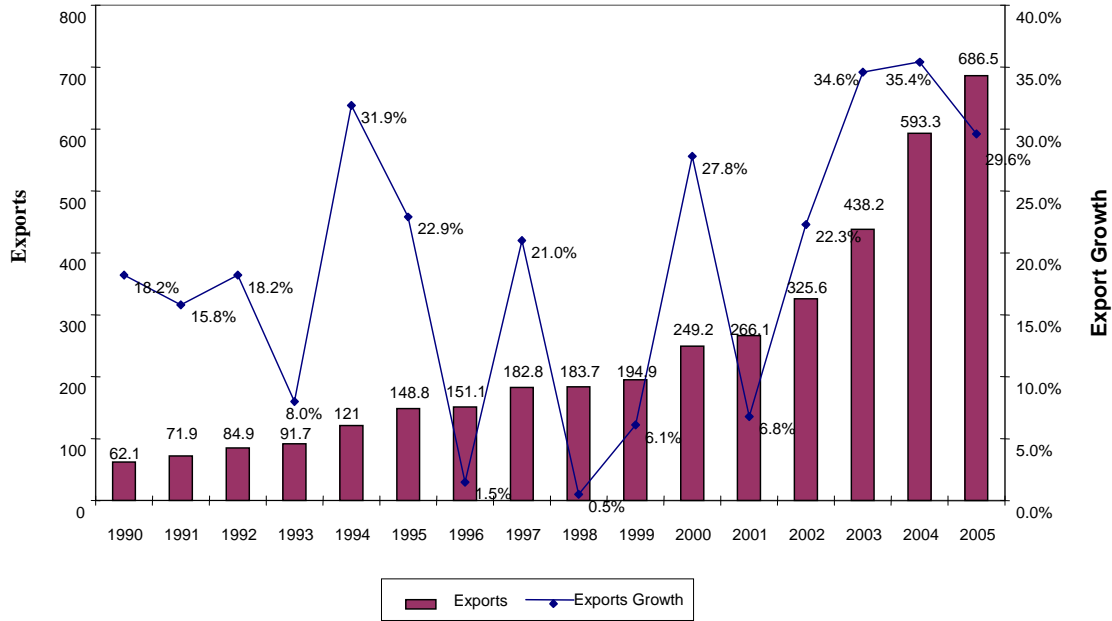
According to the statistics of the MOFCOM, China's total FDI amounted to US\$60.6 billion in 2004. The amount of Outward Direct Investment (ODI) of China was US\$2.9 billion in 2003. The investment to Asian countries counted for more than half of China's ODI, that is, US\$1.5 billion. Until 2003, the total cumulative amount of its ODI was US\$33.4 billion, covering 139 countries all over the world. In 2004, the amount of China's ODI was US\$3.62 billion, with a growth rate of 27 percent compared with that of 2003. The ODI exceeded US\$ 10 billion for the first time in year 2005 by reaching US\$ 12.26 billion, an increase of 123 percent compared to the same period in 2004. The total cumulative amount of China's ODI was almost US\$51.7 billion at the end of 2005.



For the past two decades, Chinese exports (See Figure 4-3) have increased at an annual rate of 15 percent, from US\$13.7 billion in 1979 to US\$325.6 billion in 2002, and further to US\$686.5 billion in 2005, making it the world's fifth largest exporting state.<sup>8</sup> Measured on purchasing power parity (PPP) basis, China in 2003 stood as the second-largest economy in the world after the United States, although in per capita terms the country was still poor. In 2003, China's foreign trade reached US\$851.2 billion, which made China the third largest trade power just behind the United States and Germany. The total amount of China's foreign trade reached US\$1422.12 billion in 2005, which was 78 times that of year 1978 when China first opened up. Meanwhile, China's investment in the ASEAN states is small but increasing. By 2001, China's cumulative investment in the ASEAN states reached US\$1.1 billion accounting for 7.7 percent of China's overseas investment. The amount increased by US\$ 158 million in 2005 with an average annual increase of 60 percent. China is now ASEAN's fourth largest trading partner (after the United States, Japan and the EU) and ASEAN is China's fifth largest trading partner (after the United States, Hong Kong, Japan and the EU).

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<sup>8</sup> See "EIU Economic Forecast, 2003-2004: A High Point," *Business China*, a report by the Economist Intelligence Unit (January 20, 2003).



**Figure 4-3: China Exports (1990-2005) (US\$ billion)**

*Source: China Statistical Yearbook (1990-2005); Euro-monitor International from International Monetary Fund (IMF), International Financial Statistics and World Economic Outlook/UN/national statistics.*

With increasing economic power, China’s role in the world economy and its external impact are also on the rise. Most countries and regions in the world view China as a big market. Apparently, China has reached a stage of economic development that allows it to open its economy to almost all kinds of foreign competition. The Chinese leadership has perceived that joining the global economy would benefit China greatly in the long run. For example, Hu Jintao, then Vice State President, said in 2000, “China hopes to expand multi-level exchanges and cooperation with the ASEAN states in trade, economic, scientific and technological, social and other fields. China and the Southeast Asian states are highly complementary to one another in terms of agriculture, mechanical and electrical equipment manufacturing, medicine, transportation and other fields, where both sides

can have extensive cooperation.”<sup>9</sup> Chinese senior officials’ opinions towards policy change became obvious during this period. As one of the senior officials in the MFA pointed out, “Trade and investment liberalization would be beneficial to establishing and opening up good trade and investment environments. It raises challenges for China, but also provides opportunities for China to deepen and speed up her reforms and opening-up policies and to aid China’s economic construction. It would be beneficial to China’s economy to integrate with the world economy.”<sup>10</sup>

A second factor that has facilitated China’s transition to multilateralism is the 1997 Asian Financial Crisis. That Crisis somehow “forced” China to take a responsible role in maintaining the economic stability of Asia. With China’s economic rise and its responsible behavior in the region, ASEAN states’ perceptions of China changed. The ASEAN states began to believe that trade and investment are by no means a zero-sum game, and both the ASEAN states and China could mutually gain and benefit from multilateral trade institutions.

To a great degree, the Asian Financial Crisis provided China with great opportunities to demonstrate its economic and political value as a partner to the ASEAN states. China took a responsible role during the Crisis and aftermath by resisting devaluing its currency, although doing so would have helped China make economic gains at the expense of ailing Southeast Asian economies. In turn, China’s attitudes and actions were very well received and welcomed by the ASEAN states.

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<sup>9</sup> Hu Jintao, “China’s Policy on Asia”, *People’s Daily*, July 24, 2000; available online at: [http://english.people.com.cn/english/200007/24/eng20000724\\_46308.html](http://english.people.com.cn/english/200007/24/eng20000724_46308.html); retrieved on November 20, 2006.

<sup>10</sup> Yusheng Wang, *Experiencing APEC: A Chinese Senior Official’s Observation* (Beijing, World Affairs Press, 2000): 15.

The changes in the international economic environment pushed the ASEAN states to reconsider its reliance on the US market. Most ASEAN members generally accepted it as a fact that China's policy was to take its own economic development as the country's main concern. What is more, under this top priority of economic development, China would be given a strong incentive to create and maintain a peaceful and stable environment in the region to ensure the free flow of trade and investment. They began to consider China as another engine for Southeast Asian nations' economic growth and treat China as a potential trade ally. They believed that "a rapidly growing China is the engine which powers regional economies and the global economic train."<sup>11</sup> China's demonstrated willingness to accept IMF monitoring of its policies in order to manage regional macro-economic stability marks an important departure from its usual insistence on independence in Chinese foreign policy making.<sup>12</sup> This was also greatly welcomed by the ASEAN states. With China's peaceful rise, what meets the interests of the ASEAN states is not its unilateral but multilateral role in the region and the world. To date, China has kept its pledge not to devalue the *Renminbi*, thus removing an important external variable that might have caused another round of competitive devaluation of Southeast Asian currencies due to the overlap in Chinese and Southeast Asian exports in major international markets.<sup>13</sup>

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<sup>11</sup> See Secretary General of ASEAN Secretariat's Interview by 21<sup>st</sup> Century Business Herald Singapore, October 11, 2004; available online at: <http://www.aseansec.org/16545.htm>; retrieved on November 19, 2006.

<sup>12</sup> Daojiong Zha, "The Politics of China-ASEAN Economic Relations: Accessing the Move Towards a Free Trade Area", in Kanishka Jayasuriya, ed., *Asian Regional Governance: Crisis and Change* (New York: Routledge 2004): 241-242.

<sup>13</sup> Voo. J. P., "Export Competitiveness of China and ASEAN in the U.S. Market", *ASEAN Economic Bulletin*, Vol.14, No.3 (1998): 273-91.

The third factor behind China's pro-active economic multilateralism policy towards the ASEAN states includes both economic and strategic considerations of the Chinese government. Such analyses will be conducted in Chapter Five since it is more closely related to the case study of the CAFTA.

#### **IV. Conclusion**

In this chapter, I have analyzed the transformation of Chinese economic policy towards the ASEAN states. I have mainly focused on the international and domestic constraints on China's policy changes from merely adopting a bilateral approach to a more pro-active multilateral approach. This transformation in policy was more than just a historical experience of China. It was a much needed and necessary confidence-building process for China to be bold enough to take the initiative to develop further multilateral institutions and regimes with the ASEAN states. It was under that new philosophy and concept that the Chinese government initiated the CAFTA. I will study further, the policy formulation process of the CAFTA and its actual implementation up to this stage in the following chapters.

## CHAPTER FIVE

### POLICY FORMULATION AND JUSTIFICATION: THE CAFTA CASE

This chapter will explain the origin of the concept of the CAFTA. Fieldwork in the form of interviews and archival data analysis were conducted to explain the policy formulation, justification and implementation processes of the CAFTA. After reviewing the policy formulation process of the CAFTA, the functions of the three layers of actors in the policy initiation, coordination and justification processes, i.e., the paramount leaders, the central and local bureaucracies, and the think tanks will be examined. The case study of the CAFTA illustrates the authoritarian and dynamic nature of the Chinese government's decision-making process. Moreover, the role of the academia in the policy justification process of the CAFTA is also discussed.

#### **I. The Signing of the CAFTA: Policy Formulation Process of the CAFTA**

According to an expert who was involved in drafting the feasibility report of the CAFTA, the initiative of the CAFTA was not a fully prepared project.<sup>1</sup> At the turn of the new millennium, the ASEAN states were emerging from the shadow of the Asian Financial Crisis. The Chinese government, as well as academic scholars, was concentrating on the lessons to be drawn from the Asian Financial Crisis and how to get the fully affected economies recover from such a crisis. Although China did not bear the full brunt of the crisis, its economy was also affected due to the geographical

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<sup>1</sup> Author's interview with a famous Chinese specialist who took part in the report drafting and negotiations with the ASEAN states, August 4, 2006.

proximity and economic interdependence. When it proposed the CAFTA, China was in the final stages of joining the WTO. The ASEAN states were very concerned that China's accession into the WTO would affect their exports and FDI attractions. Moreover, some ASEAN states were even more worried about the potential influence such an event on their weak economies. The concerns of the ASEAN states were expressed by the ASEAN leaders at the 4<sup>th</sup> ASEAN-China Summit held in Singapore in 2000. In response, former Chinese Premier Zhu Rongji suggested a study on improving economic cooperation between ASEAN and China. The idea to establish a free trade area was first proposed by him at this summit in November 2000.<sup>2</sup>

Besides this, at the ASEAN Ministerial Meeting held in Chiang Mai in 2000, Deputy Prime Minister and Commerce Minister, Supachai Panitchpakdi of Thailand called for the ASEAN states to create a regional mechanism for ASEAN to negotiate with China on mutual tariff concessions. Supachai considered it an important strategy to deal with the negative effects of China's entry into the WTO on the ASEAN states, particularly on the newer ASEAN members.<sup>3</sup> In concord with Premier Zhu's proposal, the ASEAN leaders suggested a joint study on the influence of China's WTO accession at the fourth ASEAN+3 Summit in the same year in Singapore. It was under such circumstances that Premier Zhu suggested further to form a specialist group to study the possible influence of China's WTO entry and to find out whether there would be a practical way to alleviate the worries of China's neighboring countries.

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<sup>2</sup> Author's interviews with experts in IAPSCASS and CAIFEC, October 2006.

<sup>3</sup> Author's interview with Lu Bo, a research fellow in the Chinese Academy of International Trade and Economic Cooperation (CAIFEC), September 2006. The CAIFEC is affiliated with the MOFCOM.

Meanwhile, Zhu's proposal of the CAFTA was not merely under economic considerations. A number of events need to be noted. First, Australia and New Zealand proposed to ASEAN and showed their desire to join AFTA in 1999. Further, the then Japanese Prime Minister Keizo Obuchi proposed the idea of an FTA between Japan and Singapore when then Singapore Prime Minister Goh Chok Tong met him in Tokyo in December 1999. A 25-member Japan-Singapore Free Trade Agreement Joint Study Group including government officials, prominent academic scholars and business leaders from Japan and Singapore, was formed subsequently, to examine the feasibility and desirability of establishing an FTA between the two countries. Zhu's proposal to some extent was a response to the actions taken by these countries.<sup>4</sup>

In March 2001, a team of specialists on China-ASEAN economic cooperation was set up at the third conference of the China-ASEAN Joint Committee on Economic and Trade Cooperation in Malaysia. A joint study group, called the ASEAN-China Expert Group on Economic Cooperation, was also set up afterwards. The Expert Group comprised 16 members with 11 experts from the ASEAN side (one from each ASEAN state and one from the ASEAN Secretariat). The other five members were from two Chinese organizations, i.e. three members from the CAITEC and two members from the Institute of Asian Pacific Studies, CASS (IAPSCASS).<sup>5</sup> They set

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<sup>4</sup> Due to geopolitical competitions, a proposal by one country may be a catalyst for other countries in the region. This is more than true concerning China and Japan. In fact, Japan's FTA proposal with Singapore is the first free trade agreement for Japan. Its key motivation is to avoid losing out to Beijing economically and strategically as Beijing seeks to forge an FTA with ASEAN. See Lam Peng Er, "Japan's FTA with Singapore: The China Factor and Regionalism", *Japanese Studies*, Vol.26, No.2 (September, 2006): 211-220. It is not difficult to conclude that China's FTA proposal with ASEAN was motivated by strategic considerations similarly as Japan.

<sup>5</sup> They were Zhihai Zheng, Changwen Xu and Wei Li from the CAITEC, and Yunling Zhang and Xiaobing Zhou from the IAPSCASS. This was from the author's interview with one of them, during September 2006.



out to study China's influence on the ASEAN states in terms of the areas of trade and investment as well as the feasibility of the CAFTA.

The two parts of the ASEAN-China Expert Group report, namely the influence of China's WTO entry on the ASEAN economies and whether there would be a practical way to develop a long-term trade arrangement between the two sides, were assigned to the IAPSCASS and the CAITEC. Two groups of specialists were organized to pursue the two parts of the report concurrently. One group, led by Professor Yunling Zhang, Director of the IAPSCASS, focused on the potential influence of China's WTO entry on the economies of the ASEAN states. The other group of scholars, from the CAITEC, was responsible for the study of the long-term arrangements in the trade relations between China and ASEAN. Professor Yushi Li, Vice President of the CAITEC, said that the idea of an FTA with the ASEAN states was first suggested by his organization before Premier Zhu formally proposed this idea at the China-ASEAN Summit in 2001.<sup>6</sup>

After the study of the Expert Group was completed, the concept of the CAFTA was submitted to Premier Zhu via the report by the Expert Group<sup>7</sup>. Professor Li was correct in pointing out that it was the experts in CAITEC who first called the FTA between China and ASEAN as CAFTA. Nevertheless, Premier Zhu was the person who generated the broad idea of closer economic cooperation between China and ASEAN. After that, he also assigned the bureaucracies and think tanks to study on

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<sup>6</sup> This information came from Professor Yushi Li during his visit to the East Asian Institute of National University of Singapore in early July 2006. The author would like to thank professor Li for his kindness and patience in answering various questions raised on the topic of the CAFTA.

<sup>7</sup> Author's interview with Professor Yunling Zhang, a member of the Expert Group in drafting the report, August 4, 2006.

how to improve economic relations between China and ASEAN. The idea of establishing an FTA between the two parties was in fact a product of Zhu, although he did not come up with the term CAFTA.

A meeting of the experts from both China and the ASEAN states was held in Beijing in April 2001. After several rounds of discussions, the final report of the Expert Group was submitted to the ASEAN Economic Ministers Meeting in October 2001. Composed of four sections, the report outlined an optimistic future for both China and ASEAN under the Framework of the CAFTA. It first reviewed current ASEAN-China economic relations, followed by an analysis of the implications of China's entry into the WTO. The third section illustrated the enhancement of economic relations between ASEAN and China. Recommendations were made at the last section of the main report: "The proposal for an ASEAN-China free trade area deserves special attention and discussion given the political and economic implications of the recommendation."<sup>8</sup>

At the fifth China and ASEAN Summit in November 2001, both sides endorsed the report and agreed to establish a China-ASEAN Free Trade Area in ten years. China began to pay more attention to regional economic integration after it joined the WTO in December 2001. Therefore, it is reasonable to conclude that the most important direct motivation of China to initiate the CAFTA is to alleviate the excessive worries of the ASEAN states on China's WTO entry.

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<sup>8</sup> Joint China-ASEAN Expert Group on Economic Cooperation, *Forging Closer ASEAN-China Economic Relations in the Twenty-First Century: A Report Submitted by the ASEAN-China Expert Group on Economic Cooperation* (October, 2001): 30.

Early in February 2002, the Chinese government dispatched a delegation to the ASEAN states, as well as to the ASEAN Secretariat in Jakarta to discuss related issues on the upcoming negotiation by the two sides. The ASEAN states also held their own meetings in the same month to discuss and coordinate their stand and attitudes towards the upcoming negotiation with China. In May 2002, the China-ASEAN Senior Economic Officials Meeting (SEOM) was held in Beijing. Vice Minister of the MOFTEC, Long Yongtu attended the meeting and addressed the opening speech. After exchanging their views on strengthening cooperation in the new millennium, the senior officials from both sides agreed to set up the China-ASEAN Trade Negotiation Committee (TNC).

The TNC was founded to discuss the contents under the China-ASEAN Framework Agreement on China-ASEAN Comprehensive Economic Cooperation and to prepare for the endorsement of the Agreement at the China-ASEAN Leaders Meeting held at the end of 2002. Regular meetings of the TNC were held every month before the China-ASEAN Leaders Meeting in November 2002. Since the establishment of the TNC, formal negotiations to establish the CAFTA have started. The building of the CAFTA progressed “from the preparatory stage of whether to set up a China-ASEAN Free Trade Area to the actual operational stage of how to set up such a Free Trade Area and what kind of Free Trade Area shall be set up.”<sup>9</sup> Representatives of ASEAN to the negotiations came from the ASEAN member states and the ASEAN Secretariat. Chinese representatives were officials from different

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<sup>9</sup> Shengda He and Shilu Wang, “*Zhongguo-Dongmeng Ziyoumaoyiqu de Jiangou yu Yunnan de Duiwai Kaifang Yanjiu*” (The Study on the Building of the CAFTA and Yunnan’s Opening-up), *Social Science in Yunnan*, No.5 (August, 2002): 31.

bureaucracies of the central government.<sup>10</sup> The second meeting of the TNC was held in June 2002 in Jakarta, Indonesia. Further discussions on the Framework Agreement took place. A committee on drafting the Rules-of-Origin was set up to discuss the issues that were more technical under the Framework.

Five months later, the 6<sup>th</sup> China-ASEAN Leaders Meeting was held in November 2002 in Phnom Penh, Cambodia. The two sides signed the Framework Agreement on China-ASEAN Comprehensive Economic Cooperation, which was considered a milestone in China-ASEAN economic relations. The Framework Agreement comprised the preamble, sixteen articles and four annexes. The sixteen articles cover the objectives of the Agreement, measures for comprehensive economic cooperation, trade in goods, services and investment, among others. Article 6 is on Early Harvest between the two sides. Timeframes, Most-Favored Nation Treatment (MFNT), Dispute Settlement Mechanism, and institutional arrangements for the negotiation were included in the Agreement. According to this Framework, both sides will offer mutual tariff cuts on imported goods and eventually lift tariff barriers. China took a practical and gradual approach in the implementation process of the CAFTA; each ASEAN member was allowed to create differential trade liberation timetables according to their economic development levels. China agreed to give preferential treatment to some economically less-developed ASEAN members under the “early harvest package.” Favorable tariff rates were given to Laos, Cambodia and Myanmar. Non-WTO members of ASEAN were granted MFNT. According to the Framework,

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<sup>10</sup> Author’s interview with Bo Lu, a research fellow in the CAIFEC, September 2006.

free trade will be realized between China and the six original ASEAN states, i.e. Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand by 2010. For the four less developed ASEAN members such as Cambodia, Laos, Myanmar and Vietnam, free trade will be fully implemented by 2015.

In June 2003, China and Thailand signed an agreement in Beijing. According to the agreement, the tariffs on nearly two hundred categories of fruits and vegetables would be cut to zero. In October 2003, the China-Thailand Agreement on Zero Tariff Rates for Fruits and Vegetables started to be implemented. China is Thailand's third largest export market, following the United States and Japan in terms of market share. It is also the second largest import market to Thailand next to Japan. According to Watana Muangsook, Thailand's Minister of Commerce, "China will become the first largest export market to Thailand within 10 years after the full-scale implementation of free trade between the two sides."<sup>11</sup> Although not an agricultural country, Singapore joined the Agreement on Zero Tariff Rates for Fruits and Vegetables in June 2004 to support efforts to create the CAFTA. Vietnam has also submitted a request to join the Agreement.

The Early Harvest Program (EHP) went into effect on 1 January 2004 and covers selected 570 selected items of agricultural products that fall under Chapter 1-8 of the HS System (Harmonized Standard Coding System).<sup>12</sup> It initially covers China and nine members of ASEAN, with the Philippines as an exception. The negotiation on

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<sup>11</sup> This information is available online at: <http://www.gzwto.org/datapage.jsp?ID=060706162330>; retrieved on August 11, 2006.

<sup>12</sup> Agricultural products under HS Chapters 1-8 include: Live animals; meat and edible meat offal; fish; dairy produce; other animal products; live trees; edible vegetables and edible fruits and nuts.

the Rules of Origin (ROO) reached a compromise in September 2004. China and ASEAN agreed to the ROO of 40 percent single country or cumulative regional value content. Only those products that meet the ROO can qualify for tariff concessions.

Since every ASEAN state has its own demands, the negotiation for the EHP was not easy. The final agreement was between China and the ASEAN-9 excluding the Philippines. At that time, the Philippines was about to hold general elections. The Philippines government could not take a major decision without incurring a huge domestic political cost. Moreover, the agricultural sector of the Philippines is very powerful and the conservative elements were strongly against the EHP. Although no agreement was reached with the Philippines as with other ASEAN states, China informed the Philippines that the negotiation between them could continue at any time. It was not until April 2005 when Chinese President Hu Jintao paid a visit to the Philippines that the EHP between the two sides was signed. China actually made a concession to allow the Philippines to name only around 200 items of tax concession compared to around 500 items with other ASEAN countries. The EHP with the Philippines came into effect on 1 January 2006.

Products under Chapter 1-8 of the HS system are not all included as tax concession products. Excluded products were listed by Cambodia, Laos, the Philippines and Vietnam. Moreover, based on the fact that the trade volume of the products under Chapter 1-8 between China and some ASEAN states is very small, specific products were listed to keep the balance. Such products include around 40 products, such as coffee, palm, and coke with Indonesia, Malaysia and Thailand

respectively. Nevertheless, although the products listed in the EHP are small in number, it was also a positive gesture on the part of China since they are all sensitive agricultural sectors of China. According to Chinese customs statistics, after two and a half years' of implementation of the EHP, China's import from the ASEAN states grew by 46.6 percent to reach US\$ 1.15 billion until June 2005. The amount of tariff benefits reached RMB 1.16 billion.<sup>13</sup>

At the 8<sup>th</sup> ASEAN-China Summit held in November 2004 in Vientiane, China and ASEAN signed a series of agreements, the most prominent of which are the two known as the Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Cooperation between the Association of Southeast Asian Nations and the People's Republic of China, and the Agreement on Dispute Settlement Mechanism of the Framework Agreement on Comprehensive Cooperation Between the Association of Southeast Asian Nations and the People's Republic of China.<sup>14</sup> In the Trade agreement, ASEAN declared that all of its member states unanimously recognized China as a full market economy. Since China is considered a non-market economy by many countries, China's products are vulnerable to dumping charges on the world market; China has to deal more with anti-dumping investigations compared to other market economies in the world. ASEAN's recognition is undoubtedly conducive to China's evasion of anti-dumping sanctions and a boost to

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<sup>13</sup> Press Conference of Bo Xilai on China-ASEAN FTA, July 21, 2006, available at: <http://boxilai.mofcom.gov.cn/aarticle/speeches/200607/20060702702431.html>; retrieved on August 29, 2006.

<sup>14</sup> See the two Agreements online at: <http://www.aseansec.org/16646.htm> and <http://www.aseansec.org/16635.htm>; retrieved on August 6, 2007.

China's trade.<sup>15</sup> The signing of the agreements shows that cooperation between China and ASEAN has developed from the framework level to more substantial contents. The agreements paved the way for building the CAFTA.

Chinese Premier Wen Jiabao concluded four areas of breakthroughs at the same Summit: continuous dialogue on political issues enhanced mutual trust; closer economic relations upgraded the level of cooperation; dialogues on security issues brought out effective cooperation; mutual cooperation expanded into every aspect with more abundant contents. He also suggested the formation of the ASEAN-China Eminent Persons Group (EPG)<sup>16</sup> to evaluate the cooperation between the two sides, as well as to recommend measures for strengthening the future of ASEAN-China relations as both sides would commemorate the 15<sup>th</sup> anniversary of dialogue relations in 2006. The report of the EPG, which was endorsed at the 9<sup>th</sup> ASEAN-China Summit in December 2005 in Kuala Lumpur, pointed out "The CAFTA will proceed to be the key part of ASEAN-China strategic partnership."

The EHP was expanded from agricultural products to industrial and consumer products in July 2005. China and six ASEAN nations - Malaysia, Brunei, Indonesia, the Philippines, Singapore and Thailand - began to implement the second round of tariff reductions of around 20 percent on some 7,445 categories of goods under

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<sup>15</sup> Till July 2006, all together 57 countries have recognized China's market economy status including the 10 ASEAN states.

<sup>16</sup> The EPG consisted of the following distinguished persons: H.E. Tan Sri Musa Hitam (Co-Chairman, Malaysia); H.E. Qian Qichen (Co-Chairman, People's Republic of China); H.E. Pehin Dato Lim Jock Seng (Brunei Darussalam); H.E. Dr. Aun Porn Moniroth (Kingdom of Cambodia); H.E. Jusuf Wanandi (Republic of Indonesia); H.E. Khamphan Simmalavong (Lao People's Democratic Republic); H.E. U Aung Thaung (Union of Myanmar); H.E. Ambassador Rodolfo C. Severino (Republic of the Philippines); H.E. Professor Tommy Koh (Republic of Singapore); H.E. Kasem S. Kasemsri (Kingdom of Thailand); and H.E. Nguyen Manh Cam (Socialist Republic of Viet Nam). Further information is available at <http://www.aseansec.org/18001.htm>; retrieved on September 25, 2006.



Chapter 9-97 of the HS system, on which tariffs had not been reduced in 2004. In that case, the tariffs of almost all products were reduced. China reduced its average tariff on the ASEAN-6 to 8.1 percent, which is 1.8 percent lower than the average MFN tariff of 9.9 percent. According to the Minister of the MOFCOM, Bo Xilai, China will speed up lowering tariffs on products from the ASEAN states in the coming years. The average tariff rate on products originating from the ASEAN states will be lowered to 6.6 percent by 2007 and 2.4 percent by 2009. By 2010, China will remove tariffs on 93 percent of goods imported from the ASEAN states. In return, ASEAN states will lift levies on 90 percent of its imports from China.<sup>17</sup>

The Agreement on Trade in Goods and the zero-tariff deal on agricultural products as well as industrial and consumer products launched under the EHP helped to boost bilateral trade between the ASEAN states and China. For instance, in 2004, trade volume between the two sides overtook US\$100 billion for the first time, up 35 percent compared to 2003. The trade volume between the two sides further increased to over US\$130 billion in 2005 and to over US\$160.8 billion in 2006. According to Statistics from Chinese Customs, in the past 2 years since the initiation of the Early Harvest Program, the bilateral trade in products under the Program went up quickly. In 2004, China's import of the early harvest products from ASEAN increased by 46.6 percent, amounting to US\$1.15 billion, and exports grew by 31.2 percent, reaching US\$0.82 billion.<sup>18</sup> China-ASEAN economic relations have become much closer,

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<sup>17</sup> "Tariffs on ASEAN goods to drop", July 22, 2006; available online at: [http://news.xinhuanet.com/english/2006-07/22/content\\_4866259.htm](http://news.xinhuanet.com/english/2006-07/22/content_4866259.htm); retrieved on July 29, 2006.

<sup>18</sup> See Chinese Commerce Minister Bo Xilai's news press on the CAFTA in August 2006, available online at: <http://boxilai2.mofcom.gov.cn/aarticle/speeches/200608/20060802846310.html>; retrieved on August 6, 2007.

which was something unimaginable and considered impossible decades ago. The economic interdependency between the two sides has reached an unprecedented level. Under the Framework of the CAFTA, such economic relations will develop even further. The CAFTA is scheduled to be fully completed before 2010, when the average customs duty within all members will range from zero and 5 percent with tariff and non-tariff barriers eliminated. It is expected to reach twofold of the volume of 2004, i.e., a record of US\$200 billion by 2010. Also, as of late, the leaders of the two sides have expressed the optimistic expectation of breaking through such bilateral trade values by 2008.<sup>19</sup>

The Commemorative Summit marking the 15<sup>th</sup> anniversary of ASEAN-China Dialogue Relations was convened on 30 October 2006 in Nanning, Guangxi Zhuang Autonomous Region of China. Chinese Premier Wen Jiabao and his counterparts in the ASEAN states attended the Summit. The 3<sup>rd</sup> China-ASEAN Expo and the 3<sup>rd</sup> China-ASEAN Business and Investment Summit were held concurrently. The Commemorative Summit was the first ASEAN-China leaders' Summit held in China. It was considered an historical event in ASEAN-China history.

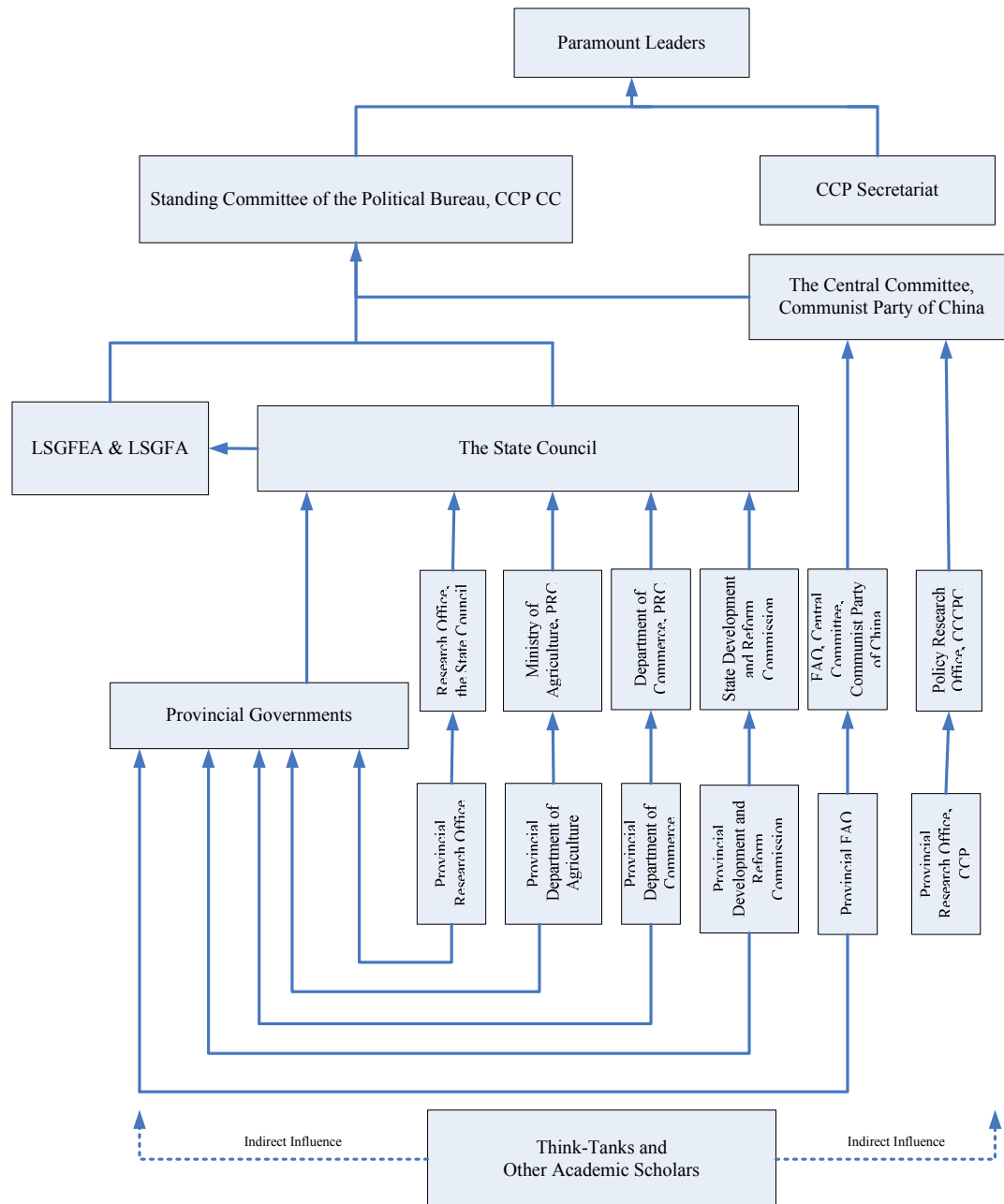
Besides the negotiation in goods, negotiations in services and investment were also under discussion. China and the ASEAN states reaffirmed their commitment to deepen economic linkages and forge closer trade and investment cooperation at the 10<sup>th</sup> ASEAN-China Summit held in Cebu, the Philippines in January 2007. With this common desire, the second agreement under the Framework Agreement on

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<sup>19</sup> It was estimated by Xinhua online news, available at: <http://news.xinhuanet.com/english/2006-10/29/content-5264398.htm>; retrieved on June 28, 2007.

Comprehensive Economic Cooperation between ASEAN and China, the Agreement on Trade in Services, was signed at the Summit. Under this Agreement, services in the region will enjoy improved market access and national treatment in sectors where commitments have been made. It is also expected to bring about higher levels of investment in region sectors where commitments have been made, such as computer-related services, real estate services, construction and engineering services, tourism and travel related services and telecommunication services. The Agreement will take effect on 1 July 2007. The ASEAN economic ministers and the Chinese Minister of the MOFCOM together with their designated representatives will meet within a year from the date of entry of the Agreement, and afterwards meet biennially to review the Agreement for the purpose of considering further measures to liberalize trade in services. Up to this stage, the two sides have agreed to speed up the negotiations and talks on investment agreements. Both endeavor to open up the investment market gradually and sign an investment agreement in three years so as to complete the building of the CAFTA as planned.

The whole process of policy formulation of the CAFTA in China can be summarized by the following figure (See Figure 5-1). The following sections will analyze in detail the roles and functions played by each actor in the policy formulation and justification processes of the CAFTA.



**Figure 5-1: The Policy Formulation Process of the CAFTA**

## II. Policy Initiation By Former Chinese Premier Zhu Rongji and the Policy Considerations of the Chinese Government on the CAFTA

Hypothetically, we assume there are various means of input given to the policy making process of the CAFTA, such as from the top leadership, government bureaucracies at both central and local levels, as well as think tanks and scholars. By exploring each

factor listed above in an orderly manner, the characteristics and nature of the policy making process of the CAFTA can be revealed.

### ***Former Chinese Premier Zhu Rongji***

As previously discussed, being the head of the LSGFEA during the period of the CAFTA initiation and signing, former Chinese Premier Zhu Rongji played a vital role in the formulation of the CAFTA. Premier Zhu is widely acknowledged to be a capable economic administrator. He is also known for his determined personality and pragmatism. When analyzing the changing role of China's economic think tanks, Barry Naughton pointed out that, "Zhu Rongji personally dominates the ultimate policy-making decision. His self-confidence and impatience lead to a personalized but also broadly consultative process. Zhu will not hesitate to summon the person whose views he wishes to solicit, regardless of their formal affiliation."<sup>20</sup> Although what Naughton has observed of Zhu's personal character is debatable, what he has correctly pinpointed is the prominent role of the leadership under China's current political structure.

Zhu has played a decisive role in helping China gain the WTO membership as well as the signing of the CAFTA. He is a man who positively supports the idea of economic cooperation and free trade. He was active in participating various regional forums and dialogues with ASEAN. During his tenure, he attended three ASEAN plus

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<sup>20</sup> Barry Naughton, "China's Economic Think Tanks: Their Changing Role in the 1990s", *The China Quarterly*, Vol.171 (September, 2002): 626.

Three (China, Japan, and South Korea) summits (the 3<sup>rd</sup> to the 6<sup>th</sup> summit) and the summit of ASEAN plus China consecutively.

To give some examples to highlight his decisive role, Zhu attended the third ASEAN-China summit in Manila on 28 November 1999. At the gathering, Zhu suggested strengthening the good-neighborly partnership of mutual trust with ASEAN for the 21<sup>st</sup> century. He strongly supported China's deepening cooperation with the ASEAN states in various fields, particularly in the fields of economic, technical and financial cooperation. On 25 November 2000, Zhu attended the fourth ASEAN-China Summit. At the summit, he proposed suggestions on the cooperation in various fields between the two sides, including the construction of infrastructure projects on the Mekong River. He also suggested the setting up of a study group on the feasibility of long-term economic cooperation between China and ASEAN. On 6 November 2001, Premier Zhu attended the fifth ASEAN-China Summit held in Brunei. It was at that summit that he proposed the idea of building the CAFTA and the two sides agreed on the establishment of the China-ASEAN Free Trade Area within ten years. After the summit, negotiations on the relevant agreements between the two sides started. In his statement on "Strengthening East Asian Cooperation and Promoting Common Development," he deliberately pointed out that both China and ASEAN should set the establishment of the CAFTA as the top priority of their cooperation. The 8<sup>th</sup> Summit of ASEAN and the 6<sup>th</sup> ASEAN-China Summit held in Phnom Penh in 2002 were unprecedented gatherings in terms of the performance of Premier Zhu Rongji. According to the reports and analyses, Premier Zhu stole the show from everybody

else. He pushed forward bilateral economic relations by announcing favorable treatment to the less developed ASEAN states. Such policies include relieving the debts of the four least developed countries in ASEAN, namely Vietnam, Laos, Myanmar and Cambodia; announcing duty-free tax of exports from Cambodia, Laos and Myanmar to China; granting the MFNT to Vietnam, Laos and Cambodia, which were still not yet members of the World Trade Organization (WTO) at that time.<sup>21</sup> Premier Zhu also signed with his ASEAN counterparts the Framework Agreement on China-ASEAN Comprehensive Economic Cooperation.

Zhu was once labeled a “Rightist” for his criticism of Mao’s “irrational high growth” policies during the Great Leap Forward. He was believed to be rehabilitated by Deng, who considered him a good economic advisor and reformer. Deng had praised Zhu by emphasizing that Zhu “knows economics, has his own views, and dares to make decisions.”<sup>22</sup> Zhu has had vast experiences handling practical economic affairs and much knowledge in economics.<sup>23</sup> He focused on managing China’s economy, carving out for himself a distinctive work focus different from President Jiang. In fact, Jiang considered him as an excellent partner and trusted him in managing China’s economic affairs during their incumbencies. That was the main reason why he was able to enjoy much autonomy in the economic decision-making of China.

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<sup>21</sup> On November 7, 2006, the General Council of the WTO has formally approved Vietnam’s membership, which ended 12 years of negotiations between the two sides. Vietnam officially became a member of the WTO on January 11, 2007.

<sup>22</sup> From “Zhu Rongji, Premier of the State Council”, which is available online at: <http://english.peopledaily.com.cn/leaders/Zhurongji.htm>; retrieved on January 4, 2007.

<sup>23</sup> Before he became Vice-Premier in 1991, Zhu has served in the Industrial Economics Institute under CASS, on the State Economic Commission, and as mayor of Shanghai.

Moreover, Premier Zhu was the key personage in initiating and pushing for the final formation of the CAFTA. It was under his guidance and authorization that the Expert Group was formed and further study on the feasibility of the CAFTA was carried out. From interviews with government officials as well as scholars from think tanks, the following highlights the major considerations of the Chinese government in initiating the concept of the CAFTA and to have signed the agreement within such a short time.

### ***Mutual-Economic Gains as the Policy Basis in the CAFTA Initiative by the Chinese Government***

According to Caporaso and Keohane, “Not all cooperation is multilateral, but all multilateral activities include cooperation.”<sup>24</sup> Reciprocity produces cooperation.<sup>25</sup> Economically, the mutual-economic benefits of China and the ASEAN states are the foundation and basis for their cooperation. Although there is no theory and evidence to prove that there is a net benefit of a country being a member of FTAs, it is almost certain that a country that is not a participant in any of the new FTAs will be adversely impacted due to trade and investment diversion and reduction. This answers the question of what the underlying reasons are for China’s signing of the FTA with ASEAN from an economic angle. The main reason is that both sides can benefit economically from such an arrangement, although the distribution of benefits might not be equal.

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<sup>24</sup> James A. Caporaso, “International Relations Theory and Multilateralism: The Search for Foundations”, *International Organization*, Vol.46, No.3 (Summer, 1992): 603.

<sup>25</sup> See Robert O. Keohane, “Reciprocity in International Relations”, *International Organization*, Vol.40, No.1 (Winter, 1986): 1-27; and Robert Axelrod, *The Evolution of Cooperation* (New York: Basic, 1984): 136-139.



First of all, the formation of a China-ASEAN FTA can attract more investment into the region. Not only are more Chinese and ASEAN companies willing to invest within the integrated market, since market risks and uncertainties are lowered, but American, European and Japanese companies, which are interested in making inroads into the Asian market, are also attracted to invest in the integrated market. The integration of ASEAN with China can thus entice more foreign corporations, which each market alone cannot otherwise attract.<sup>26</sup>

Although there are still concerns of the “China Threat,” the zero-sum view of trade and investment between China and the ASEAN states has been questioned. Take FDI for an example. A report by Singapore’s Ministry of Trade and Industry realized that the ASEAN states are losing out to China in attracting FDI mainly because China is the second biggest economy in Asia.<sup>27</sup> While FDI to the ASEAN states from East Asian countries have declined in relation to China, Western countries have actually invested more in the ASEAN states than in China, both before and after the Asian Financial Crisis. The decline in FDI to ASEAN-5 has been sudden; hence it does not appear to be linked closely to China’s growing attractiveness as an FDI destination, which has been more gradual. Moreover, foreign investment to both China and Southeast Asia has risen and fallen in tandem.<sup>28</sup> While before the 1997 Asian Financial Crisis, FDI was a sort of a zero-sum game; the nature of the game has

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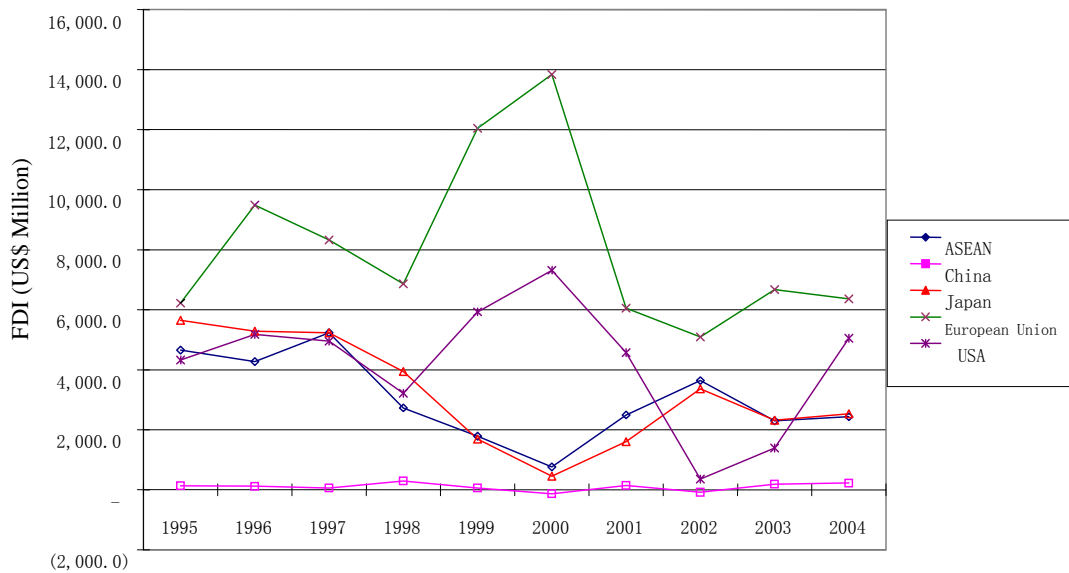
<sup>26</sup> Zerui Yang, “China’s FTA Developments”, paper presented at APEC Study Center/PECC Trade Forum Conference “The Challenges of APEC: Trade, Security and Capacity Building”, May 26-29, 2004, Chile.

<sup>27</sup> “Foreign Direct Investment to China and Southeast Asia: Has ASEAN Been Losing Out?” *Economic Survey of Singapore* (Third Quarter, 2002): 96-115.

<sup>28</sup> *Ibid.*

changed after 1997 when a multilateral regime gradually came into being. The ASEAN states and China have both attracted higher levels of investment. China's growth has offered opportunities for a new regional division of labor in which the Southeast Asian states can benefit. Although China's investment in the ASEAN states does not carry much significance as yet, it can be expected to rise in the future.<sup>29</sup> (See

Figure 5-2)



**Figure 5-2: FDI in ASEAN by Source Country (1995-2004)**

*Source: ASEAN Secretariat-ASEAN FDI database, 2005*

Besides this, China emphasizes the policy of “going-outside” to reassure the world, including the ASEAN states, that China does not only draw FDI and jobs away from other economies, but can also contribute to other economies. The statistical model used by Giovanni Maggi suggests that a multilateral approach is particularly

<sup>29</sup> Amitav Acharya, “Seeking Security in the Dragon’s Shadow: China and Southeast Asia in the Emerging Asian Order”, *Working paper of Institute of Defense and Strategic Studies*, No.44 (March 2003): 9.

important when there are strong imbalances in bilateral trading relationships. Because there are strong imbalances in bilateral trading relationships, forming a multilateral institution would be the rational choice of the weaker side concerning the ASEAN and China FTA.<sup>30</sup> Thus, Chinese investment will be directed to the original six ASEAN economies rather than the present concentration in its four new members.

Like FDI, trade can also provide opportunities for mutual gains. Since China was the first to commit to the reduction of tariff rates on many ASEAN products and the ASEAN states can lower its tariffs on the goods from China at a later date, an FTA creates more trade and investment opportunities for the ASEAN states; It was found that the CAFTA could increase ASEAN's exports to China by 48 percent to US\$13 billion, while China's exports to ASEAN could expand by 55 percent to US\$10.6 billion. Meanwhile, ASEAN's GDP could increase by 0.9 percent while China's GDP could rise by 0.3 percent.<sup>31</sup> Indeed, fostering an FTA with ASEAN could help China find overseas markets for its southwestern provinces. As a Chinese higher-ranking official Long Yongtu has stated, "ASEAN economies are important export markets for provinces in China's southwestern region. The formation of the CAFTA will provide a significant boost to these provinces' exports, which in turn is in line with China's national strategy to develop the entire western region."<sup>32</sup> In this regard, Hu

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<sup>30</sup> Giovanni Maggi, "The Role of Multilateral Institutions in International Trade Cooperation", *The American Economic Review*, Vol.89, No.1 (March, 1999): 190-214.

<sup>31</sup> Report submitted by the ASEAN-China Expert Group on Economic Cooperation, "Forging Closer ASEAN-China Economic Relations in the 21<sup>st</sup> Century", October 2001; available online at: <http://www.aseansec.org/6283.htm>; retrieved on August 6, 2007.

<sup>32</sup> Long Yongtu, "China and ASEAN Share Broad Prospects in Cooperation: Interview with Vice-Minister of Foreign Trade Long Yongtu", *People's Daily*, April 26, 2002; available online at: <http://www.people.com.cn/GB/shizheng/3586/20020426/717784.html>; retrieved on November 20, 2006.

Jintao, then Vice State President of China said during his visit to Malaysia in 2002 that, “China’s development would be impossible without Asia.”<sup>33</sup> This is China’s formal expression on the emphasis of ASEAN as well as Asia’s role in China’s development.

An analysis of the trade in commodities between China and ASEAN reveals how the trade composition had evolved considerably. Both China and the ASEAN states were resource-based economies depending heavily on the export of natural resources and primary goods in the early 1990s, particularly for ASEAN. The top three commodities of ASEAN exports to China were mineral fuels, oils and wood, which collectively accounted for around 55 percent of the total value of export to China. However, by 2001, two-way trade between China and ASEAN had shifted from natural resources to manufactured products. The share of electrical machinery and equipment accounted for around 28 percent of the total value compared with only 6 percent in 1993. Electrical machinery and recorders have always topped China’s export to the ASEAN states; its share jumped from 11 percent in 1993 to 31 percent in 2001.

For nearly a decade of the 1990s, the trade structure between China and the ASEAN states had grown from trading commodities involving labor-intensive goods like natural resources and raw materials to capital-intensive items such as electrical machinery and equipment. Although the intra-industry trade between China and the ASEAN states involve products such as electrical machinery and equipment, the

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<sup>33</sup> Cheah Chor Sooi, “We Are Good Partners”, *New Straits Times* (Kuala Lumpur), April 25, 2002; retrieved on January 2, 2007.

specific goods are quite different. China tends to import transistors, integrated circuits from Malaysia and Thailand, semi-conductors from the Philippines, electronic valves, and parts for data processing machines from Singapore. Thus, complementarities in the trade between China and ASEAN are obvious and there is still great potential for their development. As Southeast Asian scholars have argued, “There exists a lot of potential and scope for enhancing economic linkages if China and the ASEAN states can harness the comparative advantages of their own economies and foster greater cooperation in wide areas like finance, tourism, e-commerce, forestry, energy, human resources development, or infrastructure building.”<sup>34</sup> “If China and ASEAN can interlock their economies through deeper integration in the long run, both would become more competitive as a region and would attract foreign investment into their integrated market.”<sup>35</sup>

In the 1980s, the ASEAN states had sustained high levels of comparative advantages in resource-based products. This advantage has declined and has tended to give way to labor and skill-intensive goods. Comparatively, China’s comparative advantages have mainly been in labor and human capital-intensive manufactures as it has also lost comparative advantage in resource-based products. Thus, there is wide scope for the expansion of China and ASEAN’s trade in the future. China can increase its imports of resource-intensive products from the ASEAN states while exporting its labor and human capital-intensive manufactures. Specifically, since Singapore has more comparative advantages in technology-intensive goods, the potential of bilateral

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<sup>34</sup> John Wong and Sarah Chan, “China-ASEAN Free Trade Agreement: Shaping Future Economic Relations”, *Asian Survey*, Vol.43, No.3 (2003): 525.

<sup>35</sup> *Ibid*, 526.

trade between China and Singapore is vast. This also explains why Singapore is China's largest trading partner and investor among the ASEAN states. Brunei, Indonesia and Malaysia have very strong comparative advantages in the mineral resource-intensive exports, while Indonesia, Malaysia and the Philippines have an advantage in agricultural resource-based products. Since China has increasing demand for industrial raw material and agricultural produce, as it is moving towards industrialization and integration with the outside world, there is a wider scope for those countries trading with China, as well.<sup>36</sup> Although China-ASEAN trade does not account for a significant portion of each other's total foreign trade, what is impressive is the growth of bilateral trade. China only accounted for 1.9 percent in 1993 in ASEAN's total world imports. The number increased to 9.4 percent in 2004, with almost five-fold increase compared to that of 1993. Similarly, ASEAN's export to China only took up 2.2 percent in 1993 while this figure jumped to 7.4 percent in 2004.<sup>37</sup>

Despite the rapid growth in both exports and imports between ASEAN and China, there have been persistent concerns that China's economic development has been and will continue to be at ASEAN's expense. This is inconsistent with the theory of comparative advantage, particularly when one considers the possibility of product differentiation, wherein within each product category, goods can be differentiated according to quality and brand (horizontal differentiation) or they can be further differentiated into sub-parts and components with differing factor intensities (vertical

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<sup>36</sup> Refer to Zhaoyong Zhang and Ow Chin Hock, "Trade independence and direct foreign investment in ASEAN and China", *World Development*, Vol. 24. No.1 (1996): 155-170.

<sup>37</sup> ASEAN Trade Statistics Database of ASEAN Statistical Yearbook, 2005.

specialization). As such, even if any ASEAN country's factor intensities happen to broadly coincide with the various regions in China, it can still develop its own export market niche by specializing in differentiated products.<sup>38</sup> Besides this, China is the world's fastest growing tourist market in both inbound and outbound travel. China and the ASEAN states appear to have great potential for cooperation in the travel and tourism related services in view of the strong comparative advantages that most ASEAN-5 economies enjoy in this area. Two-way flows between ASEAN and China have been on the rise.

When initiating the concept of the CAFTA, the first thing the Chinese government did was to ensure that the ASEAN states realize the economic benefits each could derive from it. The ten ASEAN states took different attitudes towards Chinese Premier Zhu's initiative. Singapore and Thailand were the most active supporters. In contrast, the four LDCs in ASEAN were more worried about their potential losses due to their relatively weaker economies. In order to reassure and persuade the ASEAN states to sign the agreement, the Chinese government displayed generosity in dealing with individual ASEAN member states. For instance, China offered a US\$400 million soft loan to the Philippines during President Gloria Macapagal Arroyo's visit to China in early September 2003 for the construction of a rail link between the cities of Manila and Clark. The Chinese government agreed to increase state investment in oil, gas and power plants to Indonesia under the new Indonesian administration led by President

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<sup>38</sup> Ramkishan S. Rajan and Rahul Sen, "The New Wave of FTAs in Asia: With Particular Reference to ASEAN, China and India", June 2004; available online at: <http://www.economics.adelaide.edu.au/staff/rrajan/pubs/RAJAN-SENFTATEXT.pdf>; retrieved on October 10, 2005.

Susilo Bambang Yudhoyono. Further, China offered an “early harvest” provision, which gave the ASEAN states a quick reduction of tariffs on a large number of goods. As former Thai Prime Minister Thaksin Shinawatra expressed many times, Thailand was particularly pleased with China’s offer of an “early harvest” agreement on fruits and vegetables. The EHP was launched in January 2004, which offered preferential tariffs on more than 500 products (mostly agricultural products). Malaysia, Indonesia and Singapore benefited from preferential export regulations on 12 items with tariff reductions from China. This contributed to the increase in trade between China and ASEAN in 2004. The CAFTA offers the ASEAN members an opportunity to enter the Chinese market under the tariff reduction arrangement before lower tariff rates are extended to all the WTO members. For the newly joined ASEAN member states, which are not WTO members, China agreed to extend the MFNT. Differential treatment and flexibility in implementation were also given to those newly joined members of ASEAN, from which they were given five extra years to comply with the agreement.<sup>39</sup> This implies that the unilateral tariff reductions over selected items on the part of China could be applied five years before the four new ASEAN members reciprocated in the same way. Whether China’s preferential treatment to the four countries is effective remains to be seen; yet what deserves attention here is that China conceded much during the CAFTA negotiation process. Such a generous attitude was a result of the significant changes in China’s economic policy towards ASEAN, as discussed in Chapter Four.

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<sup>39</sup> From ASEAN Secretariat Press Release: “ASEAN-China Free Trade Area Negotiations to Start Next Year”, October 30, 2002.



Krasner argues: “The static economic benefits of openness are generally inversely related to size. Trade gives small states relatively more welfare benefits than it gives large ones. Empirically, small states have higher ratios of trade to national product. They do not have the generous factor endowments or potential for national economies of scale that are enjoyed by larger- particularly continental- states.” Further, “A stronger positive tie with China is preferable to head-on competition.”<sup>40</sup> Based on a calculation of pros and cons, the ASEAN states concluded in the report on economic cooperation of the Joint China-ASEAN Expert Group, that the benefits from the CAFTA were far more than the costs.<sup>41</sup> China’s economic concession and the potential economic benefits were important factors for the ASEAN states to accept China’s initiative of the CAFTA.

Obviously, China can also benefit economically from the CAFTA. Favorable economic conditions, such as low labor and production costs, FDI inflows and increasingly advanced means of industrial production, will boost additional Chinese exports to the developing countries of Southeast Asia and thus create a trade surplus with them. Numerous Southeast Asian companies can be expected to relocate their production sites to China, thereby diverting investment, employment opportunities and vocational training facilities from their home countries. Beijing has anticipated

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<sup>40</sup> Stephen D. Krasner, “State Power and the Structure of International Trade,” in Jeffrey A. Frieden and David A. Lake, *International Political Economy: Perspectives on Global Power and Wealth*, 4<sup>th</sup> ed. (Boston & New York: Bedford/St.Martin’s, 2000): 21.

<sup>41</sup> It was embodied in the report of the Joint China-ASEAN Expert Group on Economic Cooperation, *Forging Closer ASEAN-China Economic Relations in the Twenty-First Century: A Report Submitted by the ASEAN-China Expert Group on Economic Cooperation* (October, 2001).

that the CAFTA would serve to expand China and ASEAN trade and investment links.

The rapid increase in China's textile exports to the ASEAN states after the implementation of the CAFTA was an indication of the value of signing the CAFTA. China and the ASEAN states started their tariff reduction process on July 1 2005 on the basis of the CAFTA. The ASEAN states gradually lowered their tariffs on Chinese textiles and apparel, which increased China's textile exports to this region. The practice was launched in compliance with the Trade in Goods Agreement of the Framework Agreement for Overall Economic Cooperation between China and the ASEAN states. However, due to frequent limitations from the United States and the European Union, Chinese textile exports still face huge obstacles when entering the two largest markets after the elimination of global textiles quotas in 2005. The significant textiles tariff reductions not only expanded Chinese exports to Southeast Asia, but also helped Chinese products enter the Western countries through means of bypassing government controls.<sup>42</sup>

As pointed out during an interview with Professor Yunling Zhang, "the signing of the FTA between China and ASEAN has long-term effects in terms of economic benefits to both sides. The big market, comprising eleven countries can ensure investors more freedom in choosing the desirable place to build their headquarters and sites of accessory producing. They may want to put the headquarters in some ASEAN states while producing the parts and accessories in China to enjoy the relatively low

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<sup>42</sup> Xinhua News Online, "China-ASEAN FTA agreement benefits China's textile export", Jan 21, 2006, available at: [http://news.xinhuanet.com/english/2006-01/20/content\\_4080045.htm](http://news.xinhuanet.com/english/2006-01/20/content_4080045.htm); retrieved on Jan 21, 2006.

labor costs there. The economic benefits to the two sides are not only how much tariffs have been lowered, the long-term effects from the signing of the CAFTA will benefit the two sides more.”<sup>43</sup>

Above said, Beijing also intends to secure the following economic benefits: first, to maintain and expand trade routes crossing Southeast Asia. The increasing economic interdependence between China and ASEAN will contribute to the good-neighborly political relations between the two sides, which will maintain the smooth routes of transport to the Southeast Asian states. Under such a friendly framework, the two sides are considering to build more convenient transport routes now. For example, the expressway from Southwestern China to the Southeast Asian states, such as Vietnam, Myanmar, and Singapore, is under consideration by the parties concerned.

Secondly, China intends to develop border trade so as to boost the economic development of its remote southwestern regions and contribute to a more balanced development among provinces. The policy of building the CAFTA is considered one of the most important measures in the implementation of the national “Western Region Development” strategy, which was launched in 1999 and implemented in 2000.<sup>44</sup> Comprising 12 provinces, municipalities and autonomous regions<sup>45</sup> with a total area of 685 square kilometers and total population of 367 million, the western region occupies 71.4 percent of state territory and 28.6 percent of China’s population.

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<sup>43</sup> Author’s interview with Professor Yunling Zhang, August 4, 2006.

<sup>44</sup> Song Ding, “*Zhongguo Dongmeng Ziyoumaoyiqu yu Xinan Minzu Jingji*” (China-ASEAN Free Trade Area and the Economy of Southwest China) (Beijing: Minzu Chubanshe, 2004): 133.

<sup>45</sup> The 12 provinces, autonomous regions and municipalities include: Shaanxi, Gansu, Qinghai, Ningxia, Guizhou, Chongqing, Sichuan, Yunnan, Tibet, Xinjiang, Inner Mongolia, and Guangxi.

Since most of the provinces are rich in natural resources such as minerals, oil, and gas, they have a large potential for development. In the governmental document, “The Notice of Implementing Certain Policies of the Western Region Development Strategy” (*Guowuyuan Guanyu Shishi Xibu Da Kaifa Ruogan Zhengce Cuoshi de Tongzhi*), the central government granted quite a number of favorable policies to the west region, such as an increase in the share of capital to those region, more support to financial credits and to improve the environment for foreign investment.<sup>46</sup> With the implementation of the CAFTA, the ASEAN neighbors could play a crucial role in facilitating export growth, thus boosting the economies of China’s Southwestern provinces.

Third, China is eager to gain access to regional energy resources and raw materials. The CAFTA is expected to help China’s efforts to acquire much needed energy and raw resources. Most Southeast Asian countries are rich in energy and raw materials. Therefore, with the rapid economic development of China, its requirement for energy is increasing. China will become a large energy importer soon as soon as its economy develops further. Thus, Southeast Asia is considered China’s easiest accessible energy source. Under the new Framework of the Agreement, China will be able to secure easier access to the vast market of raw materials available in Southeast Asia.

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<sup>46</sup> From *People’s Daily*, December 28, 2000; available online at: <http://www.people.com.cn/zcxx/2000/12/122803.html>; retrieved on June 28, 2006.

### *Strategic Considerations as the Ultimate Goal in the CAFTA Initiative by the Chinese Government*

It is beyond doubt that when shaping policies, governments care for more than just to maximize income. Robert Gilpin summarizes it as “the reciprocal and dynamic interaction in international relations of the pursuit of wealth and the pursuit of power.”<sup>47</sup> Richard Rosecrance also argues that, “no nation entirely neglects its territorial defense and stakes its livelihood solely on trade.”<sup>48</sup> There is a higher political return to trade integration.<sup>49</sup> Trade is highly politicized. The signing of the FTA encompasses both economic benefits as well as political and strategic gains. As pointed out by many scholars, “FTA is more a means of China’s international economic diplomacy, along with the case of the WTO.”<sup>50</sup>

Economic and political-security relations cannot develop independently of each other. On the one hand, economic interdependence increases the possibility of regional peace and stability for the reason that being involved in any war and conflict may impair the economic benefits to all sides. On the other hand, political stability and security provides a favorable environment for economic growth and development. In other words, political stability and security are deemed important prerequisites for economic growth and development.

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<sup>47</sup> Robert Gilpin, *U.S. Power and the Multinational Corporation: the Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975): 43.

<sup>48</sup> Richard Rosecrance, *The Rise of the Trading State: Commerce and Conquest in the Modern World* (New York: Basic Books, 1986): 8, 17, and 30.

<sup>49</sup> Graham Bird and Ramkishan S. Rajan, *The Political Economy of a Trade-First Approach to Regionalism* (Singapore: Institute of Southeast Asian Studies, 2002): 3.

<sup>50</sup> Author’s interview with John Wong, Research Director of East Asian Institute, National University of Singapore, August 28, 2006; and with a few Chinese scholars in Beijing, September to November 2006.

Although mutual-economic benefits for both sides of China and the ASEAN states form the basis for mutual cooperation, the two sides do not benefit equally, chiefly for China who has given so many concessions to the ASEAN states. In the next section, I will try to analyze China's major motivations behind such a move. "Power" and "national interests" are here to stay. The following considerations stemmed from China's strategic agenda:<sup>51</sup> First and foremost is the maintenance of a stable and favorable international environment, particularly on China's periphery, which will allow China's economic growth to continue.<sup>52</sup>

The Asian Financial Crisis in 1997 made the Chinese realize the importance of economic stability in Southeast Asia. The economic prosperity of the ASEAN states is conducive to China's regional economic security. China needs a long-term, peaceful and secure neighborhood to ensure its own smooth economic development and building of a well-off society by year 2020, its stated goal. Thus, a good relationship with Southeast Asian countries serves China's fundamental interests better. China's economic multilateral diplomacy has many implications on China-ASEAN security relations. China has always looked at Southeast Asia as an integral part of its surrounding security environment. The increasing interdependence between the two sides under the pro-active diplomacy of China has helped, to a large extent, the two sides to overcome the so-called "security dilemma."

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<sup>51</sup> See Markus Hund, "ASEAN Plus Three: towards a new age of pan-East Asian regionalist: A skeptic's appraisal", *The Pacific Review*, Vol.16, No.3 (September, 2003): 383-417.

<sup>52</sup> Amitave Acharya concluded that, "The rapid advance of transnational economic cooperation both within Southeast Asia and in the larger Asia-Pacific region has been noted for its positive contribution to regional security". See Amitav Acharya, *Regionalism and Multilateralism: Essays On Cooperative Security In The Asia-Pacific* (Singapore: Times Academic Press, 2002): 162.

As has already been proven, closer economic links between the two sides are regarded as a bonus to the management of the territorial dispute.<sup>53</sup> To this end, China is prepared to set aside its territorial disputes with its neighbors and profess a policy of “common security” under its “new security concept.”<sup>54</sup> The increasing economic interdependencies play a vital role in the improvement of the two major issues that complicate the relationship between the two sides. One is the progressively peaceful resolution of the South China Sea dispute, which represents the most salient security issue in China-ASEAN relations. The other development is related to the Taiwan issue. Within this issue, China’s economic diplomacy has gained much success, namely that there has been a decline in the support of the ASEAN states for Taiwan and an affirmation of their support for the one-China policy. Focusing its ASEAN policy overwhelmingly on economic multilateral diplomacy has enabled China to achieve its security goal.

The economic rise of China has entailed policy transformations of the ASEAN states towards China. On the ASEAN side, the security policy of regional countries towards China has shifted from pro-balance-of-power to pro-engagement. The ASEAN states are resolved to join in China’s rise and to benefit from China’s booming economy while sparing much effort to counterbalance the possibility of the

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<sup>53</sup> The emphasis on the role of economic interdependence in developing international relations of neo-liberalism has its value, especially under the tide of globalization and regionalization. However, this does not necessarily mean economic interdependence always has the corresponding spillover effects in other aspects of international relations, such as social and security relations. Such arguments see Michael Yahuda, “The Limits of Economic Interdependence: Sino-Japanese Relations,” Chapter 6, in Alastair Iain Johnston and Robert S. Ross, eds., *New Directions in the Study of China’s Foreign Policy* (Stanford: Stanford University Press, 2006): 162-185.

<sup>54</sup> Amitav Acharya, “Seeking Security in the Dragon’s Shadow: China and Southeast Asia in the Emerging Asian Order”, *Working Paper of ISEAS*, No.44 (March, 2003): 12.

“China threat.” Accordingly, they have managed to bring China into the institutionalized multilateral framework to constrain its behavior. From China’s perspective, closer cooperation with ASEAN will help to address their concern of the “China threat.” The logic then follows that if China’s neighbors do not consider it as a threat, then other countries further away would have less reason to do so.

The second strategic consideration of the Chinese government is to ensure political-confidence building with the ASEAN states. “The CAFTA is an economic process as well as a political and foreign policy process.”<sup>55</sup> As rightly observed by Lijun Sheng, this was the first time that China has found a common platform to engage all the ASEAN states constructively and exclusively; for example, discussing cooperation, rather than quarrelling over issues like the Spratly Islands dispute.<sup>56</sup> The FTA negotiations implied that Beijing could engage ASEAN constructively for at least ten years under one friendly framework. The two sides will work together even closer on regional and international issues. The CAFTA thus can be viewed as a method for both sides to engage in political confidence building.

The third strategic consideration is to isolate Taiwan. A better China-ASEAN economic relationship also means that Taipei will be left with little room to carry out economic diplomacy with ASEAN. China’s move towards the CAFTA will inevitably produce a significant impact on cross-Strait relations. “China’s active involvement in various multilateral institutions will exclude the participation of Taiwan. China has to

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<sup>55</sup> Author’s interview with Kun Zhai, Director of Southeast Asian and the Oceania Studies, China Institutes of Contemporary International Relations, September 2006.

<sup>56</sup> Lijun Sheng, “China-ASEAN Free Trade Area: Origins, Developments, and Strategic Motivations”, *ISEAS Working Paper: International Politics & Security Issues*, No.1 (2003): 1-34.



be active.”<sup>57</sup> The recent development in China’s foreign economic relations has brought substantial psychological and physical pressures on Taiwan especially its possible isolation and marginalization from the ongoing regional integration in East Asia. Taiwan’s business community also fears being pushed into a disadvantageous position in the competition with ASEAN companies over the constantly expanding and lucrative market of the mainland. Although all of the ten states of ASEAN enjoy economic benefits from non-diplomatic relationships with Taipei, they have all formally agreed to the “one-China policy” in favor of Beijing.

The fourth consideration is to apply China’s New Security Concept that advocates a multi-polar world and multilateralism to dilute U.S. unilateralism in world and regional affairs. China first put forward the New Security Concept in 1996, which emphasizes the means of enhancing trust through dialogue, and promoting security through cooperation. With mutual trust, benefit, equality and coordination at its core, China regards economic regionalization and integration as an effective avenue to a peaceful and friendly regional neighborhood. Following this concept, China is prepared to set aside the territorial disputes with the Southeast Asian countries on the South China Sea dispute. The New Security Concept is in contrast to the one during the Cold War, which was characterized by mutual perceptions of hostile intentions between military-political alliances or blocs. Obviously, China is against the unilateral international system dominated by the United States and the idea of forming military alliances or having a military presence in the region as a way to keep the region

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<sup>57</sup> Author’s interview with a professor in Foreign Affairs University, September 2006.

secure. Under the new security concept, non-military means as well as the concepts of non-alliance are advocated. The CAFTA and the general regional economic cooperation is not only an application of the new concept, but also a sign that shows China's stand toward the international security regime. Since China supports a multi-polar arrangement, China would like to see ASEAN acting as one polarity of the world and would like the Southeast Asian states to support such an arrangement.

A last, but not inferior, consideration is to gain influence in the region to defeat perceived attempts at strategic encirclement or containment. This goal is closely related to the post-Cold War relations between the United States and China. For Beijing, pushing for multi-polarity appears to be its only viable option to balance Washington's preponderant power. Partly due to the nature of Sino-American relations that features both cooperative and competitive impulses, and partly due to China's limited comprehensive national strength, Beijing is pushing for this end via diplomatic means, and at the regional level. The ASEAN-led regional institutions are thus critical for the achievement of such a goal.

In conclusion, economically mutual gains form the foundation for the formation of the CAFTA. From China's perspective, political consideration is at least equally important as the consideration of economic factors. China has built its security concern in its economic relations with ASEAN. China's economic multilateral diplomacy towards ASEAN has enabled China to achieve its security goal, and has thus helped both sides to largely overcome the security dilemma. By pushing for the formation of the CAFTA, the Chinese government expects to create a favorable

external environment for its sustainable economic development, which is the most important source of the CCP's legitimacy. Such a strategy also helps China rise peacefully in international affairs. It is hard to prove which considerations of economic gains and political gains are more important in ASEAN-related Chinese foreign economic policy making. Nevertheless, it is certain that strategic considerations are deeply embedded in China's economic diplomacy towards ASEAN.<sup>58</sup>

### ***Influence of International Trend and Environment in the CAFTA Initiative by the Chinese Government***

The world is being drawn together due to free trade, investment and other economic activities under the tide of globalization. Although it is still too early to conclude that the world is flat as has been asserted by Thomas Friedman in his latest work, one thing he mentioned is more than true, that is "One can't stop it (The world is being flattened), except at a great cost to human development and your own future. But we can manage it, for better or for worse. You can flourish in this flat world, but it does take the right imagination and the right motivation."<sup>59</sup> As former Chinese leader Deng Xiaoping pointed out: "The contemporary world is an open world," "There will be no possibility for success if we pursue a close-door policy. China's development cannot be separated from the world."<sup>60</sup> No country wants to and can afford to be excluded from this process. Thus, China has to integrate itself into the world economy.

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<sup>58</sup> Author's interview with Prof. Yunling Zhang, August 2006.

<sup>59</sup> Thomas L. Friedman, *The World is Flat: A Brief History of the Twenty-first Century* (New York: Farrar, Straus and Giroux, 2005): 469.

<sup>60</sup> Deng Xiaoping, *Deng Xiaoping Wenxuan* (Selected Works of Deng Xiaoping), Vol.3 (Beijing: Renmin Chubanshe, 1990): 64, 78.

Instead of passively joining in, it chooses to integrate itself into the world economy selectively and strategically. In the international context, being part of the regime is more rational a choice since it can participate in the process of rules and norms formation, to ensure that those rules and norms are more favorable to its national interests. Richard Snyder categorized two types of motivation in decision making- “in order to” motives and “because of” motives.<sup>61</sup> Holding firmly to national interests in the minds of policy makers, China unquestionably belongs to the former.

The tidal wave of regionalism first began in Europe, when the European Community was founded in 1956. The large-scale formation of regional institutions and organizations appeared in the 1990s, with the building of the European single market in 1993 and the formation of the North American Free Trade Agreement (NAFTA) in 1994. Bilateral and multilateral free trade agreements proliferated afterwards, which may be recognized as another tidal wave of regionalism. The CAFTA was created under such a circumstance. Compared to other stages of regional integration, for example, custom union and common market, an FTA is the primary one, which is relatively easy to form.

After discussing a number of reasons for the formation of regionalism, Gilpin concludes that “regionalism has become a central strategy used by groups of states to increase their economic and political strength and therefore has become an extremely important feature of the global economy.”<sup>62</sup> From most scholars’ perspectives,

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<sup>61</sup> Richard C. Snyder, “Decision-Making as an Approach to the Study of International Politics,” in Richard C. Snyder, H. W. Bruck, and Burton Sapin, eds., *Foreign Policy Decision Making* (New York: The Free Press, 1963): 473.

<sup>62</sup> Robert Gilpin, with the assistance of Jean M. Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 2001): 361.

regionalism is an attractive proposition for many developing countries in this new environment for at least two reasons. First, in a number of ways, regional economic agreements increase the ability of developing countries to attract FDI. Second, regional initiatives offer the possibility of adopting a step-by-step approach to liberalization. In so doing, some of the adjustment costs of and political obstacles to liberalization are expected to be reduced.<sup>63</sup> Shujiro Urata differentiated two types of economic effects of FTAs. One type is the “static effects,” which includes trade creation effect and trade diversion effect. The other type is “dynamic effects,” which includes market expansion effect and competition enhancement effect. Obviously, economies of scale can be achieved and the ability to choose the best locations for production can be improved, as trade barriers are removed and markets expanded. At the same time, FTAs result in the facilitation of efficient production because companies with oligopolies in the region are made more competitive by market integration.<sup>64</sup>

China’s formation of an FTA with ASEAN can in no way be isolated from such international trends of globalization and regionalism. At the time China was planning to bring up the idea of an FTA, two other FTAs in America and Europe, i.e., NAFTA and the European Union (EU) had already taken shape and were maturing. The formation of the CAFTA was also somewhat a direct result of the 1997 Asian Financial Crisis, during which the countries in the region decided to cooperate more

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<sup>63</sup> Shaun Breslin et al. eds., *New Regionalism in the Global Political Economy* (London and New York: Routledge, 2002): 86-87.

<sup>64</sup> Shujiro Urata, “Globalization and the Growth in Free Trade Agreements”, *Asia-Pacific Review*, Vol.9, No.1 (May, 2002): 27.

with one another to counteract the economic threat to the region. Moreover, like any other FTA, the formation of the CAFTA was also due to the pessimistic expectation of the future of the WTO negotiation. Many scholars are debating which is a better option for a country's own benefits: FTAs or the WTO.<sup>65</sup> However, it does not make much sense to do so, because of the stalemate of the WTO, even once skeptical states turn to FTAs. Perhaps we can recall the famous "cat theory" brought up by former Chinese leader Deng Xiaoping here. Whichever way, either through the WTO or through FTAs, as long as it works for a country's interest and development, it is reasonable and shall persist.

After turning from pro-bilateralism to pro-active multilateralism, China also tried to calculate its top policy agenda in terms of regional economic cooperation. This is obviously from the consideration of its imperative geo-economic and geo-political interests under the trends and influences of international and regional environments.

### **III. Policy Coordination and the Supportive Role of the Central and Local Bureaucracies**

China still subscribes to the Marxist-Leninist ideology as adheres to Leninist principles such as "democratic centralism" as the primary principle to manage the whole decision-making process. According to such principles, the central and local bureaucracies shall unhesitatingly support the general policies made by the central government. The roles of the central and provincial bureaucracies are different in the

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<sup>65</sup> See Barry Desker, "In defense of FTAs: from purity to pragmatism in East Asia", *The Pacific Review*, Vol.17, No.1 (March, 2004): 3-26; and Shujiro Urata, "Globalization and the Growth in Free Trade Agreements", *Asia-Pacific Review*, Vol.9, No.1 (May, 2002): 20-32.

CAFTA's formulation. In most cases, bureaucracies act more as policy implementation organs rather than as organs of policy formulation. This is more the case for local bureaucracies. Central bureaucracies assume more responsibilities in the policy formulation process compared with local bureaucracies.

### ***Main Functions of the Central Bureaucracies in the CAFTA***

Since the initiative of the CAFTA both had economic and strategic implications for China, both the MFA and the MOFCOM (as the MOFTEC and the State Economic and Trade Commission: SETC at Zhu's time) took part in the policy discussion process. It was noted that before the agreement was reached, the MFA took the leading role in the initiation and negotiation processes. After the outline was formed, it was the MOFCOM that proceeded to the technical negotiations with the corresponding ASEAN states at the operational level, as well as the implementation of it afterwards. In other words, the role of the MOFCOM at the negotiating table were vital in deciding what kind of agreement policy implementers will follow after the signing of the agreement. Other agencies had added some input, but it was the MOFCOM that led all major negotiations. In the following examination of the major functions of the bureaucracies, such as the MFA, the MOFCOM, and the NDRC, only those departments which were closely related to the policymaking of the CAFTA will be touched upon.

### ***The MFA's Main Functions in the CAFTA:***

It is the ASEAN Division (*Dongmeng Chu*) of the Department of Asian Affairs in the MFA that oversees the CAFTA related issues. The negotiating process with the ASEAN states makes it seem as if the two sides are trying to reach an agreement on economic issues. Nevertheless, according to an official in charge of Asian affairs in the MFA, the CAFTA was first driven by political and strategic considerations.<sup>66</sup> Since the concept of the CAFTA was first proposed mainly under the considerations of political and strategic considerations, the MFA played a more important role at the initial stage. Therefore, the MFA keeps coordinating with the MOFCOM, since it is hard to completely separate political and economic relations between China and ASEAN. The EHP was a case in point in this regard. China's concessions to the four new ASEAN members as well as the Philippines were based on political and strategic considerations than pure economic rationale. The signing of the CAFTA had strategic meaning for China to build a stable and favorable environment in its neighboring area. Economic concessions were more preferred by the Chinese government compared to a delay or even a failure in the signing of the agreement. To the MOFCOM, it was hard to compromise and concede so much in the arrangement from an economic cost and benefit perspective. In fact, it was under the pressure of the MFA that the MOFCOM agreed on such an arrangement as the EHP.<sup>67</sup>

Some scholars have pointed out that Cui Tiankai, the Director General of the Department of Policy Planning (*Zhengce Yanjiushi*) of the MFA from 1999 to 2003, played a very positive role in pushing the concept of the CAFTA at that time. Cui

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<sup>66</sup> Author's interview with an official in the MFA, September 2006.

<sup>67</sup> Author's interview with an official in the MOFCOM, September 2006.



Tiankai was Director General of the Department of Asian Affairs of the MFA from 2003 to 2006. Presently he is Assistant Minister of the MFA. According to those who were closely involved in the policy formulation process of the CAFTA, Cui was very prudent and foresighted. He had ordered his subordinates to conduct a close study on how to improve the economic and trade relations between ASEAN and China even before the concept of the CAFTA was brought forward by Premier Zhu. Realizing the political and strategic implications of signing such an agreement, he put forth a great deal of effort for it to be realized.<sup>68</sup>

*The MOFCOM's Main Functions in the CAFTA:*

There are four departments within the MOFCOM that are responsible for the CAFTA-related issues. The first is the Department of Asian Affairs, mainly in charge of proposing economic and trade cooperation and development strategies with Asian countries; coordinating the domestic stand towards other Asian countries and areas; assuming bilateral economic and trade negotiations and the signing of related documents; supervising the implementation of bilateral or multilateral economic and trade agreements of foreign governments and negotiating with them when needed. Second, the Department of International Trade and Economic Affairs (*Guoji Jingmao Guanxi Si*) is responsible for drawing out as well as implementing the strategies and policies on China's regional economic integration. Moreover, it plays an important role in negotiating and signing regional economic and trade arrangements. Third, the

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<sup>68</sup> Author's interview with an official of the MOFCOM and a scholar from the MOFCOM affiliated Institute, September 2006.

Policy Research Department (*Zhengce Yanjiushi*) is responsible for regional economic cooperation research and for making government policy recommendations. Although the Department of Foreign Economic Cooperation (*Duiwai Jingji Hezuosi*) was not directly involved in the CAFTA, it is responsible for China's "going-out" strategy. It needs to modify policies during the implementation process whenever new challenges arise.

Among the four departments of the MOFCOM, the role of the Department of International Trade and Economic Affairs is more predominant. The CAFTA is still under the process of negotiation on the future cooperation and liberalization of the investment sectors at present. It is this Department that participates directly in all the negotiation processes. The recommendations or ideas of local governments are usually submitted to it for consideration, as well.<sup>69</sup>

Before initiating the concept of the CAFTA, the central government bureaucracies had actually debated heatedly on which country to choose as the first target to sign the FTA with. The MFA and the MOFCOM originally held quite different opinions on this. In fact, China originally considered starting off its FTA negotiation with the Northeast Asian countries, since the relative importance of trade relations with the Northeast Asia countries far outweighs that with the Southeast Asian countries. The idea of building China's first FTA with the Northeast Asian countries was first brought forward by the MFA. Nevertheless, the MOFCOM took a different point of view on whether to take the Northeast Asian countries as their first choice. Their

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<sup>69</sup> Author's interviews with scholars in provincial Academy of Social Sciences in Guangxi and Yunnan, October 2006.

different perspective was due to the fact that the MOFCOM was the very bureaucracy that would be involved in the long negotiation process. Under such circumstances, the MOFCOM had to carefully consider the feasibility and manageability of the policy orientation and choice before proposing the plan.<sup>70</sup> The research on economic cooperation with the ASEAN states began in the early 1990s by the CAIFEC that was affiliated with the MOFCOM. Studies on the possibilities of an FTA between China, Japan and South Korea had also been jointly conducted by the Japan Fair Trade Commission (JFTC), the Korea Institute for International Economic Policy (KIEP) and the Development Research Center of State Council of China. However, due to historical problems as well as the sensitivity of the agricultural sectors of Japan and South Korea, the three sides did not come to terms with each other.<sup>71</sup> To this end, the Chinese government gave up the idea of building an FTA with the Northeast Asian countries of Japan and South Korea. The Southeast Asian states thus naturally became China's second-best choice.

In the event, the MFA and the MOFCOM agreed to choose ASEAN as China's first target to sign an FTA with for two direct reasons. First and foremost, Southeast Asia is considered as a more manageable area around China's borders. When observing China's bordering countries, it is not hard to realize that the bilateral relations between China and Japan, China and Russia, China and India have all been harder to deal with compared to China's relations with the Southeast Asian countries.

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<sup>70</sup> Author's interview with a senior researcher, who participates actively in related foreign economic policy making of the Chinese government, August 2006.

<sup>71</sup> Author's interview with a senior research in CAITEC, who was a member in drafting the feasibility report of the CAFTA, September 2006.

Further, the ASEAN states showed much enthusiasm in constructing an FTA with China due both to their worries on China's entry into the WTO and their desire to grasp the historical opportunity offered by China's fast economic development and opening-up. The ASEAN states were worried that with China's entry into the WTO, the competition between China and ASEAN would intensify.<sup>72</sup> With the signing of the CAFTA, the ASEAN states could enjoy trade benefits earlier than other developed countries before the enforcement of the WTO rules. The mutual needs from both sides made the agreement much easier to reach.

Another debated question among the bureaucracies over the CAFTA was whether China should take ASEAN as a group or as individual countries to build such an FTA with. In reality, it is always easier to negotiate with individual countries compared to making a deal with more parties. The MOFCOM preferred signing the FTA bilaterally with the ASEAN states. Nevertheless, the MFA took the building of the CAFTA as a good opportunity to strengthen the political relations with the Southeast Asian states. China chose the tougher way to regard ASEAN as a group mainly under the push of the MFA. As I mentioned above, in order to focus on domestic economic development and build up the comprehensive power of the country, China needs a more favorable international environment. The neighboring Southeast Asian states count much in this regard. Taking the Southeast Asian countries in the region as a whole unit, China has actually increased its room for political maneuverability in the whole region. As proven by the subsequent speed in developing bilateral relations

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<sup>72</sup> It has been proved as a miscalculation. China has entered the WTO for years up until the present. Facts have shown that China's entry into the WTO did not at the expense of ASEAN states' economic development, but rather as stimulus to their economies.

between China and ASEAN, such a policy was very much a wise choice of the Chinese government. The signing of the Declaration on the Conduct of Parties in the South China Sea has proven its legitimacy. The disputes on the issue have lasted for years. It is the reassurance by the increasing economic interdependency between the two sides that has played a big role in the final declaration. After the signing of the CAFTA, China acceded to the TAC with ASEAN half a year later and became the first strategic partner of ASEAN. In this way, China has created an unprecedented harmonious situation. The MFA's proposal that regards the ASEAN states as a group was strongly supported by the paramount Chinese leaders.

*The NDRC's Main Functions in the CAFTA:*

Two departments in the NDRC are in charge of the CAFTA-related affairs, i.e. the Office of Policy Studies and the Department of Trade. The Office of Policy Studies is mainly responsible for research and study on the strategies, guidelines and policies concerning national economic and social development. It studies the influence of the world economic situation on China and evaluates the implementation of important economic policies. The Department of Trade is responsible for monitoring and analyzing both domestic and international markets; formulating plans for the trade volume of important agricultural products, industrial products and raw materials. Moreover, it is responsible for the coordination within the Commission as well as the organization and negotiation of the WTO, APEC and other regional economic and trade cooperation organizations. It participates in foreign trade policy-making towards countries and regions related to the above-mentioned organizations and to coordinate

the issues in dispute concerning multilateral and bilateral economic and trade relations. The Division of International Cooperation of the Department of Trade undertakes more responsibility in this regard.

During the negotiation of the CAFTA, the MOFCOM needs to coordinate or discuss with the NDRC on important arrangements concerning the development of the national economy, such as the EHP. Further, almost all documents on such arrangements needed to be transferred to the NDRC for joint signature.

### ***Main Functions of the Local Bureaucracies in the CAFTA***

Under China's political system, local governments are not autonomous foreign policy actors. While the central government controls issues related to high politics and leads the direction of low politics issues, local governments develop their autonomy and rights in low politics issues.<sup>73</sup> The role of government bureaucracies at the central level is to make general rules and laws, and not to engage in projects and industrial distributions in detail.<sup>74</sup> After the reform and opening-up, local governments had been empowered with more autonomy and rights, such as the power to conduct foreign trade through the establishment of locally-controlled foreign trade companies, the rights to retain its foreign exchanges to import goods and equipment for local development purposes, the rights to attract foreign investment and administrative

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<sup>73</sup> Zhimin Chen, "Coastal Provinces and China's Foreign Policy Making," Chapter 9, in Yufan Hao and Lin Su, *China's Foreign Policy Making: Societal Force and Chinese American Policy* (Hampshire & Burlington: Ashgate, 2005): 190.

<sup>74</sup> Author's interviews with officials in the MOFCOM, September 2006 and February 2007.

power in varying capacities to approve foreign investment locally.<sup>75</sup> However, as mentioned earlier, these rights are mainly used in the policy implementation process.

The concerns of local governments can be expressed via various avenues. Nevertheless, government agencies at the provincial level and below seldom participate in trade policy-making and international trade negotiations in practice. This was also the case in the policy making process of the CAFTA.<sup>76</sup> The decision making of the CAFTA was more like a foreign economic policy at the national level, thus it was difficult for local governments to add much input to the decision making process. Instead, their functions were more prevalent in the policy implementation process after the agreement was signed by the state. Therefore, the functions of major local bureaucracies will be further discussed in the policy implementation chapter (Chapter Six).

#### **IV. Policy Justification By Think Tanks and Other Academic Scholars**

Joseph Fewsmith argued that, when talking about the role of intellectuals and think tanks in contemporary China one needs to think of several factors, such as the changing nature of the Chinese political system, Chinese society, the intellectual community, and the problems that are posed to the government.<sup>77</sup> As has been discussed in earlier chapters, the professional knowledge and skills of the academic

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<sup>75</sup> Zhimin Chen, "Coastal Provinces and China's Foreign Policy Making," Chapter 9, in Yufan Hao and Lin Su, *China's Foreign Policy Making: Societal Force and Chinese American Policy* (Hampshire & Burlington: Ashgate, 2005): 192.

<sup>76</sup> Author's interview with Professor Yunling Zhang, August 8, 2006.

<sup>77</sup> Joseph Fewsmith, "Where Do Correct Ideas Come From? The Party School, Key Think Tanks, and the Intellectuals", in David M. Finkelstein and Maryanne Kivlehan, eds., *China's Leadership in the 21<sup>st</sup> Century: The Rise of the Fourth Generation* (Armonk & London: M. E. Sharpe, 2003): 163.

scholars are currently needed more in terms of policy justification compared to the pre-reform era. The academic scholars are able to add more input to the FTA policymaking process towards ASEAN. Nevertheless, their role is more prevalent during the policy justification process.

From 1994 up to the present,<sup>78</sup> there have been more than 2,000 Chinese journal articles published in China if one were to search using ASEAN as the keyword. From such an analysis, one can deduce when the study of the free trade between China and the ASEAN states first gained interest among Chinese scholars. Moreover, it is useful to observe the role of these scholars during the formulation of the CAFTA.

First is the analysis by study on the contents of the published articles. After the end of the Cold War, the popularity of ASEAN as a research topic has grown to a great extent. At an earlier stage from 1994, articles on ASEAN mainly focused on AFTA, the internal trade and economic cooperation within ASEAN itself, and the influence of the economies of the ASEAN states to the economies of the Asian-Pacific region. There were almost no articles relating to the concept of China-ASEAN free trade published before year 2002. Since 2002, articles discussing this issue have been coming in increasing numbers. At the local level, such as in Yunnan, Guangxi and Fujian, articles focus on the strategies and tactics of their local government respectively. At the central level, the academic scholars mainly discuss the general principles and strategies between China and ASEAN.

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<sup>78</sup> The following analysis is based on the database of National University of Singapore, *China Journal Net (Zhongguo Qikan Wang)*. The database includes almost all influential academic journals published in China. My scope of research was from 1994 till now.



Second analysis of these articles is based on regional differences of the research orientation of the academic scholars. The study of the CAFTA began from the local level, principally in those provinces bordering the Southeast Asian states, such as Yunnan Province and Guangxi Zhuang Autonomous Region. A number of articles focused on the trade relations between China and ASEAN before the proposal was made by Premier Zhu. From the analysis of the research articles from 1994 to 2006, the number of articles focusing on Guangxi and Yunnan's strategies outnumbered those of other provinces, although there are a few on Guangdong and Fujian Provinces as well.<sup>79</sup> Articles from the central level, which mainly refer to the articles published in Beijing, only emerged in 2002, one year after Premier Zhu formally proposed the concept of the CAFTA. More importantly, more articles are published by China's top journals, such as *Contemporary Asia-Pacific Studies (Dangdai Yatai)*<sup>80</sup> sponsored by the IAPSCASS, *Around Southeast Asia (Dongnanya Zongheng)*<sup>81</sup> sponsored by the Institute of Southeast Asian Studies Guangxi Academy of Social Sciences, and *Journal of Southeast Asian Studies* sponsored by the Institute of Southeast Asian Studies, Jinan University.<sup>82</sup> *Outlook Weekly (Liaowang Xinwen*

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<sup>79</sup> See Jianrong Chen and Zhenjiang Zhang, "Guangdong yu Zhongguo-Dongmeng Ziyoumaoyiqu Jianshe" (Guangdong and the Construction of the China-ASEAN Free Trade Area), *Dongnanya Yanjiu* (Southeast Asian Studies), No.3 (2005): 40-45, 57.

<sup>80</sup> See for example Yunlin Zhang, "Dongya Hezuo yu Zhongguo Dongmeng Ziyoumaoyiqu de Jianshe in Chinese" (The Cooperation of East Asia and the Construction of the China-ASEAN Free Trade Area), *Contemporary Asia-Pacific Studies*, No.1 (2002): 6-11.

<sup>81</sup> See for example Xiaosong Gu, "Duozhong Xingshi, Fenbu Tuijin, Shinian Jiancheng: Zhongguo Dongmeng Ziyoumaoyiqu Tuijin Xingshi" (Different Forms, Step by Step and To be Completed in 10 Years: The Forms of Pushing Forward the China-ASEAN Free Trade Area), *Around Southeast Asia*, No. 5 (2002): 1-4.

<sup>82</sup> See for example Yunhua Cao, "Qianjing Guangming, Daolu Quzhe: Ping Zhongguo Dongmeng Ziyou Maoyiqu Gouxiang" (Bright Future but Flexuous Road: An Analysis on the Concept of the China-ASEAN Free Trade Area), *Journal of Southeast Asian Studies*, No.4 (2002): 1-5.

*Zhoukan*) sponsored by Xinhua News Agency also began to publish articles on this field in a series of issues in year 2002.<sup>83</sup>

From the above analysis, several conclusions can be drawn. First, the concept of the CAFTA was not fully discussed at the academic level before Premier Zhu proposed it at the ASEAN plus China Summit. It shows that scholars actually have not been able to add much input in the formation of the idea. Therefore, it is safe to conclude that the most distinctive characteristics of Chinese foreign economic policy making is still “centralization” of the policy making power.

Furthermore, after the proposal of the CAFTA, the appearance of the large number of scholarly articles on the topic shows that the building of the CAFTA has become a hot topic in the country. Many famous scholars on China-ASEAN relations, such as Yunling Zhang, Xiaosong Gu, and Yunhua Cao<sup>84</sup> have begun to take an interest and further studied this topic. Such a phenomenon proves that the academic scholars actually play a bigger role in the policy justification process. Such an argument is given further proof by the analysis of the following data.

In a search of the databases of the *People's Daily* archives from 1999 to 2003, the number of articles related to the CAFTA were on the rise, from 46 pieces in 1999 to 76 pieces in 2000, to 67 pieces in 2001, then 125 in 2002, 132 in 2003 (using FTA as

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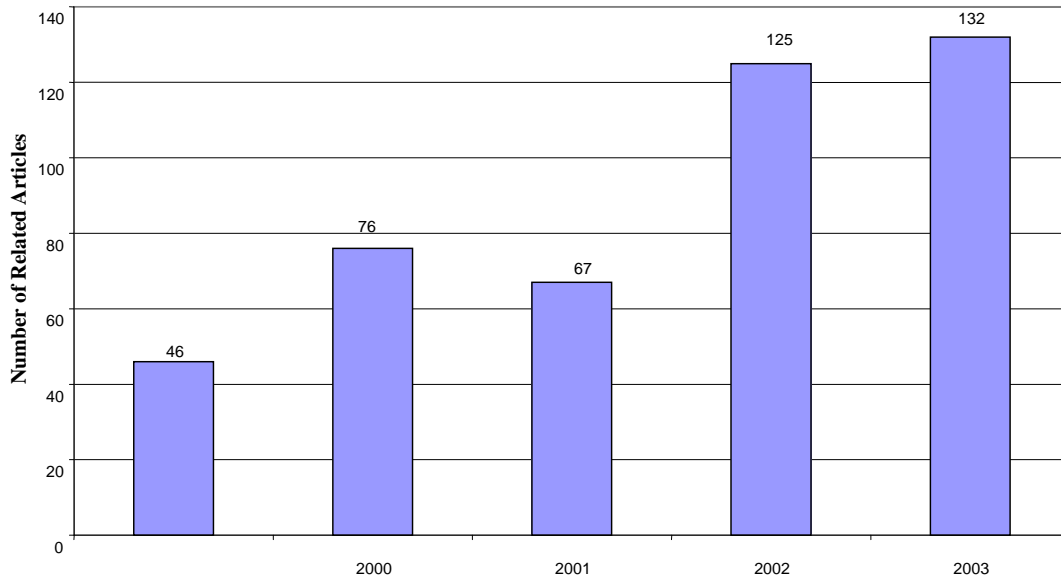
<sup>83</sup> See relevant articles in *Outlook Weekly*: No.21, No.22 and No.45.

<sup>84</sup> The articles of the above-mentioned scholars in 2002 on the CAFTA see Yunling Zhang, “*Dongya Hezuo yu Zhongguo Dongmeng Ziyoumaoyiqu de Jianshe*” (The Cooperation of East Asia and the Building of the CAFTA), *Dangdai Yatai* (Contemporary Asian-Pacific Studies), No.1 (2002): 6-11; Xiaosong Gu, “*Duozhong Xingshi, Fenbu Tuijin, Shinian Jiancheng: Zhongguo Dongmeng Ziyoumaoyiqu Tuijin Xingshi*” (Different Forms, Step by step and To be Completed in 10 Years: The Forms of Pushing Forward the China-ASEAN Free Trade Area), *Around Southeast Asia*, No. 5 (2002): 1-4; Yunhua Cao and Feng Wen, “*Gouzhu Zhongguo de Diyuan Jingji Anquan: Cong Diyuan Jingjixue de Jiaodu kan Zhongguo-Dongmeng Ziyoumaoyiqu*” (The Construction of China’s Geo-Economic Security: Analysis of the CAFTA at the Angel of Geo-Economics), *Dongnanya Zongheng* (*Around Southeast Asia*), No.11 (2002): 1-5.

a key word; see Figure 5-3). These figures show that the interests on the topic of FTA are increasing by year. Under such a trend of research focus, another trend deserves mention even more. After Premier Zhu brought up the idea in 2001, articles related to the CAFTA increased in large numbers, both by academic scholars and government officials.<sup>85</sup> The number of articles on the CAFTA in 2002 and 2003 almost doubled compared to 2001. We can conclude that it was not because the related discussions lead to the making of the decision by the central government. In other words, the discussion and opinions of the academic scholars were not the origins of the policy initiative. Academic scholars were rather playing a role in the policy justification process than acting as policy input during the policy formulation process.

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<sup>85</sup> See for example, Yi Wang, “*Shuidaoqucheng Yiyi Shenyuan*” (To Be Successful When Conditions Are Ripe: Far-Reaching Meaning of the CAFTA), *People’s Daily* (April 26, 2002), and Guangsheng Shi, “*Jiji Canyu Quyuhezuo, Kaichuang Woguo Duiwai Jingmao Xin Geju*” (Participating Actively in the Regional Economic Cooperation to Create a New Situation in China’s Foreign Economic and Trade Relations), *People’s Daily* (April 21, 2006). Yi Wang, the Former Vice-Minister of the Ministry of Foreign Affairs, and Guangsheng Shi, the Minister of the Ministry of Foreign Economic and trade Cooperation. See also Hong Li, Peng Kang, “*Xin Jiyu, Laizi Liang da Zhanlue Xingdong: Lun Xibu Kaifa yu Jianli Zhongguo-Dongmeng Ziyou Maoyiqu*” (New Opportunity From the Two Strategic Movement: Analysis on Western Development and the Building of the CAFTA), *People’s Daily* (May 31, 2002); Wei Li, “*Shuangying de Xuanze*” (A Win-win Choice), *People’s Daily* (April 26, 2002). Hong Li and Peng Kang are two scholars from the Centre of Southeast Asian Studies of Guangxi University, and Wei Li is Vice-Dean of CAITEC under the MOFTEC.



**Figure 5-3: The Number of Articles Related to the FTA in the People's Daily (1999-2003)**

*Source: People's Daily (Electronic Resource) (1999-2003).*

Third, the focus of the discussions and studies of the CAFTA in academia is quite different between the scholars in Beijing and scholars in the local provinces. As discussed in the previous chapter, the central government takes the country as a whole and puts national interest as the top priority. To build the CAFTA, the central government values the approach of multilateralism and seeks to promote regional cooperation and peace by this means. The scholars in Beijing tend to be from government think tanks that are either government-affiliated or policy-oriented independent research institutes and departments. Therefore, the scholars in the capital city concentrate more on the strategic thinking of the central government by taking China as a unitary actor in the international sphere.

For local governments, particularly those bordering provinces with the Southeast Asian states, they are more concerned with the costs and benefits of local economic

interests. Since China's reform and opening-up policy has led to greater autonomy on the part of the provinces, local governments are more consciously aware that foreign trade and investment can greatly boost their economies. Under the favorable condition of the convenient contacts with their neighboring countries, bordering provinces like Guangxi and Yunnan sought closer economic links with their Southeast Asian neighbors.

In the case of the CAFTA, the academia plays a more important role in providing analysis and policy recommendations for local governments during the policy implementation process. Based on the requirements of provincial governments, the scholars at the local level, particularly in those bordering provinces such as Guangxi Zhuang Autonomous Region and Yunnan Province, focus more on the concrete strategies and tactics concerning how local governments could achieve their utmost advantage and interests in the negotiating as well as implementing process of the CAFTA.<sup>86</sup> Moreover, their research focus is also a good reflection of their roles in the policy formulation process. Since their ideas are often not heard and accepted by the central government when it is making policies, they instead focus more on specific strategies of the local governments during the implementation of the general policy set by the central government.

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<sup>86</sup> For related articles discussing the comparative advantage and the development of Guangxi in Constructing the CAFTA, see Jia Liu, "Zhongguo-Dongmeng Ziyoumaoyiqu yu Guangxi Disanchanye de Fazhan" (China-ASEAN Free Trade Area and Guangxi's Development in its Tertiary Industry), *Dongnanya Zongheng (Around Southeast Asia)*, No.10 (2005): 23-27; Yaoying Wei, Yan Zhong and Lining Mo, "Zhongguo-Dongmeng Ziyoumaoyiqu xia de Guangxi Jingji Fazhan Duice" (The Strategy of Guangxi's Economic Development under the CAFTA), *Guangxi Caijing Gaodeng Zhanke Xuexiao Xuebao (Journal of Guangxi Financial College)*, Vol.18, No.4 (August, 2005): 47-50, and etc. Articles on the discussion of Yunnan, see Xun Wu, "Yunnan zai Zhongguo-Dongmeng Ziyou Maoyiqu zhong de Youshi he Zuoyong" (The Advantages and Roles of Yunnan in the CAFTA), *Journal of Yunnan Finances & Economics University*, Vol.19, No.5 (2003): 16-18.

Excluding universities and institutes in Beijing, within China there are four main institutes and universities which are important sources for Southeast Asian studies: The Research School of Southeast Asian Studies of Xiamen University (*Xiamen Daxue Nanyang Yanjiuyuan*) in Fujian province, the Institute of Southeast Asian studies in Jinan University (*Jinan Daxue Dongnanya Yanjiusuo*) in Guangzhou, the Institute of Southeast Asian Studies in Guangxi Academy of Social Sciences in Nanning, Guangxi province, and the Yunnan Academy of Social Sciences in Kunming, Yunnan Province. After the concept of the CAFTA was proposed in 2001, devolved by the Development Planning Commission of Guangxi Zhuang Autonomous Region, the Institute of Southeast Asia Studies of Guangxi Academy of Social Sciences undertook two research projects in sequence, i.e. “the Strategies of Guangxi in the Build-up Process of the CAFTA,” and “the Opportunities as well as Challenges of Guangxi under the CAFTA.” The research results are documented in the book, *The China-ASEAN Free Trade Area and Guangxi*<sup>87</sup> (*Zhongguo Dongmeng Ziyou Maoyiqu yu Guangxi*). The authors were of the view that Guangxi had many advantages in constructing the CAFTA. Also, the idea of yearly fairs or expositions between China and ASEAN was also brought up and discussed in the research.<sup>88</sup>

One academic institute in Guangxi that conducts research on Southeast Asia affairs requires more detail and explanation, since it is a very important think-tank for the Guangxi government. Moreover, it has supported the building of the CAFTA. It is

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<sup>87</sup> See Xiaosong Gu, ed., *Zhongguo Dongmeng Ziyou Maoyiqu yu Guangxi* (The China-ASEAN Free Trade Area and Guangxi), (Nanning: Guangxi Renmin Chubanshe, 2002).

<sup>88</sup> Author’s interview with Xiaosong Gu, the director of the Institute of Southeast Asian Studies, Guangxi Academy of Social Science, who was closely involved in the research and policy justification process of CAFTA as a local scholar. It was conducted by phone in June 2006.

the China Development Institute (CDI, *Zonghe Kaifa Yanjiuyuan*). Popularly called as *Zhongguo Naoku* (Chinese think-tank), CDI was established in 1989 with the approval of the State Council under the direct order of Li Peng, the former Chinese Premier. It was established as a think-tank for economic-related research and consultancy. CDI was an independent research and consultancy organization. It is under the supervision of the Research Office of the State Council. Mainly comprising young and middle-aged researchers, the institute is considered as a “forerunner” of Chinese research and consulting agencies since it is under full market operation. Major research and consulting departments of CDI include the Public Policy Department, Macroeconomic Research Center, Strategy Research Center and the City Planning Research Center. CDI enjoys a good international reputation and is named as one of the top-100 world-class think tanks. The advantage of CDI is that it can provide comparatively more objective opinions compared with research offices in government bureaucracies and government-related research organizations since it is independently operated.

The CDI headquarters are located in Shenzhen, Guangdong Province. CDI has several branches. The branch in Nanning, Guangxi was founded to meet the requirements of the CAFTA proposal. It is responsible for the study of the opportunities and problems posed to Guangxi, and for proposing policy recommendations to the Guangxi government. It sponsors a periodical called *Naoku Kuaican* (*CDI Express*), which covers analysis on the economic and social development issues of Guangxi by giving insightful suggestions. *CDI Express* is very

popular among Guangxi provincial leaders. The ideas and recommendations of the Southwest branch of CDI are often accepted and adopted by the government officials. Sometimes, the provincial government bureaucracies also invite the branch in Nanning to conduct joint-research projects of government concern.<sup>89</sup> CDI has finished the important research project of the government of Guangxi Zhuang Autonomous Region, entitled “the construction of Guangxi as the regional circulation center of goods under the Framework of the CAFTA.”

Local governments also employ resources and organize conferences to analyze the feasibility and practicality of the CAFTA. Sponsored by the government of Guangxi Zhuang Autonomous Region, “China (Guangxi)-Southeast Asia Economic Cooperation Forum” was held from 21-22 November 2002. Chairman of Guangxi Zhuang Autonomous Region, Li Zhaozhuo was present. In the opening speech, Li emphasized the positive attitudes of Guangxi government in developing the advantages and taking Guangxi as the open door to Southeast Asia.<sup>90</sup> The forum invited renowned scholars from both China and overseas. Besides discussing the related issues of China-ASEAN Free Trade, its main focus was on how to position Guangxi in implementing the CAFTA, including what kind of roles it will take and how to seize the opportunity to improve its cooperation with the Southeast Asian states. The forum was a direct response to the signing of the CAFTA earlier that month, on 4 November 2002. The Provincial Government of Yunnan also held a

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<sup>89</sup> Author’s interview with the head of CDI, Guangxi Branch conducted in Nanning, Guangxi Zhuang Autonomous Region, October 2006.

<sup>90</sup> Wen Chen, 2002 *Nian Zhongguo(Guangxi)-Dongnanya Jingji Hezuo Luntan Zongshu* (A Summary of 2002 China (Guangxi)-Southeast Asia Economic Cooperation Forum), *Dongnanya Zongheng* (Around Southeast Asia), No.1 (2003): 17-20.



similar forum in October 2002, titled “The Forum of the Macro-Economy of China and ASEAN” (*Zhongguo-Dongmeng Hongguan Jingji Luntan*). Those provinces also formed various research groups to study the role of their respective provinces in implementing the CAFTA.<sup>91</sup> Such activities showed that local governments were taking positive attitudes and responding actively to the policies made by the central government.

## **V. Conclusion**

From the discussion on the policy formulation and justification processes of the CAFTA, the following three observations can be drawn:

First, the decision-making process is still dominated by the central government. Leaders of the Political Bureau or members of various LSGs constitute topmost level. At the intermediate level are various government bureaucracies under the central government and the Central Committee. Various bureaucracies of the provincial governments are at the basic level. The decisions concerning China’s overall policy guidelines are made by the top level. If the policy decision is too technical or specific, the decision is made by the bureaucracies under the central government, either by individual or several joint bureaucracies according to the complexity of the issue. After Premier Zhu Rongji made the CAFTA proposal, it took only one year for the Expert Group to submit the report. Only another additional year was taken before the

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<sup>91</sup> For example, Guangxi Zhuang Autonomous Region has set up a research group in the Economic Institute affiliated with the Guangxi Development Planning Commission.

agreement was formally signed by the two sides at the Phnom Penh Summit. ASEAN is composed of ten nation-states that are at different economic development levels, while China is made up of complicated administrative regions and provinces. Therefore, how can such an agreement be signed in such a short time? Have the characteristics of Chinese centralism facilitated such a timely process? From the discussion on the policymaking process of the CAFTA, it is not difficult to observe that Premier Zhu's determination to sign such an agreement, as well as the authoritarian nature of the Chinese decision-making process aided in the short agreement process..

Second, local governments are able to exert some influence or argue with the central government to articulate their local interests. Usually this happens via two different methods. First, the opinions or policy requirements are reported by various organizations of the provincial governments directly to their superior organizations respectively. For example, in the case of the CAFTA, those requirements by local agricultural sectors are reported by provincial Departments of Agriculture to their superior bureaucracy, i.e. the Ministry of Agriculture. Another way is through the provincial government itself. Various bureaucracies at the provincial level report directly to their provincial governments. In turn, the officials of provincial governments report directly to the central government, either to the State Council or the CC, CCP. In the formulation of the CAFTA, the input of the local governments was negligible. It is worthwhile to note that the influence of the local bureaucracies is

more in the policy implementation process rather than the conventional policy-making process.

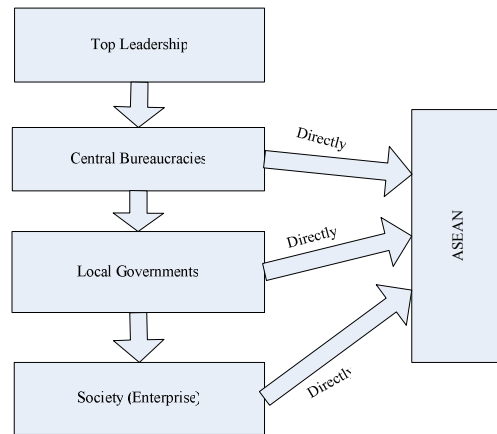
Third, the academic scholars do have some influence in the decision-making process. Nevertheless, these influences are facilitated in indirect ways. Various bureaucracies, both at the central and provincial levels, often allocate projects to research scholars. However, the orientation of the research in most cases has been predetermined. It shall be noted that before the feasibility study was assigned to the two think tanks of the CAITEC and the IAPSCASS, the general policy orientation has already been formed in Premier Zhu's mind. The academia actually is part of the policy justification process more than the conventional policy-making process.

## CHAPTER SIX

### POLICY IMPLEMENTATION: The CAFTA CASE

The processes of policy formulation and policy implementation need to be both separated and integrated. Local governments are not merely agents who simply perform the policies made by the central government. At the local level, when it comes to policy implementation, although the principle of the policy is rigid (*Yuanzhexing*), there is still potential space to maneuver, which the Chinese like to call “flexibility (*Linghuoxing*).”

As illustrated by Figure 6-1, after a policy has been agreed upon by the top leadership, policy implementation is carried out at three levels: from the central bureaucracies to local governments, and further on to society (this mainly refers to the enterprises trading with the ASEAN states in the case of the CAFTA). The central bureaucracies in the CAFTA case refer essentially to ministries such as the MFA and the MOFCOM, which negotiate directly with ASEAN on the detailed rules of implementing the agreement. Local governments have the power to set their specific rules under the general framework made by the central government. Enterprises have a certain degree of autonomy to trade with the ASEAN states directly. Therefore, unlike the policy formulation process, policy implementation is more decentralized and pluralized.



**Figure 6-1: Policy Implementation in the CAFTA Case**

This chapter will not discuss the separate implementation processes of central bureaucracies, local governments, and societies. Guided by the theoretical framework and the methodology of this study, it will focus instead on the interactive relationship between the central and local governments during the policy implementation process. Similarly, when discussing the policy implementation process of the CAFTA, the problems and difficulties encountered during the policy implementation process will also be discussed. There are certainly many implementation challenges for local governments. The challenges during the policy implementation process include formulating their indigenous policies as supplements to the state policy, as well as giving up the state policy halfway despite having accepted it at the very beginning as a compromise.<sup>1</sup> Nevertheless, in the case of the CAFTA, I will not only discuss the problems and challenges posed during the implementation process, but the benefits and gains in this process are also part of my focus. In fact, during the implementation process of the CAFTA, although the interests of some sectors or provinces may be

<sup>1</sup> Bolong Liu, "Improving the Quality of Public Policy-Making in China: Problems and Prospects", *Public Administration Quarterly*, Vol.27, No.1/2 (Spring 2003): 125-141.

violated, other sectors and provinces may benefit. Therefore, the bargaining process of local governments is more about asking for better positions or more preferable policies rather than to think of an alternative way to evade from implementing state policies.

Policy implementation is actually one part of the foreign economic policy making process. Policy decisions can only be considered as one of the important determinants rather than the sole determinant of the result of the policy. The central government is the policy-maker. However, it is the local governments who should take the responsibilities and bear the consequences of the policy. Barry Naughton argued that there was an “implementation bias” in China’s implementation process. By “implementation bias”, he referred to the fact that the central initiatives or policies would be distorted by local governments when they pursue their own advantages and interests instead of adhering to the original intention and orientation of the central government.<sup>2</sup> The question here is whether there are such biases in terms of the implementation of the foreign economic policies, especially during the implementing process of the CAFTA. Related to this point, a series of questions have been raised in relation to the previous question, such as what were the reactions to the signing of the CAFTA at the local level? Did the Southwestern provinces such as Yunnan and Guangxi, which were closely related to the implementation of the CAFTA bargain for preferable policies? What were their strategies when dealing with the central authorities? Was there any competition among the provinces? If there were, what

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<sup>2</sup> Barry Naughton, “The Decline of Central Control over Investment in Post-Mao China,” Chapter 3, in David M. Lampton, ed., *Policy Implementation in Post-Mao China* (Berkeley and Los Angeles: University of California Press, 1987): 51-80.

were they? In the case of the China-ASEAN Expo, how did the Guangxi government secure the hosting right? How did they bargain or lobby with the central government? Were the interests of the central and local governments in contradiction with one another in the policy implementation process? Were their interests always contradictory?

### **I. The Sources of the Bargaining Power**

The sources of the bargaining power of Guangxi Zhuang Autonomous Region and Yunnan Province are derived from their special geographical advantages, the convenient means of transportation, and their leading roles in the regional economic cooperation of Southwest China.

To elaborate further, Guangxi and Yunnan are the only two provinces in China that border the Southeast Asian countries, which have benefited much from their conduct in border trade. As far as border trade is concerned, it has its set of favorable factors which are different from that of global trade. As observed by Brantly Womack, “global trade depends on the world market and on China’s global factor advantages, while border trade depends on convenience and familiarity and on localized factor advantages.”<sup>3</sup> Geographical advantages and transportation conveniences are what Guangxi and Yunnan enjoy when they conduct trade with the Southeast Asian countries. The total area in Guangxi is 236,300 square kilometers while Yunnan is 394,000 square kilometers. The total population of the two provinces are 49.25

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<sup>3</sup> Brantly Womack, “Sino-Vietnamese Border Trade: The Edge of Normalization”, *Asian Survey*, Vol.34, No.6 (June, 1994): 502.

million and 44.54 million respectively. They are more densely populated compared with the other ten provinces and municipalities under the Western Development Strategy.

Both Guangxi and Yunnan also enjoy convenient transportation linkage to the Southeast Asian states. Guangxi enjoys a geographical advantage both as part of Southwest China and as the linkage to Southeast Asia. As described by Hans Hendrichske, Guangxi is a bridge between China and the Southeast Asian countries. Besides this, it also acts as an entrepot for sea access from Sichuan and China's southwest region.<sup>4</sup>

Guangxi is the only province in China that is connected both by land and by sea to the Southeast Asian countries. The length of the border between Guangxi and Vietnam reaches 1020 kilometers. Among its 11 ports along the border, four of them are at the national level. The ports scattering around the Pan-Beibu Gulf are the nearest from the continent of China to the Southeast Asian countries. Guangxi also has the nearest transshipment port to the ASEAN states. Since Guangxi is situated near the sea, with access from rivers as well as the 1,590 kilometers of coastline, it is considered the most convenient passage leading to the Southeast Asian states.

There are two railway routes from Vietnam to China. One is from Hanoi to Nanning, which is 387 kilometers long; the other is from Hanoi to Kunming with a length of 761.2 kilometers. One major expressway is from Youyiguan (Friendship Pass) to Nanning. Youyiguan is located in Pingxiang City and borders Vietnam. In

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<sup>4</sup> Hans Hendrichske, "Guangxi: Towards Southwest China and Southeast Asia," Chapter 2, in David S. G. Goodman, ed., *China's Provinces in Reform: Class, Community and Political Culture* (London & New York: Routledge, 1997): 21-52.



2002, it became China's largest motorcycle exporter. The expressway is the first expressway from China to the ASEAN states. It is 179-kilometers long and was completed at the end of 2005. The Youyiguan-Nanning expressway is connected to the Number One Highway of Vietnam. It has greatly shortened the distance from Guangxi to the ASEAN states by making Nanning the gateway between Guangxi and the ASEAN states. The travel time from Nanning to Hanoi has shortened from 8 hours to only a mere 4 hours. It is considered as the most convenient highway from China to Southeast Asia.

Compared to Guangxi, Yunnan enjoys more geographical advantages in the sense that it is situated at the connecting area among East Asia, Southeast Asia and South Asia. Yunnan is also considered as the most convenient land passage to the ASEAN states first because it borders Vietnam, Laos and Myanmar. Secondly, Yunnan is connected to Thailand and Cambodia via the Lancang-Mekong River. The third reason is that Yunnan is nearer to Malaysia and Singapore. At present, the Vietnamese government is considering spending US\$ 1 billion to build a new expressway from Hanoi to Kunming. The project is expected to start in June 2007 and be completed in 2010. Besides this, the road from Kunming to Bangkok and the railway from Kunming to Singapore are both under construction now. The construction of the road from Kunming to Bangkok is about to be completed. The international shipping route via the Lancang-Mekong River which covers China, Laos, Myanmar and Thailand, and the international road between Kunming and Vientiane is also in operation. There are 11 national-level ports and 9 provincial-level ports along the 4061-kilometer

border, which takes up around 20 percent of the whole length of the border of China. The distance to the ASEAN states will be shortened by more than 3000 kilometers if transport is made by land instead of by sea, and by doing so, 40 percent to 60 percent of the transportation costs will be reduced. Therefore, land transportation out of Yunnan has multiple competitive advantages in terms of speed and costs. Yunnan has always taken the lead in economic integration and regional cooperation with neighboring provinces and neighboring countries, as well. As of late, Guangxi has also been catching up to its provincial neighbor.

Both Guangxi and Yunnan are members of the RECASC.<sup>5</sup> Developed originally from four provinces, i.e., Sichuan, Yunnan, Guizhou, Guangxi and Chongqing city as early as 1984, it is the first regional cooperation organization comprising multi-provinces. The members of the Association are major Party and government leaders of those provinces. The main function of it is to discuss the rules and principles of coordination among those provinces. The Association plays a vital role in boosting the economic coordination and development of the Southwestern region. Guangxi and Yunnan are two very important members in the Association.

Yunnan is also a member of the international Greater Mekong Sub-Region (GMS), which is composed of Cambodia, Lao People's Democratic Republic, Myanmar, Thailand, and Vietnam. GMS was initiated by the Asian Development Bank (ADB) in 1992. Being an informal grouping of neighboring countries, it aims to improve the economic and social development of the region by reinforcing the cooperation among

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<sup>5</sup> The organization of RECASC has been discussed in Chapter 3.

the six countries along the Lancang-Mekong River. Since hosting the China-ASEAN Expo, Nanning has become famous in the international sphere particularly among its ASEAN neighbors. Based on its rising reputation, a proposal on the admission of Guangxi to GMS was submitted. The proposal was accepted, and Guangxi became a member of GMS shortly afterwards in November 2004 at the ASEAN-China Summit.

The capital city of Yunnan, Kunming is a permanent site of the annual Import & Export Commodities Fair, which started in 1993. Kunming Import & Export Commodities Fair (KIECF) is jointly sponsored by the governments of Yunnan, Sichuan and Guizhou Provinces, Guangxi Zhuang and Tibet Autonomous Regions, and Chongqing Municipality and Chengdu City. More than 4,000 guests from approximately 60 countries and over 1,000 domestic enterprises from 20 provinces, autonomous regions and municipalities participate in the fair each year.<sup>6</sup> As the increasing importance of the ASEAN states in regional economic development becomes clearer, KIECF also regards the ASEAN states as one of its targeted markets. Since 2003, KIECF has begun organizing ASEAN exhibitions. The experiences gained by these activities and involvements have enabled Yunnan to increase its bargaining power with the central government.

The Pan-Pearl River Delta Regional Cooperation (PPRD) encompasses nine provinces and two regions, i.e. Guangdong, Fujian, Jiangxi, Hunan, Guangxi, Hainan, Sichuan, Guizhou, and Yunnan, as well as Hong Kong and Macao Special Administrative Regions (SARs). The cooperation focuses on the fields of

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<sup>6</sup> Kunming Commodities Fair Expands Range, May 26, 2004, available at: <http://www.china.org.cn/english/2004/May/96508.htm>; retrieved on August 30, 2006.

infrastructural construction, investment, commerce and trade, among others.<sup>7</sup> Other economic cooperation mechanisms include the two economic corridors of “Kunming-Laojie-Hanoi-Hai Phong-Quang Ninh” and “Nanning-Liangshan-Hanoi-Hai Phong-Quang Ninh”, and the Beibu Bay economic rim. Phan Van Khai, the former Prime Minister of Vietnam visited China on 20 May 2004. In the joint communiqué issued later, the two sides agreed to establish an expert panel under the framework of China-Vietnam economic and trade cooperation commission. An expert panel was set up to discuss the feasibility in building the above-mentioned two economic corridors and the Beibu Bay economic rim.<sup>8</sup> Guangxi plays a vital role in the construction of the two economic corridors and the Beibu Bay economic rim.

The Pan Beibu Gulf Rim Cooperation (*Huan Beibuwan Jingji Quan*) comprises Guangxi, Guangdong and Hainan Provinces of China, and the six ASEAN states such as the Philippines, Vietnam, Cambodia, Malaysia, Indonesia and Brunei. It has been set up as a sub-regional economic cooperation under the framework of China-ASEAN economic cooperation. In the Forum on Economic Cooperation of the Beibu Gulf Rim in July 2006, Liu Qibao, Secretary-general of the CCP committee, Guangxi Zhuang Autonomous Region, proposed the idea of “Pan-Beibu Gulf Rim”, which covers not only China and Vietnam, but also Singapore, Malaysia, the Philippines, Brunei, and Indonesia. During the very forum, the so-called “M Strategy” was also proposed by Liu. The M Strategy comprises the Nanning-Singapore Economic Corridor (NSEC,

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<sup>7</sup> The official website of Pan-Pearl River Delta regional cooperation is available at: <http://www.pprd.org.cn/>; accessed on January 8, 2007.

<sup>8</sup> Joint Communiqué between the People's Republic of China and the Socialist Republic of Vietnam, October 8, 2004; available online at: <http://www.fmprc.gov.cn/eng/wjdt/2649/t163759.htm>; retrieved on August 18, 2006.

*Jingji Zoulang*) as the axes, and GMS cooperation as well as Pan-Beibu Gulf Rim Economic Cooperation as two wings, which form an “M Shape”. The areas of the cooperation include marine economic cooperation, mainland economic cooperation, and Mekong sub-region cooperation, all initials with the letter “M”.

The NSEC proposed by Liu Qibao begins in Nanning, passes through Hanoi, Vientiane or Phnom Penh, Bangkok, Kuala Lumpur, and ends in Singapore. It also extends to Myanmar. The idea of the NSEC comprises two major proposals. The first proposal is to set up a system of joint conference by cities, counties and enterprises along the line so as to improve their mutual understanding and communication, and to facilitate future cooperation with investment, trade and tourism. The second proposal is to build an expressway linking Nanning to Singapore. According to Liu Qibao, it is feasible because only 300 kilometers of new road needs to be built while the total distance exceeds 3,000 kilometers.<sup>9</sup> The ADB has already provided US\$ 400 million worth of preferential loans to Cambodia and US\$ 54 million worth of assistance to help Cambodia build the 300-kilometer railway within its own territory. The project is expected to be completed in 2015.

Guangxi and Yunnan are the connecting regions of the above regional economic cooperation mechanisms, which provide them with unique geographical advantages. The positive roles they have in boosting the economic cooperation in the region are sure to reinforce the functions of the existing mechanisms and act as new stimulators to the CAFTA. The development of these two regions via economic cooperation and

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<sup>9</sup> China Targets Beibu Gulf as Next Development Driver, July 21, 2006, available at: <http://www.china.org.cn/english/2006/Jul/175470.htm>; retrieved on August 30, 2006.

integration with the ASEAN states plays a crucial role in boosting the economies of those vastly remote western regions of the country. With China's fast economic development, imbalances between different provinces and regions keep enlarging. Boosting the opening-up and economic development of backward areas has become the top concern of China's economic strategies. In this regard, Southwestern regions, such as Guangxi and Yunnan possess the advantage to seize the opportunity to implement the Western Development Strategy to develop their economies at a faster speed. Meanwhile, due to its geographical adjacency and economic relations with the ASEAN states, it is appropriate and wise for the Chinese government to single out this area as a region of strategic importance. All these advantages enhance their bargaining power with the central government.

Due to the similarities of the two provinces, the competition between them is inevitable. Since both Yunnan and Guangxi have similar objective conditions to be the "bridgehead" of the CAFTA, such as the advantages of geographical vicinity, and similar natural resources imports from the ASEAN states, the competition between the two provinces is intense.<sup>10</sup> Arguments and debates over which is the bridgehead of the CAFTA are frequent in the related discussions and meetings involving participation of both provinces. Some researchers in government-affiliated research institutes in Yunnan have pointed out that, "The idea of the China-ASEAN Expo was

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<sup>10</sup> The competition among provinces was analyzed in detail in Song Ding, *Zhongguo Dongmeng Ziyoumaoyiqu yu Xinan Minzu Jingji* (China-ASEAN Free Trade Area and the Economy of Southwest China) (Beijing: Minzu Chubanshe, 2004). Such competition includes the competition in the construction of both landway and waterway to Southeast Asia; the competition in the border port and the competition in tourist industry. Related news is available at: <http://www.china.org.cn/chinese/EC-c/433233.htm>; retrieved on September 26, 2006.

originally brought forward by Yunnan. The Yunnan government was quite certain that the hosting rights would inevitably be given to Yunnan. Nevertheless, to its dismay and astonishment, Yunnan failed to secure the hosting rights for the Expo. It was defeated by Guangxi.”<sup>11</sup> Such arguments revealed the relative unwillingness of Yunnan to accept the final decision of granting the hosting rights to Nanning. In fact, the competition between Guangxi and Yunnan began as early as when the concept of the CAFTA first surfaced.<sup>12</sup> The idea of the construction of another economic zone consisting of Nanning, Kunming and Guiyang was brought up to cope with this fierce competition. The new economic zone will be based on the Nankun Railway.<sup>13</sup>

## **II. The Motivation of Bargaining and Incentives for Policy Implementation**

### ***Bargaining Because of Economic Interests***

Overall, provinces such as Guangxi and Yunnan take a positive attitude to implementing the CAFTA. The principal reason is that such a policy is largely to their economic interests. The acceleration of the CAFTA will provide Guangxi and Yunnan with vast business opportunities, and thus boosting the economic development of the two provinces.

In the case of Yunnan and Guangxi, the trade with the external world market, particularly with the Southeast Asia countries accounts for a large part of their total

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<sup>11</sup> Author's interviews with Yunnan scholars in government-affiliated research institutes, October 2006.

<sup>12</sup> See online news, “*Zhengzuo Zhongguo-Dongmeng Qiaotoubao: Yun Gui Liangsheng Anzhan*” (Competing for Bridgehead of the CAFTA: the Contest between Guangxi and Yunnan), October 31, 2003; available at: <http://www.china.org.cn/chinese/EC-c/433233.htm>; retrieved on September 26, 2006.

<sup>13</sup> Ibid.

trade volume. Also, trade between Guangxi and the ASEAN states has been increasing steadily in recent years. Following the European Union, ASEAN ranks second among Guangxi's trading partners; its trade volume with the ASEAN states accounted for as high as 25.9 percent of its total trade in 2003. Vietnam shares roughly 637 kilometers with Guangxi's border. Since the 1990s, the amount of border trade has increased tremendously (see Table 6-1). The border trade between Guangxi and Vietnam reached US\$9.87 billion in 2005, increasing by 31.3 percent compared to the previous year. It accounted for 19 percent of the total foreign trade volume of Guangxi and 80 percent of its total trade with the ASEAN states. Till then, Vietnam has been ranked as the number one trading partner of Guangxi for seven consecutive years. Border trade has become a very important source of revenue for local Chinese governments. Besides increasing the trade volume, mutual investment has also broadened and deepened. Until 2005, Guangxi invested US\$ 2.1 billion in Vietnam while Vietnam invested US\$ 1.5 billion in Guangxi. It was reported that the large increases in trade volume from July 2005 to June 2006 was due to the enforcement of the policy on the reduction of tariffs on the basis of the Agreement on Trade in Goods under the Framework of the CAFTA. Since the start of the tariff reductions from 20 July 2005 till June 2006, the trade between Guangxi and the ASEAN states reached US\$ 1.5 billion, an increase of 32.9 percent compared to the year before the tariff reductions.<sup>14</sup>

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<sup>14</sup> See online news, "Pandian Jiangshui Yingxiang" (Summary on the Effects of the Tariff Reductions), July 27, 2007 at: [http://www.gx.xinhuanet.com/newscenter/2006-07/27/content\\_7622865.htm](http://www.gx.xinhuanet.com/newscenter/2006-07/27/content_7622865.htm); retrieved on November 19, 2006.



**Table 6-1: The Proportion of Border Trade and Trade Value of Guangxi-ASEAN to Total Trade of Guangxi (With Vietnam)**

(US\$ million)

<b>Year</b>	<b>Total Trade (Export, Import)</b>	<b>Border Trade</b>	<b>Proportion</b>	<b>Trade with ASEAN</b>	<b>Proportion</b>
1999	1753(1247,506)	136	7.8	369 (289, 80)	20.5
2000	2038 (1493,545)	292	14.3	439 (310, 129)	21.7
2001	1797 (1236,562)	287	16.0	419 (259, 160)	23.4
2002	2430 (1507,923)	486	20.0	627 (442, 185)	25.8
2003	3192 (1970,1222)	665	20.8	826 (552, 274)	25.9
2004	4288 (2396,1893)	753	17.6	1001 (636, 365)	23.3
2005	5183 (2877,2305)	987	19.0	1224 (831, 393)	23.6

*Source: Guangxi Yearbook and Guangxi Statistical Yearbook (2000-2005)*

ASEAN is the largest trading partner of Yunnan Province. Among the top-ten trading partners of Yunnan, four of them are ASEAN members. Myanmar ranks as the first. The other three includes Vietnam, Indonesia and Cambodia. About 95 percent of Yunnan's foreign economic and technological cooperation projects are with the ASEAN states. As shown in Table 6-2, the border trade of Yunnan with three ASEAN states, namely Vietnam, Laos and Myanmar, as well as the trade volume of Yunnan with other ASEAN states have increased annually since ASEAN's inception. For example, it increased nearly three times from US\$ 549 million in 1999 to US\$ 1.6 billion in 2005. In 2003, Yunnan's trade with the ASEAN states accounted for around 40 percent in proportion to its total trade volume. Trade with the ASEAN states took up between 30 to 40 percent of its total trade from 1999 to 2005 consecutively. Such a proportion is relatively high. In the first half of 2006, the trade volume between Yunnan and ASEAN reached US\$ 810 million. The trade between Yunnan and the ASEAN states increased 43.5 percent compared to the same period in 2005,

accounting for up to 35 percent of Yunnan's total trade. It was reported that the preferential policies offered to the ASEAN states by the Chinese government increased the border trade between Yunnan and the ASEAN states by up to US\$ 370 million in the first half of 2006, an increase of 47.3 percent compared to the same period in 2005.<sup>15</sup>

**Table 6-2: The Proportion of Border Trade and Trade Value of Yunnan-ASEAN to Total Trade of Yunnan (With Vietnam, Laos and Myanmar)**

(US\$ million)

Year	Total Trade (Export, Import)	Border Trade	Proportion	Trade with ASEAN	Proportion
1999	1660 (1034,625)	288	17.3	549 (458, 91)	33.1
2000	1813 (1175,638)	356	19.6	627 (522, 105)	34.6
2001	1989 (1244,745)	346	17.4	706 (562, 144)	35.6
2002	2226 (1430,797)	371	16.7	822 (624, 199)	36.8
2003	2668 (1677,991)	420	15.7	1013 (771, 241)	38.0
2004	3748(2239,1509)	524	14.0	1276 (962, 314)	34.0
2005	4738(2642,2097)	655	13.8	1557 (1091, 466)	32.9

Source: *Yunnan Yearbook (2005) and Yunnan Statistical Yearbook (2000-2005)*.

Benefiting from the advantages of territorial adjacency, Guangxi and Yunnan will gain much from the CAFTA. The building of the CAFTA will not only increase their trade volume with ASEAN, but will also improve their capacities in attracting FDI, and improve development in the industry, tourism, and transportation sectors. At the same time, since the ASEAN states are at different levels of economic development and have different comparative advantages, the two sides can complement each other

<sup>15</sup> See online news, “*Qian Liuyue Yunnan Dui Dongmeng Waimao Tupo Bayi Meiyuan*” (The Trade Volume between China and ASEAN Exceeded US\$ 800 Million in the First Half Year of 2006), July 15, 2006 at: <http://www.ynnic.gov.cn/yunnan,china/76843776777125888/20050715/501061.html>; retrieved on August 11, 2006.

in natural resources, product structure, and industrial-primary products. Therefore, the potential cooperation in economics, specifically trade, is vast.

Guangxi possesses a solid industrial base, in which it enjoys comparative advantages vis-à-vis the ASEAN-4, i.e. Vietnam, Laos, Cambodia and Myanmar. Guangxi is rich in producing cash crops, such as sugarcane, peanut, cassava, orange, pineapple, banana, and longan. Sugarcane is the second largest profitable crop in Guangxi next to grain. Sugar production accounted for 58.8 percent of the total production in China, which makes Guangxi one of the major sugar-producing provinces. Most of China's big sugar enterprises are concentrated in Guangxi and their production costs are the lowest in China. The ASEAN states have large demands in sugar, particularly for countries such as Cambodia that has no sugar industry. Moreover, the ASEAN-4 is also very weak in the machinery industry. There are shortages in agricultural machinery, which makes those countries a big potential-market for Guangxi. For example, Vietnam needs 50,000 to 60,000 small engines annually whereby her domestic production is only between 16,000 and 17,000. Vietnam also needs more tractors, water pumps and reaping machines. The machinery industry is Guangxi's traditionally superior industry. It has a large number of powerful enterprises, such as Yuchai Engineering Machinery Corporation Limited, the largest production and export base of mini construction machinery in China; and Liuzhou Construction Machinery General Factory, the biggest enterprise in the pre-stressing field in China. Guangxi also produces a large number of competitive construction products, such as cement, glass, and talcum. The output of such products

in Guangxi alone far exceeds that produced by the ASEAN-4. For example, the cement output in 2003 was 26.65 million tons, in contrast to the annual production of 15 million tons in Vietnam, 350,000 tons in Myanmar and 78,000 tons in Cambodia.<sup>16</sup>

In terms of imports, exports and industry specialization, Yunnan's economy is complimentary to the ASEAN economy. Over 80 percent of Yunnan's exports to ASEAN are industrial products, such as phosphors, baked cigarettes, non-ferrous metals, fertilizers, construction materials, light textile products, home appliances etc, whereas the imports from ASEAN include ores, lumbers, agricultural products and sea products. They are also complementary in terms of resource exploitation. Among the ASEAN neighboring countries, Myanmar, Laos, Cambodia and Vietnam are rich in resources, such as calcium, iron, aluminum, and tin. Yunnan is advanced in exploration, mining and metallurgy technologies compared to these countries. Similarly, Thailand and Vietnam are among the largest rice-exporting countries in the world while Myanmar has a large amount of potential in grain production. Yunnan is advanced in fine-variety-grain research and development, and water conservancy construction. The cooperation in this field is beneficial to both sides: it can help the ASEAN states to develop its resources and improve their production techniques by introducing comparatively advanced technologies from Yunnan, and conversely Yunnan is able to export more of its mechanical machinery to its neighbors.

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<sup>16</sup> Author's interviews with government officials and scholars in Guangxi, October 2006; see also Ying Feng, "Guangxi Yingzai Zhongguo-Dongmeng Ziyoumaoyiqu Jihua zhong Youxian Shouyi" (Guangxi Shall Benefit in Advance from the CAFTA), *Guangxi Caizheng Gaodeng Zhuanke Xuexiao Xuebao* (Journal of Guangxi Financial College), Vol.18, No.1 (February, 2005): 36-38.

With the building of the CAFTA, many cities in Guangxi such as Nanning, Beihai, Qinzhou and Fangcheng Port have all been pushed to the forefront of the economy. Guangxi Zhuang Autonomous Region enjoys the opportunity to develop new economies in a group of cities, thus promoting Guangxi as an international exchange center of goods. This sort of development may boost related industries of Guangxi further. Also, the influx of capital, technology and human resources will accelerate Guangxi's development by leaps and bounds.<sup>17</sup>

Another potential benefit for provinces such as Guangxi and Yunnan is that the implementation of the CAFTA will improve the status of the two provinces in their trade with the ASEAN states, as well as countries all over the world. The CAFTA has provided a systematic framework and safeguard mechanism for the development of trade relations between China and ASEAN. It will also act as a new impetus for further economic development of the provinces in China. For example, in order to put the building of the CAFTA into operation, Chinese Premier Zhu Rongji proposed to hold the China-ASEAN Expo in Nanning, capital city of Guangxi Zhuang Autonomous Region annually. The China-ASEAN Expo has brought vast business opportunities for Guangxi. Being a part of the CAFTA construction, it provides unprecedented opportunities for the quick development of Guangxi Zhuang Autonomous Region. Based on the analysis report by the Development Research Center of Guangxi, the CAFTA will boost Guangxi's economic development growth

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<sup>17</sup> Southwest Branch of China Development Institute, "*Cong Guojia Zhanlue de Jiaodu Jiedu Zhongguo-Dongmeng Bolanhui*" ("Strategic Analysis of the China-ASEAN Expo: Opportunities and Challenges of Guangxi"), *CDI Express*, No.2 (October, 2003): 5.

at a growth rate of 1 percent or so, which is far bigger than the growth rate of 0.3 percent for the whole country and the same as the ASEAN states.<sup>18</sup>

Moreover, further development of infrastructures such as transportation, energy sources, and communication will be realized under more financial support from the central government to Yunnan and Guangxi. Consumption, investment and export are figuratively described as “the three horses of troika” that have been supporting China’s economic growth in recent years. The contribution of investment in infrastructure in driving the economic development of China is remarkable among them. As the only two provinces bordering the ASEAN states, Yunnan and Guangxi are considered China’s strategic provinces. During the building of the CAFTA, to strengthen their advantages as passageways to Southeast Asia is an inevitable choice of the Chinese government. The central government has granted a large amount of money to the construction of both land and sea transportation of the two provinces to provide better services for smooth trading with the ASEAN states. Undoubtedly, the central government will further increase such investment to both Yunnan and Guangxi. Such infrastructure construction projects will certainly drive the social and economic development of the two provinces.

The EHP has also benefited Yunnan. According to the staff in charge of the CAFTA in the DOC of Yunnan Province, Yunnan can benefit from three aspects: firstly, Yunnan has a comparative advantage in producing a number of species of

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<sup>18</sup> From the report of a research project conducted by the Development Research Center, Guangxi Academy of Social Sciences, and the Guangxi Bureau of Commerce, “*Zhongguo-Dongmeng Ziyoumaoyiqu Gei Guangxi Dailai de Jiyu, Tiaozhan ji Guangxi de Yingdui Zhanlue*” (The CAFTA: Opportunities, Challenges, and Strategies of Guangxi), July 27, 2004; available online at: <http://www.gx-info.gov.cn/>; retrieved on September 28, 2006.

tropical fruits. Fruits such as pineapples and bananas have a longer shelf life benefiting from the climatic advantages associated with a sharp temperature increase in early spring and a slow temperature decrease in autumn. Secondly, some fruits and vegetables in Yunnan are complementary to that of Thailand. Yunnan is situated in both a sub-tropical and temperate zone. While Thailand produces mainly tropical fruits, Yunnan can produce tropical as well as temperate fruits, such as apples, pears and chestnuts. Thirdly, the import of tropical fruits from Thailand can bring new opportunities for the development of Yunnan's tropical fruits industry. It is conducive to the adjustment of the industrial structure of tropical fruits in Yunnan, the regionalization in optimizing the production of tropical fruits and the improvement of the level of the technology. Besides this, the trade between China and Thailand will bring about new management concepts, thus boosting the development of the marketing net of Yunnan Province.<sup>19</sup> On the basis of the potential benefits of Yunnan Province from the CAFTA, the Provincial Government has put "boosting the building of the CAFTA and GMS sub-regional cooperation" as one of the guidelines of the provincial 11<sup>th</sup> Five-year plan.<sup>20</sup>

Considering the importance of the ASEAN states on the economic development of Guangxi and Yunnan, it is not difficult to understand why they are enthusiastic about the building of the CAFTA and why they exert their energies in bargaining with the

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<sup>19</sup> Author's interviews with the officials in charge from the DOC of Yunnan Province, October 2006.

<sup>20</sup> Full report on the 11<sup>th</sup> Five-year Plan of Yunnan province is available online at: <http://www.yn.gov.cn/yunnan.china/73468276046299136/20060714/1085004.html>; retrieved on October 23, 2006.

central government for better positions. Such activities ultimately serve their own provincial interests.

### ***Bargaining Because of the Difficulties and Challenges Posed***

Another reason exists, as opposed to the above economic interests of local governments, but also explains why local governments need to bargain with the central government, particularly those provinces in Southern China which were also negatively affected by the CAFTA. They are bargaining because some of their industrial sectors or enterprises are undergoing new challenges and difficulties posed by the implementation of the CAFTA.

The first challenge is what the enterprises conducting border trade with the ASEAN states have to face. Before signing the CAFTA, enterprises conducting border trade enjoy policies of special treatment. As the number of products under tariff concessions increases, the special treatment enjoyed by such enterprises have been removed gradually, which have made those enterprises lose their attractiveness compared to previous trading arrangements before the implementation of the CAFTA. For example, from 1 January 2004, the preferable policy of half a percentage point of trade concession on fruits that traded by border trade has been cancelled. Those enterprises facing difficulties are urgently trying to transform their trading models.

The second challenge is the diversion of FDI. Both Guangxi and Yunnan have similar sources of FDI, such as from Japan, South Korea and Singapore. Under the Framework of the CAFTA, international capital can enjoy the same treatment in any



of the 11 countries. Moreover, China has granted differential and preferable treatment and tariffs to the new ASEAN-4 states. To attract FDI, the two provinces are facing fierce competitions from the ASEAN states, particularly from Vietnam.

The third, the biggest challenge is within the agricultural sector. Provinces in Southern China, such as Guangxi (Guangxi is more serious than Yunnan in this regard since most part of its area is in the tropics) and Yunnan, have similar agricultural structures as the ASEAN states. They all produce similar tropical fruits, such as longan, litchi, mango as well as sugarcane and cassava. However, the ASEAN states have a comparative advantage in producing those fruits and products since the costs of production in the Southern China provinces are much higher. For example, under the zero-tariff agreement of fruits with Thailand, the average tariff of vegetables and fruits was reduced from 30 percent to zero. As a result, there was a surge in the export of tropical fruits from Thailand into China, and the fruit growers in the Southern China provinces had to pay the costs. Besides this, the price of sugar in Southern China is also much higher than the ASEAN states.

Zhang Mingpei, Director of the Agriculture Department of Guangxi listed three major challenges for Guangxi agricultural industry. First, according to the agreement reached, the ASEAN-4 enjoys a transitional period of tariff concessions while Guangxi does not; second, China's tariff reduction speed is faster than the ASEAN-4; third, those agricultural products which Guangxi has comparative advantages over are on the exclusion product list of ASEAN. Thus, it is hard for such products to be exported to the ASEAN states. For example, the main products that China imports

from the ASEAN states are fruits, nuts and vegetables, which amount to US\$ 360 million and account for 77.3 percent of its total import value under the EHP. After the tariff has been reduced to zero, it is anticipated that the costs on longan, litchi, banana, mango and pineapple for Guangxi will be RMB 633 million. And thus, the costs to every fruit grower will be RMB 85.5.<sup>21</sup>

The DOC of Yunnan Province has also set up a research team to study the effects of the zero-tariff agreement on Yunnan. According to their report, after the agreement on zero-tariff came into effect, Yunnan's export tariff on vegetables, potatoes, and onions was reduced from the most-favored-nation tariff of 13 percent to zero. Yunnan's import tariff on durians, mangos, and litchi from Thailand was reduced from 17 percent to zero, and Thailand's import tariff of apples, pears from Yunnan was also reduced from 14 percent to zero. The reduction in tariffs on fruits and vegetables has much influence on Yunnan's production and circulation of both fruits and vegetables. Therefore, besides the advantages and benefits Yunnan will enjoy from the agreement, many challenges will also be posed to Yunnan.<sup>22</sup>

First, the tariff of fruits to Yunnan Province was reduced from 14 percent on average to zero, which further reduced 14 percent of the price of imported fruits from Thailand. Moreover, the quality of imported fruits from Thailand is better. The reduction in production costs has improved the comparative advantage of the tropical fruits imported from Thailand. Secondly, the categories of tropical fruits in Yunnan

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<sup>21</sup> The figures are available online at: <http://www.china-customs.com/customs/data/2014.htm>; retrieved on September 30, 2006.

<sup>22</sup> See the website of the Department of Commerce of Yunnan Province, available online at: <http://www.ynfumin.gov.cn/bofcom/432911829895741440/20051220/7716.html>; retrieved on October 23, 2006.

are very limited; Mango, longan and litchi take up around 28.6 percent, 14.7 percent and 26.8 percent respectively of the whole tropical fruits of the province. At the same time, Thailand enjoys economies of scale in producing such fruits. Moreover, such tropical fruits in Thailand reach the market one or two months ahead than those from Yunnan. The earnings of such fruit growers in Yunnan have been reduced tremendously. Third, Yunnan is relatively backwards in the level of economic development. It is relatively slow in the opening-up process and smaller in trade volume, while Thailand has operated as a market economy for a long time and has much more experience in production administration and market exploitation than Yunnan.

Since the implementation of the EHP and zero-tariff agreement with Thailand, the imports of tropical fruits from the ASEAN states have been on the rise annually. The ASEAN states remain China's largest fruit provider. The amount of fruits imported from the ASEAN states increased from 776,000 tons in 2003 to 900,000 tons in 2005, accounting for 73.4 percent and 77.3 percent of China's total fruit imports in the respective years. Vietnam, the Philippines and Thailand are the top three importers of Chinese fruits among the ten ASEAN states. China imported 330,000 tons and 249,000 tons from Vietnam and Thailand in 2005, increasing 9.8 percent and 84.4 percent compared to the year of 2003 respectively.<sup>23</sup> Guangxi Zhuang Autonomous Region and Yunnan Province are among those provinces in China who suffered the most from the sharp increases in the imports of ASEAN fruits. The cost of fruit

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<sup>23</sup> Min Ding, "Dongmeng Shuiguo Gei Huanan Shuiguo Zhongzhihu Juda Yali" (Big Pressure on Fruit Growers of South China from ASEAN-Import Fruits), *Nongcun Shiyong Jishu* (June, 2006): 12.

growers in Guangxi can be clearly observed from the figures on the income reductions of longan growers in the following table (see Table 6-3). In 2004, total earnings of the agricultural industry of Guangxi decreased by RMB 1.56 billion compared to 2000 while the average income of fruit growers decreased by RMB 586.47 compared to 2000.

**Table 6-3: The Costs of Longan Growers of in Guangxi**

Year	Area (10,000 mu)	Output (10,000 dun)	Purchasing Price (Yuan/Kilogram)	Earnings Reduction Of Agricultural Industry Compared to 2000 (Yuan billion)	Average Income Reduction per fruit grower (Yuan)
2000	303.7	15.09	8		
2001	309.7	15.13	6	0.326	122.56
2002	338.5	35.6	2.8	1.85	695.49
2003	305.1	30.7	4	1.23	462.41
2004	303.5	34.7	3.5	1.56	586.47

*Source: From an interview with an official from Guangxi DOC and the report of Guangxi DOC submitted to the MOFCOM that he shared with the author.*

Last but not least, since China's admission into the WTO, China has to meet international trading rules by implementing a uniform system of tariffs in all the provinces in China under the rules of the WTO. Yunnan will lose the rights to enjoy preferential tariff policies as a border province. The temperate fruits of Yunnan have to face strong competition from those provinces rich in producing fruits of the same categories, such as Hebei and Shaanxi Provinces. Other types of border trade have also begun to face rigorous challenges.<sup>24</sup> Suffering from the above-mentioned costs, a unique phenomenon has come out during the implementation of the EHP, the

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<sup>24</sup> Ibid.

so-called “government is more enthusiastic than enterprises.” In signing the CAFTA, the government was expected to set up different platforms for enterprises to lead the show, but it ended up that the government has to set up both the platforms and play as the actors.<sup>25</sup> Therefore, the provinces’ attempts to reduce their economic losses to a minimum are under the highest considerations of local governments.

### ***Bargaining for More Financial Support and Preferable Policies***

Guangxi and Yunnan have made a good number of suggestions to the central government and requested its support to recognize them as “special regions” when enforcing various levels of trade liberalization, such as “the bordering economic cooperation region” and the “zero tariff free trade area.”<sup>26</sup> More preferable policies, capital support,<sup>27</sup> and the support of human resources were what local governments bargained for during the policy implementation process.

Although it may be debatable whether it is appropriate to cite the “prisoners’ dilemma” in the explanation, it is quite fair to say that bargaining usually takes place over the distribution of the existing resources rather than the increase in resources.<sup>28</sup>

This is simply because the increase in resources will benefit all while the

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<sup>25</sup> Author’s interview with scholars in Yunnan University, October 2006.

<sup>26</sup> Xinguang Li, “*Zhongguo-Dongmeng Qianyan Didai Fazhan yu Dongmeng Jingmao Guanxi Bijiao Yanjiu*” (A Comparative Study on the Development of Economic and Trade Relations between Bordering Regions and ASEAN), available at the official website of the China-ASEAN Expo, [http://www.caexpo.org/gb/news/special/fazhanluntan/yanjiang/t20051223\\_55563.html](http://www.caexpo.org/gb/news/special/fazhanluntan/yanjiang/t20051223_55563.html); retrieved on August 29, 2006.

<sup>27</sup> See the document of the General Office of The Provincial Government, “*Guanyu Chongfen Liyong Jianli Zhongguo-Dongmeng Ziyoumaoyiqu de Jiyu Lianhe Jiaqiang yu Dongmeng Jingmao Hezuo de Yijian*” (Recommendations on Taking Full Advantages of the CAFTA and Strengthening the Economic and Trade Cooperation with ASEAN), *Yunnan Zhengbao*, No.18 (2004): 27:30.

<sup>28</sup> Amei Zhang and Gang Zou, “Foreign Trade Decentralization and Its Impact on Central-Local Relations,” Chapter 7, in Hao Jia and Zhimin Lin, eds., *Changing Central-Local Relations in China: Reform and State Capacity* (Boulder: Westview Press, 1994): 164.

unbalanced-distribution of resources grants more to some and less to others. Bargaining refers to the arguing by local governments with the central government over who grasps the “pie” of various resources including both material resources as well as favorable policy resources.

Generally speaking, the level of success of bargaining depends principally on how big the bargaining power of each province is. Nevertheless, it is not necessarily always the case. Sometimes the central government has to take into consideration the balance between local provinces. That is, the central government may sometimes grant priorities to some provinces if a balance has not been reached. The central government will bear this in mind and try to restore the balance among provinces later on. As noted by David Lampton when discussing the bargaining treadmill of Chinese politics, trade-offs are involved in the decision-making process due to the complexity of many decisions.<sup>29</sup> The decisions to grant the hosting right of the China-ASEAN Expo to Guangxi Province and appoint Guangxi as a member of the GMS cooperation are such cases in point.<sup>30</sup>

The China-ASEAN Expo was proposed as a platform for the member states of the CAFTA to develop their communications in trade, investment, and economic and technological cooperation so as to boost the development of the CAFTA. The idea was first brought up by Chinese specialists on Southeast Asian Studies in 2001. After

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<sup>29</sup> David Lampton, “Chinese Politics: The Bargaining Treadmill”, *Issues & Studies*, Vol.23, No.3 (March 1987): 15.

<sup>30</sup> For details on the China-ASEAN Expo, check Xiaosong Gu, “Gouzhu Zhongguo Dongmeng Jiaoliu Hezuo Pingtai: Zhongguo Dongmeng Bolanhui” (The Construction of the Platform for the Communication and Cooperation between China and ASEAN: The China-ASEAN Expo), in Jiakang Xu and Xiaosong Gu, eds., *China-ASEAN Yearbook 2004* (Guangxi: Guangxi Zhuangzu Zizhiqu Minzu Yinshuochang, 2004): 174-177.

the decision was made that China and ASEAN would take ten years to build the CAFTA, completing in 2010, the Guangxi Provincial Government took the opportunity and applied formally to the MOFCOM for the rights to host the China-ASEAN Expo. The application was approved by the MOFCOM on 9 August 2003.<sup>31</sup> As the acting Secretary General of ASEAN, Ong Keng Yong pointed out in his speech that, “The Expo is meant to complement developments in the realization of the CAFTA, which is deemed as the biggest FTA in terms of population with a market of 1.85 billion consumers and a combined GDP of almost US\$ 2.5 trillion.”<sup>32</sup> The formation of the China-ASEAN Expo is in fact one of the concrete steps taken by the Chinese government to promote the CAFTA negotiations and expedite the CAFTA construction process. Various speeches by the Chinese Premier Wen Jiabao and Vice Minister of the Ministry of Commerce An Min verified such a conclusion that the Expo is positioned as a way to accelerate the development of trade and investment between China and ASEAN.<sup>33</sup>

The basic idea of the Expo is to build a mutually beneficial environment for intra-regional cooperation by expanding the fields of cooperation and promoting business development. The initial aim is to build a platform for the communication and cooperation between China and ASEAN. The second aim is to boost the trade, investment and tourism industries between China and ASEAN. The third aim is to

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<sup>31</sup> See the official document, “*Shangwubu Guanyu Tongyi Guangxi Zizhiqu Chengban Zhongguo Dongmeng Bolanhui de Fuhan*” (The Correspondence Letter of the Ministry of Commerce on the Approval of Nanning City to Host the China-ASEAN Expo), No.324 [2003].

<sup>32</sup> Welcome Remarks by H. E. Ong Keng Yong Secretary General of ASEAN, at the 2<sup>nd</sup> China-ASEAN Expo, Nanning, China, October 19, 2005.

<sup>33</sup> Xinguang Li, “*Zhongguo-Dongmeng Bolanhui dui Guangxi yu Dongmeng Jingji Hudong de Tuijin Xiaoying*” (The Propulsive Effects of the China-ASEAN Exposition on the Economic Interaction between Guangxi and ASEAN,) *Dongnanya Zongheng* (Around Southeast Asia) No.5 (2005): 59-60.

build a transparent, free and business-friendly trade and investment mechanism so as to boost the building of the CAFTA.

A Chinese professor summarized the decision in finalizing Nanning as the host city of the China-ASEAN Expo as an insightful decision of the CCP, Central Committee. He summarized the advantages of Nanning in holding such an unprecedented event, which is in competition with Chinese Commodities Export Fair (*Zhongguo Chukou Shangpin Jiaoyihui* or *Guangjiaohui* in brief) and China Hi-Tech Fair (*Zhongguo Guoji Gaoxin Jishu Chengguo Jiaoyihui* or *Gaojiaohui* in brief).<sup>34</sup> In the case of Yunnan, it hosts the World Horticulture Exposition (*Shijie Yuanyi Bolanhui*, *Shibohui* in brief), in its capital city of Kunming. As mentioned in Chapter Five, many scholarly articles focused on the discussion of individual provinces, such as Guangxi and Yunnan, and analyzed on how both seek to play up their advantages and gain the utmost interests. Nevertheless, very few article focus on the cooperation among provinces.<sup>35</sup> This role of coordination has actually been a focus of the central government sometimes, which aims to keep a balance between provinces when making decisions. The decision of the CCP Central Committee to let Nanning host the Expo is essentially aimed to keep a balance between Guangxi and its neighboring

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<sup>34</sup> Ciqiang Guan, “*Zhongguo-Dongmeng Bolanhui yu Jianshe Nanning Guoji Dadushi*” (The China-ASEAN Expo and the Construction of Nanning as an International Metropolis), *Xueshu Luntan (Academic Forum)*, No.4 (2004): 103-106. See related website on the Fairs at: <http://www.chtf.com/>; <http://www.cantonfair.org.cn/>.

<sup>35</sup> The only one available is by Qinghong Wang, “*Quji Jingji Jinghe de Sikao: Jianping Zhongguo-Dongmeng Ziyoumaoyiqu Kuangjia xia de Gui Qian Dian de Xietong Fazhan*” (The Reflection of Intra-Regional Economic Cooperation: The Cooperation between Guangxi, Guizhou and Yunnan Provinces under the Framework of the CAFTA), *Shehui Kexuejia (Social Scientist)*, No.110 (November, 2004): 59-63. In the article, he called for an ending in local protectionism and the cooperation among neighboring provinces.



provinces, since its neighboring provinces have already hosted various expos and fairs as mentioned above.

Nevertheless, the role of the Guangxi government itself in bargaining for the rights to host the Expo cannot be underestimated. ASEAN became the largest trading partner of Guangxi. Singapore, Malaysia and Thailand have large investment in Guangxi. Since Guangxi is located at the central area of the China- ASEAN Free Trade Zone, its government wants to seize this advantage to position it as a logistics centre for the whole free trade zone. At the press conference held by the State Council Information Office in December 2003, Vice Minister of Commerce, An Min pointed out that “Guangxi Zhuang Autonomous Region, bordering the ASEAN nations, is advantageous in its geographical location. The economic development, social stability, and national solidarity of Guangxi have been further strengthened. Both the Guangxi government and Guangxi people have made full preparations for the China-ASEAN Expo.”<sup>36</sup>

Great efforts have been made by the Guangxi government to promote the smooth opening of the Expo. Active preparation work has been under way as early as 2003. In March 2003, around 10 groups of experts and officials from Guangxi dedicated to the promotion of the China-ASEAN Expo was sent to Japan, South Korea and the ten member states of ASEAN.<sup>37</sup> On 8 October 2003, Chinese Premier Wen Jiabao made a formal proposal at the 7<sup>th</sup> China-ASEAN Summit held in Indonesia that a

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<sup>36</sup> It is available from the NUS ProQuest Database, “Annual China-ASEAN Expo to Be Held in Nanning, China Internet Information Centre News”, Beijing: Dec 17, 2003; accessed on July 12, 2006.

<sup>37</sup> Available from the NUS ProQuest Database, “China-ASEAN Expo to Be Held in Nanning”, SinoCast China Business Daily News, London: Mar 10, 2004; accessed on July 12, 2006.

China-ASEAN Expo be held annually in Nanning, the capital city of Guangxi Zhuang Autonomous Region from year 2004 onwards. The initiative was warmly welcomed by the ASEAN leaders and laid down in the Chairman Statement of the Summit. Wen also suggested that a China-ASEAN Business and Investment Summit be held simultaneously with the China-ASEAN Expo.

The first China-ASEAN Expo was held in November 2004 followed by the second one in October 2005. Chinese Vice Premier Wu Yi together with Laotian Prime Minister Bounnhang, Cambodian Prime Minister Hun Sen and Prime Minister Soe Win of Myanmar, among others, inaugurated the event. The Minister of the MOFCOM, Bo Xilai gave a keynote address during the opening ceremony.

The Expo was successful in attracting foreign capital and overseas investment. At the first China-ASEAN Expo, 129 foreign investment projects of US\$4.968 billion were signed, among which 46 projects amounting to US\$493 million were signed by China. 102 domestic cooperative projects of RMB47.54 billion were signed.<sup>38</sup> At the second China-ASEAN Expo, 20 key projects worth RMB7.065 billion were signed which aimed to introduce investment into Guangxi. The newly signed projects mainly covered the sectors of electronic technology, industrial manufacturing, herbal medicine development, fine agricultural processing and tourism. Investment in each project totaled over RMB 50 million. For example, a sum of RMB 1.5 billion was invested in Beiliu Hailuo Rotary Kiln Cement plant, and RMB 650 million in the construction of Nanning Chaoyang Commercial Plaza. Such projects will promote the

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<sup>38</sup> Available from the NUS ProQuest Database, retrieved on July 12, 2006. "China-ASEAN Expo: More Trades and Cooperation", *China Trade News*, Beijing: Dec 2004.

industrial integration of Guangxi and improve the technological and scientific content in the products of Guangxi.<sup>39</sup>

In order to improve the opportunities for bilateral trade between China and ASEAN, and serve the 3<sup>rd</sup> China-ASEAN Expo, the official website of the China-ASEAN Expo was launched on 23 March 2006.<sup>40</sup> Sponsored by the Secretariat of the China-ASEAN Expo, its mission is to provide marketing and trading information to enterprises, so as to help Chinese as well as ASEAN enterprises go out of their own territories and enter into one another's markets. The characteristics of this service can be summarized in the following three points: first, it provides practical economic and trade information. It has links to the major media websites of ASEAN and summarizes the analysis reports of authoritative experts' everyday. A comprehensive database comprising detailed information of both providers and purchasers can also be found. Second, it establishes cooperative relationships with the Chambers and Associations of Commerce in ASEAN and also set up sub-institutions in ASEAN. Third, it plays host to international exhibitions and trading expos between the two sides regularly to provide more direct marketing opportunities for its clients. It also issues periodicals to its members, such as *China-ASEAN Business Weekly*, and *Guidelines of Purchasing under the CAFTA*. Electronic mail containing the new information and the e-journal of *China-ASEAN Business Weekly* are sent to its members twice to three times a week.

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<sup>39</sup> Available from the NUS ProQuest Database, "20 Key Projects Worth 7.065 B RMB Signed at China-ASEAN Expo", Info-Prod Research (Middle East), Ramat-Gan: October 31, 2005; accessed on July 12, 2006.

<sup>40</sup> See the official website of the China-ASEAN Expo at: <http://www.caexpo.com/>; accessed on October 26, 2006.

The third China- ASEAN Expo ended with great success in November 2006. Simultaneously, the 3<sup>rd</sup> China-ASEAN Business & Investment Summit was held.<sup>41</sup> Obviously, the success of the Third China-ASEAN Expo was underpinned by growing China-ASEAN trade and investment relations. A number of 132 international contracts worth US\$5.85 billion were signed at the Expo, a 10.5 percent growth over 2005. A number of 40 contracts of investment to the ASEAN states were signed with a total volume of US\$2.56 billion. Traded goods at the Expo have shifted from agricultural products like fruits and vegetables in 2004 to industrial products. Trade in mechanical equipment stood at US\$635 million, accounting for half of the total trade. It was followed by electronic products, agricultural products and farming materials.<sup>42</sup>

The China-ASEAN Expo has also drawn the attention of the central government. *Outlook Weekly*, a journal sponsored by the Xinhua News Agency, devoted a number of pages reporting and commenting on the Expo.<sup>43</sup> Chinese scholars hold the view that the China-ASEAN Expo provides new opportunities for the leap-forward-development of Guangxi.<sup>44</sup> One opportunity is that Guangxi considers the Expo as a platform for the cooperation between Guangxi and the ASEAN states. Under the Framework of the CAFTA and with the hosting right of the Expo, the status of Guangxi as the bridge between China and ASEAN has been cemented. Furthermore, the Expo benefits related industries in Guangxi. For example, the

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<sup>41</sup> For more information on China-ASEAN Business and Investment Summit, see the official website at: <http://www.cabiforum.org/>; accessed on August 27, 2006.

<sup>42</sup> See online news "The 3<sup>rd</sup> China-ASEAN Expo Closed", November 4, 2006, available at: <http://finance.sina.com.cn/money/fund/20061104/13351021255.shtml>; retrieved on November 5, 2006.

<sup>43</sup> Check for the series of articles by Xin Du and Jia Li on the China-ASEAN Expo in *Outlook Weekly* (*Liaowang Xinwen Zhoukan*), No.41 (2002): 60-65.

<sup>44</sup> Song Ding, *Zhongguo Dongmeng Ziyoumaoyiqu yu Xinan Minzu Jingji* (China-ASEAN Free Trade Area and the Economy of Southwest China) (Beijing: Minzu Chubanshe, 2004): 200.

success of the annual Expo in Guangxi brings along with them the “demonstration effects,” “radiation effects,” and “exemplary effects,” which has greatly improved the status of Guangxi and boosted the development of the exhibition industry in Guangxi. Needless to say, the hosting of the Expo also brings positive effects on the tourism industry of Guangxi. Moreover, as more enterprises in Guangxi gain access to more information about the ASEAN states, more enterprises will “go outside” to take full advantages of the resources and markets of foreign countries. Finally, the hosting of the Expo has also improved the speed of infrastructural construction in Guangxi. In order to make the Expo more internationalized and successful, both the central and provincial governments spent large amounts of money on the construction of exhibition halls, hotels, transportation, and public services for the city. In this way, many cities in Guangxi, such as Nanning, have speeded up city construction. As both academic and government officials have pointed out, “Before the hosting of the China-ASEAN Expo, seldom does any foreigner know about Nanning. They know more about Guilin City, which is famous for its beautiful scenery, than the capital city of Guangxi. The hosting of the China-ASEAN Expo has greatly improved the popularity of both Nanning City and that of the Guangxi Zhuang Autonomous Region.”<sup>45</sup>

Another example of successful outcome of bargaining and persuasion by the Guangxi Zhuang government was the admission of Guangxi Zhuang Autonomous Region as a member of GMS. Guangxi is situated in the connecting area between the

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<sup>45</sup> Author’s interviews with academic scholars and government officials, September to November 2006.

South China economic ring and the ASEAN economic ring. Based on the above-mentioned advantages, the Guangxi government applied to the central government for permission to join the GMS regime. The central government approved this application at the end of 2004. The admission of Guangxi into GMS has positioned Guangxi as the trade bridge connecting the Pearl River (Zhujiang) Triangle area and ASEAN, which has also boosted the development of the CAFTA. When GMS started in 1992, Yunnan was the only original member and representative of China. The acceptance of Guangxi into the regime was due to the successful bargaining by the Guangxi Zhuang Autonomous Region with the central government. As the Lancang and Mekong River area does not cover Guangxi, most scholars as well as government officials consider the admission of Guangxi as a member of GMS as contrived and unreasonable.<sup>46</sup> The difference between the GMS arrangement and the CAFTA, from which all provinces in China can enjoy the favorable arrangements of the agreement, are that Yunnan and Guangxi are the only participating Chinese partners in GMS that enjoy more preferable policies compared to other provinces. The acceptance of Guangxi into GMS is certainly closely related to the efforts of the Guangxi government. The success has further improved the international status of Guangxi and thus laid a more solid basis for its economic development.

In order to deal with the impact of cheap tropical fruits from the ASEAN states on China's tropical fruits industry, with the gradual reduction in import tariffs from the ASEAN states, the Division of Policy and Law (*Zhengce Fagui Chu*) of the DOC of

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<sup>46</sup> Author's interviews with related academic scholars and government officials, October 2006.

Guangxi Zhuang Autonomous Region brought forward the idea of the “Precautionary System for Tropical Fruits.” After much discussion and research by the MOFCOM, the recommendation of the Guangxi DOC was adopted. The Bureau of Industry Injury Investigation, the MOFCOM, the Agricultural Trade Office, and the Ministry of Agriculture jointly convened a meeting in Hainan Province to start the precaution system of tropical fruits. The Precautionary System for Tropical Fruits covers provinces such as Guangxi, Hainan, Guangdong, Yunnan and Fujian. Such a system is considered as an experiment to conform to international rules to protect domestic industries. It aims to protect the security of tropical-fruit industries in China through various precautionary measures. The Precautionary System applies the system of a precautionary model to supervise the amount, price and variation of imported tropical fruits. Based on the supervision, it will further analyze the impacts of such changes to domestic industries, release precautionary messages and set down manageable plans to serve in the decision-making process of government bureaucracies and enterprises. In this way, government bureaucracies and related enterprises are able to receive the latest information and thus devise appropriate measures to counteract the negative impacts. The Precautionary System has two major functions. One the one hand, if the exports of certain products may lead to the adoption of antidumping measures by foreign countries, such enterprises will be warned by the Precautionary System. They will be reminded to adjust the quantity and price of their export products so as to evade the imposition of antidumping duties by foreign countries. On the other hand, when the imports of certain products may impair or threaten domestic industries,

warnings will also be issued. If necessary, a recommendation of antidumping or protection measures will be made by the National Industry Impair Bureaucracy.

The DRC of the People's Government of Guangxi Zhuang Autonomous Region, the Guangxi Academy of Social Sciences, and the DOC of Guangxi Zhuang Autonomous Region have jointly studied the potential opportunities, challenges and strategies of Guangxi under the CAFTA. In their report, they discussed in detail the potential challenges posed by the neighboring provinces. They observed that "first, Guangxi is not advanced in the manufacturing industry. The agricultural structure is similar to the ASEAN states, which put Guangxi in direct competition with them. At the same time, as China regards land transportation to ASEAN a strategic consideration, the focus of the construction of international land transportation was based in Yunnan. All these factors affected Guangxi's advantages in the implementation of the CAFTA"; "We need to communicate with those related bureaucracies in the central government, so as to improve the level of support for the construction of transportation, as well as receiving financial support from the central government."<sup>47</sup>

Under the suggestion of the Guangxi DRC, Guangxi is considering choosing border cities, such as Dongxing City, as an experimental area in implementing the CAFTA. The DRC also suggested developing export-oriented processing industries such as agricultural products processing, assembling processing, packaging processing and processing with supplied materials. The local government of Guangxi

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<sup>47</sup> The report of the joint project is available online at: [http://www.gx-info.gov.cn/Fazhan\\_Report/viewFazhan.asp?id=12](http://www.gx-info.gov.cn/Fazhan_Report/viewFazhan.asp?id=12) (July 27, 2004); retrieved on August 11, 2006.



intends to use Dongxing as an exemplary city in implementing the CAFTA so as to gain experience for the policy implementation and provide a policy basis for Guangxi, as well as the whole country in the future. The Dongxing experimental area covers 103 square kilometers. It has five functional sub-areas: a trading area, storage area, processing area, tourist area and an administrative area.<sup>48</sup> It is also reported that the province has suggested to the relevant state bureaucracies give approval for Guangxi to build a border FTA in Puzhai, where preferential trade, investment and taxation policies can be applied.<sup>49</sup>

In order to take full opportunity of the CAFTA construction and to boost the economic development of Guangxi, the Party Committee and the government of Guangxi organized a research team in 2005 to study Guangxi's strategies in building the CAFTA. The final report noted the fields in which Guangxi needed the strong support from the central government.<sup>50</sup> The requirements by Guangxi of the central government include the following points:

- i. Make an endeavor to put the Guangxi-led construction of the international passageway into the State's development strategy; to request for policy-based and financial support in the prophase work of the passageway; to argue for preferential policies to the cities along the passageway, such as the construction of the capital market, the right to issue construction bonds, etc.

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<sup>48</sup> See online analysis at: [http://www.sinoviet.com:808/affiche/appear\\_public.asp?id=400](http://www.sinoviet.com:808/affiche/appear_public.asp?id=400); retrieved on September 26, 2006.

<sup>49</sup> Author's interviews with Guangxi local government officials, October 2006.

<sup>50</sup> The Report of the research project organized by the Guangxi Government is available online at: [http://hongdou.gxnews.com.cn/forumview.asp?td=2005&topic\\_id=1034244](http://hongdou.gxnews.com.cn/forumview.asp?td=2005&topic_id=1034244); retrieved on September 30, 2006.

ii. To get the approval of the central government on the setting-up of a Special Economic Zone along the bordering area and coastland, where special policies on tax, trade, and investment can apply.

iii. To get the approval of the central government on granting Guangxi the rights to implement special custom policies: to impose zero-tariffs on the ASEAN-4, namely Vietnam, Laos, Cambodia, and Myanmar; to bargain for the rights to sign contracts with some of the ASEAN states for early tariff concessions.

iv. To authorize Guangxi to sign antecedently with the ASEAN states “the Framework Agreement of Mutual Authentication” and “the Agreement on Convenient Transportation”.

v. To simplify the cross border procedures for foreigners and grant more rights to issue Visa-On-Arrival to businessman and tourists.

vi. To upgrade *Beihai* Port of Guangxi and *Xialong* Port of Vietnam into first class ports so as to allow all ASEAN tourists to travel via these ports instead of only allowing tourists from China and Vietnam to pass.

vii. To require financial supports from the central government; to allow foreign financial and insurance institutions to set up subsidiary institutions in Guangxi and allow them to deal in foreign currencies, foreign exchange and insurance operations in certain areas.

viii. To provide more support on the exploitation of Pan-Beibu Gulf rim; to support the littorals of Guangxi; to set up industrial parks there and enjoy the same preferential policies as Pudong and Suzhou Industrial Parks.

ix. To support the personnel training of Guangxi; to dispatch officials of higher ability at the central government to hold posts in Guangxi or to select excellent local officials to hold posts at the related bureaucracies of the central government; to support in training more specialists on ASEAN affairs and translators with a good grasp of the languages in the ASEAN states.

x. To resume the Consulate General of Vietnam as well as that of other ASEAN states in Nanning.

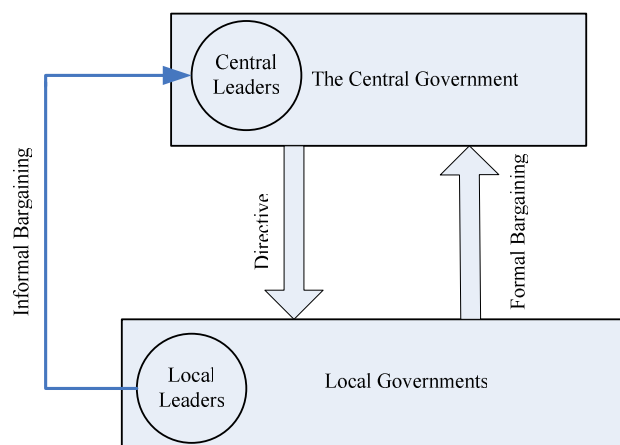
From this report, it can be concluded that the autonomy of local governments is limited to the confines set by the central government. Local governments have to act under the general guidelines and policies of the central government. Second, local governments are still in great need of support from the central government in regional economic development, particularly in providing financial and preferential policy support. Third, local governments are actively taking various measures to bargain with the central government for their own interests, especially for their economic development.

Yunnan has also been exerting efforts with the central government for more preferable policies on improving its freedom in trade, capital, investment, free movement of people and the free transportation of goods. It has placed the idea of constructing “international land transportation” into the 11<sup>th</sup> Five-Year-Plan of the province. “International land transportation” refers to the passage across Yunnan that connects China, Southeast Asia, and South Asia. The objective is to connect “three Asias” (namely East Asia, Southeast Asia and South Asia) and “two oceans” (namely

the Pacific Ocean and the Indian Ocean). The transportation system comprises several passageways such as Beijing-Chengdu to Kunming (which connects the Bo Hai Sea), Erlianhaote-Chongqing to Kunming, Shanghai-Guiyang to Kunming (which connects the Changjiang Triangle), Guangzhou-Nanning to Kunming (connecting Zhujiang Triangle), and Kunming to Vietnam, Kunming to Laos and Thailand, as well as Kunming to Myanmar and the Indian Ocean. Yunnan Province is expected to invest RMB 367.5 million in the construction of the “international land transportation” passageway system.

### III. The Avenues of Bargaining

Under the general guidelines made by the central government, local governments bargain with the central government via two avenues: Formal bargaining and informal bargaining (See Figure 6-2). One is through the bureaucratic systems formally, while the other is taking advantage of personal relations between local and central government officials.



**Figure 6-2: Policy Implementation of the CAFTA: The Interactive Relationship Between the Central and Local Governments**

### ***Formal Avenues of Bargaining: Reports and Red-Tapes***

Formal avenues of bargaining are carried out among different levels of government bureaucracies. Certain mechanisms already exist for local governments to express their concerns and make recommendations. As discussed in Chapter Three, there are five main avenues of formal bargaining. Two avenues of bargaining, i.e. the coordination of local provinces to increase bargaining power and via Liaison Offices in Beijing were hardly adopted by local governments in the case of the CAFTA. The other three avenues of bargaining can be classified into two categories. One is via the form of submitted reports by provincial bureaucracies; the other is via provincial and central government leaders themselves at various occasions, such as via communication between them during routine conventions, meetings or during inspection trips made by central government officials to local provinces.

A number of local bureaucracies are in charge of trade relations between China and the ASEAN states in those two provinces. They mainly include the Research Office (RO) or the Development Research Center of Yunnan Province (*Yunnansheng Renminzhengfu Yanjiushi* or *Yunnansheng Renminzhengfu Fazhan Yanjiu Zhongxin*), and the Development Research Center of People's Government of Guangxi Zhuang Autonomous Region (*Guangxi Zhuangzu Zizhiqu Renmin Zhengfu Fazhan Yanjiu Zhongxin*), Yunnan DRC (*Yunnan Fazhan yu Gaige Weiyuanhui*), and DRC of Guangxi Zhuang Autonomous Region (*Guangxi Zhuangzu Zizhiqu Fazhan yu Gaige Weiyuanhui*), the DOC of Yunnan Province (*Yunnansheng Shangwuting*), and the DOC of Guangxi Zhuang Autonomous Region (*Guangxi Zhuangzu Zizhiqu*

*Shangwuting*), the FAO of the People's Government of Yunnan Province (*Yunnansheng Zhengfu Waishi Bangongshi*), Guangxi FAO (*Guangxi Zhuangzu Zizhiqu Waishi Bangongshi*). Among them, two bureaucracies, namely the Development and Research Centers and the DRCs participate more actively in the policy formulation process while the provincial FAOs and DOCs are more active in the policy implementation process.

(1) The Development Research Center in Guangxi and Research Office in Yunnan

The Development Research Center, People's Government of Guangxi Zhuang Autonomous Region is one of the most important decision-making organs in Guangxi. Its main function is to do follow-up or advanced research on the strategic and long-term problems in the region's economic and social development, as well as on the reform and opening-up process, to submit policy recommendations and provide consultations to the Party Committee and the People's Government of the Region for the layout of mid-to-long term development plans for the region. It is also responsible for putting forward policy recommendations on dealing with the new situations and problems arising with the process of the opening-up, such as making strategies for Guangxi after China's entry into the WTO. Among its six divisions (*Chu*), the division of the regional economy and the division of macro-economy are more related to the case of the CAFTA. The division of regional economy conducts research on the mid-to-long term plans of the region, and makes predictions and policy recommendations accordingly. It is also responsible for the design of annual key research projects of the region. In 2005 and 2006, their research focuses were on

regional economic cooperation, such as the economic cooperation between China and ASEAN, and the Pan-Beibu Gulf Rim.<sup>51</sup>

The RO of the People's Government of Yunnan Province or Development Research Center of the People's Government of Yunnan Province plays a key role in the Provincial Government's decision-making process. The reports of the RO are submitted directly to the top provincial leaders. Although it does not make specific policies of the province, as the director of its General Office pointed out, it is responsible for indicating the direction and the development of the province by thinking strategically.<sup>52</sup> Formerly known as the Economic and Technological Research Center of the People's Government of Yunnan Province (*Yunnansheng Renminzhengfu Jingji Jishu Yanjiuzhongxin*), the RO was first set up in 1983. Besides the drafting of the Working Report of the provincial government, it is responsible for taking the lead and doing follow-up research on strategic and long-term issues related to the social-economic development of the province. It is required to make mid-to-long term development arrangements for the province and make policy recommendations on Yunnan's development. In a nutshell, the major functions of the RO are generalized into three key roles, i.e. as "Big Secretary, Big Brain Man and Big Service Man."<sup>53</sup> The Division of Development Strategy Research and Foreign

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<sup>51</sup> The titles of the annually key research projects of Guangxi Zhuang Autonomous Region in 2005 and 2006 are available online at: <http://www.gx-info.gov.cn/gxnews/viewgxnews.asp?id=4049> and <http://www.gx-info.gov.cn/report/viewreport.asp?id=686> ; retrieved on September 27, 2006.

<sup>52</sup> Author's interview with the Director of the General Office of the Research Office of the People's Government of Yunnan Province, October 2006.

<sup>53</sup> Ibid.

Economic Research are the two divisions in the RO that are in charge of research on the CAFTA-related issues.

After the signing of the CAFTA, the RO of Yunnan Province has placed the study of the CAFTA as one of their main research projects. It has submitted many insightful suggestions to the Provincial Government, such as the strategies of Yunnan in its participation of the building of the CAFTA and GMS.<sup>54</sup> In terms of the application for more preferential policies from the central government under the Framework of the CAFTA, the RO initiated the following suggestions: i. To allocate more funds to the construction of the international throughway to Yunnan; ii. To support the opening of an airline from Kunming to Siem Reap (Cambodia) and Kunming to Kuala Lumpur; iii. To invest more in the construction of optical fiber and mobile communication network in Yunnan; iv. To support the construction of three economic corridors, such as those between Kunming-Mandalay-Yangon, Kunming-Hanoi-*Haifang*, and Kunming-Vientiane-Bangkok; v. To improve the status of three ports, namely *Ruili*, *Hekou* and *Mohan*, and to approve the construction of free trade zones in *Hekou* and *Mohan* as experimental units first; vi. To support the “drug substitute plant” strategy of Yunnan and share this experience with the neighboring countries; vii. To grant more visa-issue powers to Yunnan and to allocate more credit funds to Yunnan, and so on.<sup>55</sup>

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<sup>54</sup> The report of the Research Office of Yunnan Province is available online at: [http://www.cafta.org.cn/shshshow1.asp?zs\\_id=6096](http://www.cafta.org.cn/shshshow1.asp?zs_id=6096), April 9, 2003; retrieved on October 23, 2006.

<sup>55</sup> Ibid.



## (2) The DRCs in Guangxi and Yunnan

As discussed in Chapter Two, the major task of the DRCs at the provincial level is to formulate and bring forward plans and recommendations for the social and economic development of their respective provinces. Guangxi Development and Reform Commission (GXDRC) and Yunnan Development and Reform Commission (YNDRC) are two bureaucracies that play a key role in the CAFTA construction. Two major departments of GXDRC are in charge of the CAFTA-related issues: the Department of Policy Studies (*Zhengce Yanjiushi*) and the Department of Trade (*Jingji Maoyisi*). The Department of Policy Studies is responsible for drafting important policies and organizing joint-studies on key issues concerning Guangxi's economic and social development, its reform and opening-up as well as the international economy. The Department of Trade is responsible for monitoring and analyzing both domestic and international markets, and maintaining the aggregate balance of important commodities, such as agricultural products, industrial products and raw materials. The YNDRC has set up a special office to take charge of the regional cooperation issues especially the sub-regional cooperation of Lancang-Mekong river region. In pushing forward the regional cooperation process, conflicts among various bureaucracies, organizations, even enterprises cannot be avoided. The Office of Lancang-Mekong sub-regional cooperation acts as the coordinating organization of the related organizations and bureaucracies of the whole province since many bureaucracies in Yunnan have such offices. Besides this, the

YNDRC has one division responsible for “running for the approval of projects” (*pao xiangmu*), that is, the Division of Investment in Fixed-Assets.<sup>56</sup>

(3) The DOCs<sup>57</sup> in Yunnan and Guangxi

Yunnan Provincial DOC is in charge of trade and economic cooperation with other provinces and foreign countries. It has the same functions as the other two government bureaucracies in Yunnan, namely Yunnan Provincial Economy and Trade Bureau to Neighboring Countries (*Yunnansheng Dui Zhoubianguojia Jingji Maoyi Ju*) and the Port Office of the People’s Government of Yunnan Province (*Yunnansheng Renminzhengfu Kou’an Bangongshi*). Besides the major functions of DOCs discussed in Chapter Two, the DOC of Yunnan is also responsible for implementing and executing economic and trade policies made by the State Council and the provincial government towards the ASEAN states, and coordinating with other departments to participate in international conferences and activities organized by regional economic organizations of the ASEAN states.

The Division of International Trade and Economic Affairs (*Guoji Jingmao Guanxichu*) is the major division in charge of the CAFTA-related issues in DOC, Yunnan Province. Its major functions are to implement and execute the state and provincial policies in developing economic and trade relations with the ASEAN states, and to study and analyze the economic development status of Yunnan Province towards the ASEAN states. Further, to study the progress of the key projects in the

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<sup>56</sup> Author’s interview with an official in Yunnan Department of Development and Reform Commission, October 2006.

<sup>57</sup> The official website of the Department of Commerce of Yunnan Province is available at: <http://www.bofcom.gov.cn/bofcom/441915713435729920/index.html>; accessed on September 26, 2006.

ASEAN states and the progress in the exchanges with the ASEAN states. Based on such studies and analyses, it makes policy recommendations to the provincial governments so as to develop provincial economic and trade relations with the ASEAN states. One of the most important tasks of this Division is to promote the sub-regional economic cooperation of the Lancang and Mekong Rivers.

The DOC of Guangxi Zhuang Autonomous Region has similar functions as the DOC of Yunnan Province. Special functions for the DOC of Guangxi include taking charge of the China-ASEAN Expo; taking the responsibility of broadening the economic and trade cooperation with the ASEAN states, as well as organizing and undertaking the activities concerning the economic and trade exchanges between China and ASEAN<sup>58</sup> The division in charge of ASEAN affairs is the Division of the ASEAN states, Hong Kong, Macao and Taiwan. The main functions of this division (to name a few) are to implement national policies on the ASEAN states, to draw the outline of developing economic and trade relations with the ASEAN states, to guide enterprises in the region to invest in the ASEAN states, as well as to attract investment from the ASEAN states to Guangxi, and to coordinate with related organizations in hosting the China-ASEAN Expo.

(4) The FAOs<sup>59</sup> in Yunnan and Guangxi

The Regional Economic Cooperation Office in YNFAO is in charge of CAFTA-related affairs. In Yunnan Province, the GMS cooperation has been put under

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<sup>58</sup> For the responsibilities of the Bureau of Commerce of Guangxi see its official website online at: <http://www.gxdoftec.gov.cn/zzjg.asp>; accessed on June 13, 2006.

<sup>59</sup> See the websites of the Foreign Affairs Office of Yunnan and Guangxi Zhuang Autonomous Region online at: <http://www.yn.gov.cn/yunnan.china/72340168526266368/20050423/3633.html> and <http://www.gxfao.com/jgsz/2006215153232.asp>; accessed on June 15, 2006.

the Framework of the CAFTA. Therefore the CAFTA is implemented more as a GMS in Yunnan. Up until the present, the three ASEAN countries of Thailand, Laos and Myanmar have set up General Consulates, and Vietnam has set up an embassy office in Kunming. Malaysia is considering setting up a General Consulate in Kunming, as well. The FAO of Guangxi has made its main task as the strengthening of communication and cooperation with the ASEAN states. One aspects of this task is to help the ASEAN states in building consulates in Nanning. Vietnam built its consulate in Nanning in 2004, which provided a new channel of communication between the two sides. Cambodia also set up its consulate in Nanning. Other ASEAN states, such as Thailand, have shown interest in building consulates in Nanning, as well. The FAO of Guangxi also plays an important role in assisting the hosting of the China-ASEAN Expo, especially in the arrangement of receiving delegates overseas. During the first Expo, it helped received a number of 57 delegations with more than 720 members from the ASEAN states. Five of the delegations were above vice-ministerial level and more than 40 members were at the ministerial level.<sup>60</sup> Besides this, the officials in Guangxi are more active now in bargaining for more opportunities to boost regional economic cooperation, such as the opportunities to host international conferences and forums. Thus, the FAO of Guangxi is responsible for encouraging more communication and exchange between Guangxi Autonomous Region and the ASEAN states, as well as among enterprises.

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<sup>60</sup> Interview with Huang Yongqiang, Director of Guangxi Foreign Affairs Office, March 10, 2005; available at: <http://sub.gxnews.com.cn/staticpages/20050310/newgx422f1fe3-346504.shtml>; retrieved on August 28, 2006.

The policy implementation process is a policy-remaking process. During the policy implementation process, provincial bureaucracies need to solve problems and challenges that arise. When support from the central government is needed, those provincial bureaucracies in charge will submit reports to their corresponding bureaucracies at the central level. Such mechanisms of reporting are well established. We may call it the “report net,” since the connections between provincial and central bureaucracies are intersecting. For example, when implementing the CAFTA, the FAOs of Yunnan Province and Guangxi Zhuang Autonomous Region submit reports of their opinions and requirements directly to the FAO of the Central Committee, and the DOCs of Yunnan and Guangxi submit reports directly to related departments in the MOFCOM. During the policy implementation, one specific project will involve quite a number of bureaucracies. For example, in the development of transportation under the Framework of the CAFTA, the Departments of Transportation of Yunnan and Guangxi submit their requirement reports directly to the Ministry of Transportation. In dealing with challenges to the agricultural sector by the CAFTA, the Departments of Agriculture of Yunnan and Guangxi submit reports to the Ministry of Agriculture. To get central government support in big projects, provincial DRCs submit their reports to the NDRC for consideration. Besides this, the Provincial Governments of Guangxi and Yunnan can also directly submit their requirement reports to the central government or the State Council for support (Refer to Figure 5-1).

In the second category, provincial and central government officials meet on a regular basis according to their work arrangements. While provincial government officials attend meetings held by the central government bureaucracies, or central government officials go for work inspection tours to provinces, opportunities are provided for provincial government officials to communicate and report their problems and requirements verbally to the central government officials. During such occasions, provincial officials are able to express their requests directly to the central government officials. Those requests considered appropriate will be further discussed by the central government officials.

For the bureaucracies at the central level, they are responsible for the development of the whole country. Therefore, they cannot define policies based on certain interest groups. They have to balance the overall interests of both groups of people in the whole country and among the administrative units. One of the important differences between the central government and local governments in terms of the policy formulation is that the concerns of local governments in most cases are issue-specific. Since certain policies may have a bigger influence on the interests of the local people, the provincial governments have to play more active roles in participating or influencing the orientation of the policies so as to safeguard their highest interests. Local governments serve the interests of the local people rather than the interests of all Chinese. However, it should be noted that the proposals and policies of local governments have to meet and be consistent with the demands or policies of the central government in the first place.

### ***Informal Avenues of Bargaining: Positive Attitude of Provincial Leaders***

Informal avenues of bargaining in most cases refer to taking advantage of private personal networks. Nevertheless, informal avenues of bargaining in this study do not refer merely to the special *guanxi*, or relationship(s), between government officials. The outstanding roles of provincial leaders are also classified in this category. They may either take actions to promote the implementation of the CAFTA or take advantage of their personal networks with top officials in the central government, or just utilize their personal background, such as asking favors of those who occupy important posts in related bureaucracies at the central level.

Provincial leaders in Guangxi are highly supportive of the role their province played in the hosting of the China-ASEAN Expo as well as the CAFTA. Fully supported and sometimes directly led by the General Secretary and Chairman of Guangxi Zhuang Autonomous Region, delegations were sent to the Southeast Asian countries to boost cooperation between Guangxi and ASEAN and to generate greater publicity for the 3<sup>rd</sup> China-ASEAN Expo.

From 28 March to 12 April 2006, Lu Bing, Chairman of the People's Government, Guangxi Zhuang Autonomous Region, headed a Guangxi delegation to four ASEAN states, namely the Philippines, Brunei, Singapore and Myanmar.<sup>61</sup> During their seven-day's stay in Singapore, investment cooperation and commodity fairs were held simultaneously. Among the ten members of ASEAN, Singapore is the largest

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<sup>61</sup> More information is available at: <http://sub.gxnews.com.cn/zt.gxml?id=12743>; retrieved on August 27, 2006.

investment partner of Guangxi Zhuang Autonomous Region. Up until the end of 2005, Singapore had invested a total of 145 projects in Guangxi. The contracted investment amounted to US\$ 540 million. The delegation from Guangxi provided Singapore with more than 150 items for consultation, together with more than 70 items that regarded Singapore as the desirable investment destination. After seven days of consultation, corporations of Guangxi and Singapore signed 37 contracts including 26 investment projects, with a total investment amount of US\$ 1.16 billion.<sup>62</sup> During their stay in the four ASEAN states, more than 2500 businessmen attended the events with around US\$ 1.2 billion in various economic and trade cooperative items signed.

From 13-26 April 2006, Cao Bochun, the former General Secretary of the Communist Party, Guangxi Zhuang Autonomous Region, headed the delegation to Vietnam, Malaysia, Cambodia and Hong Kong.<sup>63</sup> Around 27 contracts were signed during the visit. Guangxi and Vietnam are more complementary in terms of their industrial structure.<sup>64</sup> More than 110 enterprises exhibited their new products such as cars, home electrical appliances, and chemical and industrial products.

Liu Qibao, General Party Secretary of Guangxi Zhuang Autonomous Region and former deputy General Secretary played a very positive role in bargaining with the central government to grant more rights and autonomy for Guangxi.<sup>65</sup> Liu Qibao was appointed as Party Secretary of Guangxi on 29 June 2006, and as a member of the

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<sup>62</sup> See related information from Xinhua News online at: [http://news.xinhuanet.com/newscenter/2006-04/07/content\\_4397482.htm](http://news.xinhuanet.com/newscenter/2006-04/07/content_4397482.htm) (April 7, 2006); retrieved on August 27, 2006.

<sup>63</sup> More information is available at: <http://www.gxnews.com.cn/specialzip/41/index>; retrieved on August 27, 2006.

<sup>64</sup> See Xinhua News at: [http://news.xinhuanet.com/newscenter/2006-04/15/content\\_4429213.htm](http://news.xinhuanet.com/newscenter/2006-04/15/content_4429213.htm) (April 15, 2006); retrieved on August 27, 2006.

<sup>65</sup> Author's interview with Professor Yunling Zhang, August 4, 2006.



Chinese Communist Youth League (CCYL) group,<sup>66</sup> he once worked in Anhui Provincial CYL Committee as deputy Director, Director of the Propaganda Department, and Secretary of Anhui Province consecutively from 1980 to 1985. He worked in the CYL Central Committee as Secretary from 1985 to 1993 and as Secretary-General of the State Council from 1994 to 2000. He was appointed as Deputy Secretary of Guangxi in September 2000 until he was promoted to the present post. His past working experiences provided him with vast resources which he could tap in bargaining with the central government for more preferable policies for Guangxi Province. Liu has in fact exerted much effort in persuading the central government to grant more preferable policies to Guangxi Zhuang Autonomous Region by using his personal networks with the top leaders at the central level.<sup>67</sup> He has played a positive role in boosting Guangxi-ASEAN economic cooperation. His support of the CAFTA and the hosting of the China-ASEAN Expo are obvious from his speeches at various occasions.<sup>68</sup>

The above activities taken by Guangxi leaders have greatly improved the mutual understanding between Guangxi and the ASEAN states. Moreover, it has improved the reputations of Guangxi in the ASEAN states. Both the China-ASEAN Expo and the CAFTA are new concepts to many corporations in the local provinces. The government of Guangxi adopted many strategies to make enterprises more

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<sup>66</sup> See articles and books of Zhiyue Bo. For example, Zhiyue Bo, "Selecting New Provincial Party Bosses Before China's 17<sup>th</sup> National Party Congress", *EAI Background Brief*, No.298 (Singapore: National University of Singapore, 2006): 1-12

<sup>67</sup> Author's interview with a Chinese expert on CAFTA, August 2006.

<sup>68</sup> Such speeches on his supportive attitude of the CAFTA are easily available online, for example, <http://www.gxcic.net/News/Shownews.aspx?ID=16913> (July 20, 2006), and <http://news.enorth.com.cn/system/2006/07/06/001349951.shtml> (July 6, 2006); retrieved on August 27, 2006.

knowledgeable and thus enable them to fully utilize the CAFTA. Handouts on the CAFTA were printed by the DOC, Guangxi Zhuang Autonomous Region and were distributed to companies in Guangxi free-of-charge. Based on the fact that border trade accounts for a large part of its trade, various training classes on the knowledge of the CAFTA were also launched around the bordering regions of Guangxi.

As early as 2002, the leaders in Yunnan Province were determined to let Yunnan Province play an active role in constructing the CAFTA. Shao Weiqi, Vice Governor of Yunnan, spearheaded such an effort at an International Seminar for China-ASEAN Cooperation on Trade, Technology & Development.<sup>69</sup> Xu Rongkai, governor of the province also announced that “Yunnan Province is planning to construct ‘five throughways’, ‘five platforms’ and ‘six industrial-sector cooperation’ to supply China-ASEAN free trade areas with quality and comprehensive services.” The “five throughways” include: 1. A communications throughway made up of infrastructures consisting of highways, railways, and aviation and navigation routes. 2. A trade throughway, aimed at forming smooth and convenient networks of logistics, talent flows, capital and information flows. 3. An industrial throughway to stimulate industrial communication and cooperation between China and the ASEAN nations. 4. A green throughway to strengthen the protection of the ecological environment. 5. A friendly throughway to develop cultural communications with the ASEAN nations. The “five platforms” are made up of an information platform, trade platform, financial platform, human resources development platform and a public affairs platform. The

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<sup>69</sup> Available from the NUS ProQuest Database, “Yunnan Active in China-ASEAN Free Trade Area Construction”, *Asia Info Daily China News*, Dallas: Jun 10, 2002; retrieved on July 12, 2006.

“six industrial-sector cooperation” includes cooperation in agricultural exploitation, the tobacco industry, cooperation in exploiting energy resources, mineral industry, and cooperation in tourism and labor markets.<sup>70</sup>

At the central government level, Gao Hucheng’s role in arguing for more preferable policies for Guangxi Zhuang Autonomous Region deserves mentioning.<sup>71</sup> Gao served as the head of the Planning and Finance Department and Member of the Leading Party Group in the MOFTEC from 1994 to 2002 before becoming acting Vice-Chairman of the People’s Government, Guangxi Zhuang Autonomous Region. After completing his work in Guangxi, Gao Hucheng was promoted to become Vice Minister of the MOFCOM. He played a decisive role in granting the rights of hosting the China-ASEAN Expo to Nanning.

#### **IV. Factors That Affect the Results of Policy Implementation**

I have discussed seven factors that affect the results of the policy implementation process in general in Chapter Two, such as the clarity and complexity of the policy, the time span over which the policy must be implemented, resources of implementers, technical difficulties, support from the state, attitudes, commitment and incentives for compliance of implementers and the leadership skills of implementing officials. All of these factors have some influence on the CAFTA’s implementation. Since the negotiation of the CAFTA is still ongoing, it is hard to draw the final conclusion on

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<sup>70</sup> Available from the NUS ProQuest Database, “Yunnan Paves Way for China-ASEAN Free Trade Area”, *Asia info Daily China News*, Dallas: Jun 18, 2002; retrieved on July 12, 2006..

<sup>71</sup> Author’s interviews with several scholars who were actively involved in the policy formulation of the CAFTA, September to November 2006.

the result of the implementation of the CAFTA. I will just briefly discuss the influence of the above factors on the implementation process.

Since the negotiations in investment sectors are still ongoing, what shall be strictly implemented now is the agreement in goods and services. Although there are no serious technical barriers in the implementation process, there are still some aspects to pay attention to. For example, the administrative procedures to apply for tariff reductions are far from convenient. This was one of the main reasons why when the tariff reductions were first implemented on 20 July 2005, not a single company went to the Kunming Customs to do business.<sup>72</sup> Several other reasons also accounted for this. First, the CAFTA was more of a political and strategic plan rather than an economic one. Entrepreneurs knew little about it when the policy was first implemented. Even up until the present, many businessmen are still not able to keep themselves updated with the new arrangements under the CAFTA. Secondly, the transaction procedures under the CAFTA are inconvenient and sometimes troublesome. Enterprises do not want to take too much time to deal with all kinds of administrative procedures. Moreover, it takes time to prove the effectiveness and applicability of such an agreement, as well as the zero-tariff agreement on the trade of agricultural products between China and Thailand. In general, the Chinese enterprises are not making full use of the tariff reduction policies under the Framework of the CAFTA. In fact, they are not as familiar as their counterparts in the ASEAN states with the preferable articles and policies of FTAs. After the EHP was put into effect

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<sup>72</sup> This information was available online at: <http://search.yndaily.com/cgi-bin/> (July 21, 2005); retrieved on August 28, 2006.

for one year, only 17.9 percent applied for a Certificate of Origin (Form E) among China's export to ASEAN. In other words, 80 percent of goods were still subjected to the tariffs under the old tariff system. In contrast, around 60 percent of ASEAN's export of goods to China had enjoyed the preferential tariff, with the amount of tariff reductions up to RMB 600 million.<sup>73</sup> More work on the popularization of the CAFTA in China is needed.

As discussed throughout the entire study, support from the central government is important for the appropriate implementation of the CAFTA. Being major implementers, provincial governments need both financial and preferable policy support from the central government. Concerning attitudes, commitment and incentives for compliance of implementers, provincial governments are generally supportive of these aspects. Nevertheless, different provinces as well as different industrial sectors have different conditions. Some provinces may benefit more from the CAFTA's implementation while others may face adverse effects more. The same situation applies to different industrial sectors.

Last but not least, the leadership skills of the implementing officials must also be taken into account. Government officials act as a bridge between enterprises, farmers, and policy makers. Therefore, the coordinating ability between the two parties is of vital importance to the implementation of the CAFTA. On the one hand, provincial bureaucracies need to disseminate the policy to enterprises and farmers so as to provide them with basic information on the new policy. If provincial bureaucracies

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<sup>73</sup> See Jianren Lu, "Zhongguo-Dongmeng Ziyou Maoyiqu: Jinzhan yu Wenti" (The CAFTA: Progresses and Problems), August 9, 2005; available at: <http://www.iapscass.cn/xueshuwz/showcontent.asp?id=690>; retrieved on August 29, 2006.

are able to inform local enterprises and farmers how to take full advantage of such policies, they will get greater support and thus continue to enhance their legitimacy. On the other hand, they need to report the difficulties and challenges faced by the local governments so as to secure the necessary support from the central government. Their persuasive ability may determine whether their provinces can enjoy more financial support or more preferable policies compared to other provinces.

## **V. Conclusion**

Policy implementation as a policy-reformulation process is a dynamic process. By integrating the policy implementation process into the policy making process, a complete picture can be drawn on the policy-making process in China. It is worthwhile noting that policy-reformulation does not necessarily equal aborting the original policies. It also refers to acquiring more flexibilities and freedom in the implementation process. As discussed in the previous chapters, the authoritarian nature is embedded in China's decision-making process. Since local governments did not actively participate during the CAFTA formulation process, the policy made mainly by the central government could not have taken into full consideration all their concerns. Moreover, being the key implementers, the local governments are the ones who are the most conscious of the difficulties and challenges posed during the implementation process. Therefore, in order to minimize the negative effects and maximize their interests, bargaining with the central government has become a

reasonable choice for local governments, as evidenced by the activities of Guangxi and Yunnan governments during the implementation of the CAFTA.

The sources of bargaining power enable local governments to bargain with the central government. The motivations and incentives of local governments to bargain with the central government are different. However, regardless of whether it is due to economic interests, the difficulties and challenges posed by certain policies, or in the quest for more financial support and preferable policies, local governments utilize both formal and informal avenues to meet their aims. In the case of CAFTA, Guangxi was more successful in bargaining for more preferential policies and financial support from the central government as compared to Yunnan.

As enumerated in the last section, there are many factors that may exert influence on the result of the policy implementation process. Although the framework has been set and some of the procedures have been implemented under the Framework of the CAFTA, many problems still remain and time is needed to prove whether the CAFTA is a fruitful and effective arrangement.

## CHAPTER SEVEN

### CONCLUSION: AN INTEGRATION OF POLICY FORMULATION AND POLICY IMPLEMENTATION

This research has analyzed China's foreign economic policy formulation and implementation by taking the CAFTA as a case study. In contrast to existing literature and ready-made models which neglect discussions on policy implementation in the study of the policy making process, this study argues that the policy implementation process will increasingly attract the attention of scholars. This is because the autonomy of local governments with policy implementation far exceeds that in the policy formulation process. Moreover, this study has differentiated both the policy formulation and the policy implementation processes and integrated them into a new perspective of "Dynamic Authoritarianism."

The new perspective of "Dynamic Authoritarianism" discussed in this study includes the two processes of policy formation and implementation simultaneously. It illustrates that Chinese foreign economic policy making is still an authoritarian one with the dominance of a few top leaders and the central government on the one hand; and the policy justification and implementation processes characterizing local governments and the academia providing more inputs on the other. Three hypotheses were tested in the study. The first hypothesizes that although more input is put into the policy making process now, China's foreign economic policy-making is still quite centralized and dominated by the central government. Secondly, as a part of policy formulation, policy justification is often conducted by the academia. Thirdly, local



governments have more autonomy in the policy implementation process compared to the policy formulation process. Principal findings from the study are discussed in the following section.

### **I. Policy Formulation vs. Policy Implementation**

The major contribution of this study is that it has differentiated the policy formulation and the policy implementation processes in China's foreign economic policy making and it has analyzed the dialectic relationship between the two processes.

Many new changes have taken place in the Chinese foreign economic policy making process since the decades marking China's reform and opening-up. China adopts two-front games instead of two-level games. During the policy formulation and implementation processes its domestic front was made up of three layers, i.e. the top leadership nucleus circle, the central and local bureaucracies and two types of think tanks, differentiated according to whether they are affiliated with certain government bureaucracies. The central government has changed its attitude towards the roles of local governments, the academia as well as the public in the foreign economic policy making process. Officials from the central bureaucracies are more likely to adopt the ideas and suggestions of specialists in their related fields. Moreover, when a new policy is about to be made, policy consultations with these specialists are frequently conducted by the central bureaucracies.

When it comes to the policy implementation process, local governments have been able to exert more influence on the central government and bargain for more

favorable policies both via formal and informal avenues. In the case of bargaining for the hosting rights of the China-ASEAN Expo by the Guangxi Zhuang Autonomous Region, both the provincial leaders of Guangxi and its bureaucracies have both exerted their effort to secure this right. As proven in practice, the hosting rights were granted to Nanning City and this has greatly improved the reputation of Guangxi. Economic benefits such as an increase in investment came along with the hosting of the Expo.

As discussed previously, since China is a big country, it is hard for it to implement a policy that applies well to all provinces. In most cases, the policies made by the central government are often very general ones. When it comes to policy implementation, more enthusiasm and creativity are needed. Furthermore, policy formulation is often conducted at the national level and based on the national interests while policy implementation is more at the local level and based on local interests. After a policy has been made based predominantly on national interests, it is implemented by the local governments. As each province has its own specific conditions, their strategies to implement the national policy are different. In the case of the CAFTA, provinces such as Yunnan and Guangxi are among those provinces that are most affected by the Agreement. This is not only due to the fact that they are bordering provinces, but that their preferential status as bordering provinces in conducting trade with the Southeast Asian states have been challenged. They can no longer enjoy preferential policies such as preferential tariffs in trading with the Southeast Asian states from the central government.

Under such circumstances, the Provincial Governments of Guangxi and Yunnan have to consider provincial development policies based on the policy already defined by the central government. They are entitled to construct new methods and strategies to make themselves unique in the fierce competition among provinces. That is why both of them brought forward the idea of making themselves as the “bridgehead” to the Southeast Asian states. Since Guangxi has been appointed as the permanent host of the annual China-ASEAN Expo, it can argue for more preferential policies during the implementation process, such as arguing for more support in the construction of infrastructure in Nanning city. Another example related to both Yunnan and Guangxi: since the interests of tropical fruit growers were violated, they proposed the idea of establishing “the Precautionary System for Tropical Fruits” to minimize the side effects of the CAFTA.

Nevertheless, these new changes in the decision-making process are more quantitative than qualitative changes. In many cases, policy justification only happens under the circumstance that ideas are sure to become policies. The policy making process of the CAFTA has not included many opinions from all walks of life, such as from local governments and academic scholars at the local level. Opinions are sought mainly from academic scholars and central bureaucracies under the directive of the top leaders of the central government. Contrary to Gerald Segal’s observation on the decentralization of the decision-making process on China’s foreign economic relations,<sup>1</sup> Chinese foreign economic policy making is still quite centralized. No

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<sup>1</sup> Gerald Segal, “Foreign Economic Policy,” Chapter 1, in Gerald Segal, *Openness and Foreign Policy Reform in Communist States* (London & New York: Routledge, 1992): 18-60.

matter how much power local governments have gained, it is still the central government that defines the foreign economic policies for the country. The central government has never loosened its strict control over the provinces. Local governments have to obey the general rules made by the central government unconditionally. In fact, it is in the policy implementation process where there is some “decentralization of power.”

In his analysis of the relationship between the border areas of China and Vietnam, Brantly Womack observed that “the cross-border relationships that proliferate in times of peace are an increasingly large and valuable peace dividend, though they may never become too thick to be cut by the big knives of national policy.”<sup>2</sup> It is a comparatively reasonable observation. On the one hand, we may accept neo-liberalists’ arguments that increasing economic interdependence is conducive to the development of bilateral relations, as well as to world peace. On the other hand, we cannot overestimate the role of economic interdependence. China is not a unitary actor. Local governments do enjoy some freedom in terms of international economic relations, but economic interests of some provinces may not necessarily be the top-priority of the central government. Sometimes, such interests have to be subdued due to the political and strategic considerations of the whole country. It was due to political and strategic considerations that the central government made the decision to go ahead with the CAFTA. As proven by the fieldwork done in Guangxi, such a policy has actually disregarded much of the interests of farmers in Guangxi Province.

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<sup>2</sup> Brantly Womack, “International Relationships at the Border of China and Vietnam: An Introduction”, *Asian Survey*, Vol.40, No.6 (November/December, 2000): 986.

Local governments are far from independent from the central government. Under a dynamic authoritarian decision-making perspective, no matter how much autonomy local governments have been granted in making some of their own trade policies, the power of overall trade policymaking is still in the hands of the central government. China is still an authoritarian state even though the authoritarian nature has been reduced to some extent.

Discrepancies exist between the interests of the local and central governments. Local governments will always exert efforts to develop their local economies. A rapid improvement in local economic performance is proof of the achievements of the local government leaders. For the central government however, its focus goes beyond the development of the local economies. The central government never hesitates to keep local governments under its tight control. Whenever necessary, the autonomy and power in economic decision making of the local governments may be withdrawn by the central government.

Two contradictory trends continue to be seen in China: On the one hand, the central government is willing to grant a certain amount of autonomy to local governments as long as it is conducive to the development of the local economies and thus, are able to ultimately contribute to the development of the national economy. After all, the tide of globalization and regionalization has led to greater economic interdependence among nation-states as well as other players in the international sphere. The central government has realized that it is impossible to resist such a trend by keeping everything completely under tight control. The freer space of local

governments actually in turn enhances the legitimacy of the ruling status of the leaders of the central government. On the other hand, as observed by Jae Ho Chung, the central government “will try hard to intervene whenever the expanded local autonomy amounts to producing a system-wide penetration crisis.”<sup>3</sup> As I have discussed earlier, although the development of the national economy is the basis of the central government’s legitimacy, the central government is determined to inhibit potential threats to the existing political system or the ruling status of the central government. In other words, if it is considered as a direct challenge to the existing regime, the potential threat will be squashed at an initial stage.

In any way, being a Marxist and Leninist state, China still emphasizes such concepts like, “the minority is subordinate to the majority, the lower level to the higher level,” and “partial interests shall subordinate to overall interests, the interests of individuals and collectives to those of the state.” At times when the central government considers it necessary, the economic interests of local governments may be sacrificed for the benefit of the entire nation or merely for keeping a tighter control of local governments. Just as Womack rightly concluded in his article, “border trade is vulnerable to policy changes at higher levels that do not relate specifically to the issue of border trade itself.”<sup>4</sup> Such an opinion is also shared by Xiaosong Gu, Vice President of the Guangxi Academy of Social Sciences, that “the constraints of

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<sup>3</sup> Jae Ho Chung, “Studies of Central-Provincial Relations in the People’s Republic of China: A Mid-Term Appraisal”, *The China Quarterly*, No.142 (June, 1995): 508.

<sup>4</sup> Brantly Womack, “International Relationships at the Border of China and Vietnam: An Introduction”, *Asian Survey*, Vol.40, No.6 (November-December, 2000): 986.

national policy will constantly pull the leash on what is possible in the border regions on both sides.”<sup>5</sup>

“The Decision of the Central Committee of the Communist Party of China on Strengthening and Improving the Building of the Party Style,” which was passed at the Sixth Plenum of the 15th Central Committee of the Communist Party of China on 26 September 2001, has further vindicated such an argument. In laying down the principles and tasks of the Party in improving the Party style, this report makes it clear that democratic centralism is the fundamental organizational and leadership system of the Party. In other words, the key to strengthening and improving the building of Party style lies in fully promoting intra-party democracy while safeguarding centralism.<sup>6</sup>

As such, I have proven the proposed perspective of “Dynamic Authoritarianism” in China’s foreign economic policy formulation and implementation. The paradigm of Chinese foreign economic policy making is still authoritarian while its policy implementation process tends to be looser and leaves more space for local governments to maneuver.

The study on policy formulation and implementation of the CAFTA explains well the relationship between policy formulation and implementation. During the policy initiation and the policy formulation processes, the central government plays a

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<sup>5</sup> Xiaosong Gu and Brantly Womack, Border Cooperation between China and Vietnam in the 1990s, *Asian Survey*, Vol.40, No.6 (November/December, 2000): 1058.

<sup>6</sup> The full text of “*Zhonggong Zhongyang Guangyu Jiaqing he Gaijin Dangfeng Jianshe de Jueding*” (The Decision of the Central Committee of the Communist Party of China on Strengthening and Improving the Building of the Party Style) is available online at: [http://news.xinhuanet.com/ziliao/2003-01/20/content\\_698248.htm](http://news.xinhuanet.com/ziliao/2003-01/20/content_698248.htm); retrieved on August 22, 2006.

predominant role. Therefore, the central government considers mutual economic interests as the policy basis and strategic considerations as the ultimate goal in the CAFTA initiative. The transformation of China's foreign economic policy towards ASEAN explains this point well. The shifts in policy towards ASEAN from bilateralism to reactive multilateralism and further to pro-active multilateralism were also based on national interest considerations. During the policy implementation process, local governments are able to play a more important role. The impetus behind their bargaining with the central government is to meet their respective local-interests.

According to the definition of the author, the policy making process actually comprises the two processes of policy formulation and policy implementation. The policy implementation process is a process of policy remaking through which more specific policies are made. The decision-making mechanism is still authoritarian where the central government is still predominant. It is dynamic for many reasons: there is more input put into the policy formulation process; policy implementation is a part of the policy making process during which new policies and strategies are made, and because of the interactive relationship between the policy formulation and the policy implementation processes.

## **II. Informal Avenues vs. Formal Avenues**

One characteristic of Chinese foreign economic policy making is that both formal and informal avenues have been utilized in the bargaining process between the local governments and central government. The political structure of the Chinese



government prevents the institutionalization of the decision-making process from being fully realized. This is one of the main reasons why informal politics has spread to the entire bureaucratic system in China.

Formal avenues tend to follow strict bureaucratic procedures by climbing up level by level through the various administrative ladders. The reports and proposals of local governments are submitted to the central government either via the provincial people's government or other provincial bureaucracies. Those submitted to the State Council via the provincial people's government are shorter compared to those submitted via the provincial and central bureaucracies. Nonetheless, red tape always exists. Whether the ideas or recommendations will be accepted ultimately depends on the insights or opinions of those officials at the top level. The chances for further explanation and persuasion from the lower levels are relatively rare in most cases. Moreover, the time-span from the submission of a report to result notification is by no means short.

Informal avenues that make the proposals more easily approved by the central government play an important role in China's foreign economic policymaking process. As pointed out by the case study, the idea of the China-ASEAN Expo was first proposed by the Yunnan Provincial Government. The Yunnan Provincial Government had wanted to host the Kunming Trade Fair (*Kun Jiao Hui*) and the China-ASEAN Expo together.<sup>7</sup> However, just before the announcement of the host city for the China-ASEAN Expo, it was informed that Nanning had clinched the title, much to its

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<sup>7</sup> Some scholars in Yunnan revealed during an interview with the author that the hosting rights of the China-ASEAN Expo to Kunming were verbally admitted by Chinese Premier Wu Yi.

astonishment. It was only then that the Provincial Government of Yunnan realized what it is up against. They took corresponding actions immediately after receiving this information, but it was still too late, and nothing could be done. Both scholars and government officials from Guangxi and Yunnan admitted that Gao Hucheng, then Vice Chairman of the People's Government of Guangxi Zhuang Autonomous Region and now Vice-Minister of the MOFCOM, played a key role in securing the hosting rights for Nanning.<sup>8</sup>

This was also proven by the case study of how the Hexian paper pulp project was accepted for its possible inclusion into China's Seventh Five-Year Plan.<sup>9</sup> In the analysis, the author not only analyzed the roles of foreigners, such as a foreign banker, a Hong Kong entrepreneur and an overseas consultant, including the United Nations Development Program in Beijing, but also the roles of personal links and informal methods, all of which had helped facilitate the approval of the original proposal made by the county. As concluded in the article, "the project was greatly helped in its early stages by the lucky chance that all those principally involved already knew each other and got on well together."

There may not be enough evidence to draw a conclusion that such informal avenues, which accelerated the policy making process and made the policy initiative more easily approved, played a decisive role in China's policy making. There were two fundamental reasons why Nanning City succeeded in securing the hosting rights

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<sup>8</sup> Author's interviews with government officials and scholars in Guangxi and Yunnan, September to November 2006.

<sup>9</sup> Sally Stewart and Teung Yun Choi, "Chinese Decision-Making: A Case Study of How the Hexian Paper Pulp Project was Accepted for Possible Inclusion in China's Seventh Five-Year Plan", *Public Administration & Development (1986-1998)*, Vol.10, No.1 (January-March, 1990): 41-51.

for the China-ASEAN Expo. First, both Yunnan and Guangxi were in a good position to host such expositions. Also, since Kunming has hosted the World Horticultural Exposition, the central government would want to allow other provinces to host other events, thus benefiting all to an equal degree. Nevertheless, it is reasonable to conclude that informal avenues, such as personal connections and relationships, do make a difference in helping to improve the bargaining power of local provinces and thus to meet more of their respective demands.

It should be stated that such informal avenues do not necessarily symbolize the backwardness of the Chinese regime. On the contrary, it is at times considered an advantage to the regime. There are many cases available to prove that the transaction costs are lower via such informal avenues to reach a final conclusion. As argued by Lowell Dittmer, informal politics is Janus-faced: both “reactionary” and “progressive.”<sup>10</sup> Although it is reactionary in its procedural implications, and tends to reinforce hierarchical relationships at the expense of rational-legal arrangements, it is also progressive in the way that its flexibility facilitates more rapid change by offering shortcuts to standard bureaucratic procedures. Since such informal politics arise from traditional culture, they are thus deeply embedded in the minds of Chinese people.<sup>11</sup> It is hard to eradicate such a phenomenon in a short time. Under the current

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<sup>10</sup> Lowell Dittmer, “Modernizing Chinese Informal Politics,” Chapter 1, in Jonathan Unger, ed., *The Nature of Chinese Politics: From Mao to Jiang* (Armonk & London: M. E. Sharpe, 2002): 36.

<sup>11</sup> For such views see Lucien W. Pye, *The Dynamics of Chinese Politics* (Cambridge: Oelgeschlager, Gunn and Hain, 1981) and *Asian Power and Politics* (Cambridge, Mass.: Belknap Press, 1985); see also Andrew G. Walder, “Organized Dependence and Cultures of Authority in Chinese Industry”, *Journal of Asian Studies*, Vol.43, No.1 (1983): 51-76; and *Communist Neo-Traditionalism* (Berkeley and Los Angeles: University of California Press, 1986), in which Walder argued that the structure of communist China has reinforced such culture of informal relationships.

institutionalization reform process led by the Chinese government, more institutionalized procedures will follow in the Chinese policy making process.

### **III. Authoritarian Regime vs. Democratic Regime**

Democracy is a great desire of most people and states in the world. Nevertheless, the advantages of the Chinese political system in pushing forward regional economic cooperation should not be underestimated.

Whether the government or the market is more dominant in boosting the domestic and regional economy is a debatable point. I do not intend to make a final judgment on it. Nevertheless, as argued in this study, the role of a powerful government is of crucial importance in pushing the economic cooperation of the region. The structural distortion of the market is never avoidable. We can even conclude that the intervention of the government has become the real driving force in developing regional economic cooperation. Regional economic integration shall be realized through a series of agreements signed by the governments of the nation states. Since the decision-making regarding regional economic integration has close relations with the foreign economic arrangements or policies of a state, the decision has to be made independently by the ruling government. Whether to join a regional integration agreement, with whom and to what extent the regional integration agreement shall be or how to push the process of regional integration, are all part of government decision-making. As is often the case in western democratic countries, institutions such as international organizations, non-governmental organizations, and trade unions,

can exert large influence on the integration policies of the government, but they can never take the place of actual government decision-making.

By discussing the relative advantages of an authoritarian regime, we are actually assuming that the state under the authoritarian regime is a rational actor, who can make rational choices. Nevertheless, this may not always be the case in reality. The debate on whether a state is rational or not has been a long lasting conundrum of International Relation Theory. With no effective checks and balances on an authoritarian government, two extreme results of the policy making process can be reached. On the one hand, transaction costs can be greatly reduced if the decision is rational and deliberative; on the other hand, potential negative impact to the country may increase if the decision is irrational and arbitrary.

These two extreme results leave the decisions made by the authoritarian regime in an uncertain state. It is in this sense that a democratic regime is the direction that most states take, at least in the way decisions are being made. In China, the direction of political reform is still obscure whereas the direction of the decision-making regime is rather clear. Both the qualitative and quantitative changes I have discussed earlier have proven that China's decision-making is following a direction of becoming more rational and democratic.

Samuel Kim argues that the decision-making processes have been diffused due to the more complex bargaining processes both domestically and internationally. He concluded that China "faces the daunting challenge of establishing a fruitful congruence between domestic and foreign policies amid the changing functional

requirements of globalization.”<sup>12</sup> Nevertheless, this may not be true in China’s foreign economic policymaking process. The interests of the central and local governments do not necessarily involve a zero-sum game. A win-win situation or a positive-sum game exists in their relations.<sup>13</sup> In the case study of the CAFTA, local governments were not trying to challenge the power of the central government when implementing their policies. In other words, they were not acting as centrifugal forces. Instead, they were merely trying every means possible to maximize their interests within the general framework already defined by the central government. This may contradict to some extent what Yehezkel Dror had observed several decades ago. He observed that policy predicaments or adversities are a pervasive feature of policy making and predicted such a feature would become even more widespread in the future.<sup>14</sup> Of course, what he had observed were actually not rare in the policies of other countries. However, in the case of the policy-making process of the CAFTA, it is not obvious. After all, the interests of the central and local governments need not necessarily be confrontational in the first place.

Some scholars consider the rising role of local governments as newly emerging “interest groups.” In fact, the representative of multi-layered diplomacy school, Brian Hocking’s analysis is more applicable in China’s case. He argues that sub-national or

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<sup>12</sup> Samuel S. Kim, “Chinese Foreign Policy Faces Globalization Challenges,” Chapter 10, in Alastair Iain Johnston and Robert S. Ross, eds., *New Directions in the Study of China’s Foreign Policy* (Stanford: Stanford University Press, 2006): 299.

<sup>13</sup> Yuanxin Shen, “Zhenghe Hudong: Zhongyang yu Difang Guanxi de Xin Fanshi ji qi Zhengce Yiyi” (A Positive-Sum Game: A New Paradigm of the Central-local Relations and its Policy Implications), *Shanghai Xingzheng Xueyuan Xuebao* (Journal of Shanghai Administration Institute), No.2 (2001): 50-56.

<sup>14</sup> Yehezkel Dror, *Policymaking Under Adversity* (New Brunswick & Oxford: Transaction Books, 1986).

non-central governments' involvement in foreign affairs represents the expansion rather than the rejection of foreign policy.<sup>15</sup> In most cases, the central government plays the supportive role to local governments' initiatives which both meet the demands and interests of the provinces and the state. For example, in order to liberalize the cross-border traffic between China and Vietnam, Guangxi signed the agreement with Vietnam to open three border checkpoints in 1996 under the support of the central government.<sup>16</sup> As argued in this study, under the present dynamic authoritarian perspective of China's decision making process, China is still able to exert its advantage of centralizing power to make the final decision in the shortest time possible, as in the case of the CAFTA. It was amazing that China and ASEAN completed the project within a one year time frame while other Asian powers, such as Japan and South Korea are still bogged down in discussions with the ASEAN states. It is one of the author's arguments that sometimes the authoritarian nature of China provides optimal conditions for the endorsement and application of certain policies.

I am not complimenting the present Chinese regime. Nevertheless, it is worth noticing that there are some advantages of such a system in terms of the foreign economic policy making process, which is not comparable under democratic regimes. Some scholars even argue that if China were a democratic country, it would not have

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<sup>15</sup> Brian Hocking, *Localizing Foreign Policy: Non-Central Governments and Multilayered Diplomacy* (London: Macmillan, 1993): 26.

<sup>16</sup> Peter T. Y. Cheung and James T. H. Tang, "The External Relations of China's Provinces," Chapter 4, in David M. Lampton, ed., *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000* (Stanford, California: Stanford University Press, 2001): 107.

been able to join the WTO since there would be too much pressure from many interest groups.<sup>17</sup>

#### **IV. Dynamic Authoritarianism Perspective and its Future**

The introduction of this study has provided a historical description of China's decision-making model. Since the founding of the PRC, China's decision-making mechanism has transformed from a totalitarianism model in Mao's era to a dynamic authoritarianism model at present. In Mao's era, a single individual dominated the decision-making powers of the state, otherwise known as totalitarianism. While in Deng's time, Deng emphasized the importance of the institutionalization of the decision-making process. His decisions were closely tied to his personal experiences, namely the "Three Ups and Downs" (*San Qi San Luo*) in his political life: The first was in the 1930s when Deng Xiaoping, together with Mao, was pushed aside from a leadership role by "Left Adventurism" (*Zuoqing Maoxian Zhuyi*) and was labeled as the leader of the "Luoming Route." It was not until the "Mao Zedong Route" won the battle, that Deng recovered some of his leadership powers. The second "down" was in the 1960s when the Cultural Revolution was launched. Deng was considered by Lin Biao, the successor of Mao at that time, as the opposition power of the Revolution and the leader of capitalism. He was summoned back to Beijing in 1973 after the failure of the Counter-revolutionary Coup by Lin Biao. The final "down" was in the mid 1970s; Deng was determined to rectify the mistakes of the Cultural Revolution but was

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<sup>17</sup> Author's interview with a Singaporean economist, August 29, 2006.



ousted by the Gang of Four. He resumed his post after the end of the Gang of Four's rule and their subsequent trial.

Due to such experiences, Deng was determined to prevent the domination of the decision-making process by any single political figure. In order to avoid the same mistakes such as the Cultural Revolution from taking place, as well as to reduce the influence of personal factors in the decision-making process, Deng realized it was only through institutionalization that the decision-making process could be made more rational and objective. In his own words, "Regime is the decisive factor:" "It is true that our mistakes in the past are closely related to the thoughts and behaviors of the top leaders, but what are more important are the problems in the organization and the working system itself. If a regime is good, bad behaviors are confined and restricted. On the contrary, a bad regime prevents the possible influences of good behaviors in the struggle with the bad ones."<sup>18</sup>

Under his direction, Deng launched the reform of collective leadership. At the 12<sup>th</sup> National Congress, the constitution of the Party was revised. The post of Chairman of the Party was abolished while the post of the General Secretary was resumed. He believed that the Chairman of the Party enjoyed too much power, while the General Secretary would only be considered as the top leader of the party secretaries. In this way, the special rights and powers were eliminated from the title of the post. The second initiative he took was to separate the organizations of policy formulation from those of policy implementation. The General Secretary and the Secretariat were only

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<sup>18</sup> Shimei Xiao, *Deng Xiaoping Moulue Xue* (The Study of Strategies of Deng Xiaoping) (Beijing: Dangdai Shijie Chubanshe, 2004): 194.

policy implementers, not a policy formulation person or organization. Instead, the top decision making powers are in the hands of the Standing Committee of the Political Bureau. Important decisions are collectively considered and determined by those members of the Political Bureau, whereas the General Secretary has only one-vote in the Political Bureau.

Led by Deng, the institutionalization of the policy-making mechanism has become one of the guidelines of the political reform since then. Indeed, we have to admit that the institutionalization of the decision-making and the implementation process is hard to achieve under a Marxist-Leninist state structure such as China's. First, let us consider the notion of China as a country ruled by law. After first proposing the term in 1996, the idea of "rule of law" was mentioned by former Chinese President Jiang Zemin in the report of the 15<sup>th</sup> National Congress of the CCP. At that time, "to govern the country according to law" and "to build a socialist country with the rule of law" became an important part of China's political reform. The concept was included in the Chinese Constitution in March 1999. It was natural for the Chinese leaders to strive for good governance by inducing the new concept of "rule of law." Although Chinese leaders have emphasized time and again this relatively new concept, it is still quite early for the country to be ruled under this type of legal system. China is actually in the transitional stages of restructuring between the rule of man and the rule of law, which has been summarized as "rule of the party by law"<sup>19</sup> by some scholars.

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<sup>19</sup> Such arguments see for example, Keyuan Zou, "The Party and the Law," Chapter 4, in Kjeld Erik Brodsgaard and Yongnian Zheng, eds., *The Chinese Communist Party in Reform* (London & New York: Routledge, 2006): 77-102.

Also, China is made up of a one-party system. There is no other effective political power to check the ruling party. The control of the CCP on the country is tight and powerful. The bureaucracies of the state in most cases act as the policy implementation organs rather than the decision-making ones. The final powers of making strategic decisions of the country are in the hands of a few top leaders of the party. No matter how radical China's reforms are, particularly its political reforms, one-party dominance will be around for some time.

Furthermore, under the Chinese legal system, presidents of the local People's Courts at various levels are elected or removed by the local People's Congresses at the corresponding levels while the Vice-Presidents, members of the Judicial Committees, Chief Judges and Associate Chief Judges of Divisions are appointed or removed by the Standing Committees of the People's Congresses at the corresponding levels upon the recommendation of the Presidents of those courts. Moreover, the local People's Courts are mainly financed by local governments. Under such circumstances, it is easier for the local government officials to exert their influence on judges and local courts. Yongnian Zheng described the central-local relationship under the current Chinese system as a de facto federalism, which has been driven by the process of decentralization and globalization. In his view, localism is so strong and powerful under such a system that it is hard for policies made by the central government to be implemented at the local level.<sup>20</sup> This explains why good policies made by the central

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<sup>20</sup> See Yongnian Zheng, "De Facto Federalism and Dynamics of Central-Local Relations in China", *Discussion Paper*, China Policy Institute, the University of Nottingham, No.8 (June, 2006): 1-27; and Yongnian Zheng and Xu Wang, "Lun Zhongyang Difang Guanxi Zhong de Jiquan he Minzhu Wenti" ("Centralization, Democracy and China's Central-local Relations"), *Zhanlue yu Guanli* (Strategy and Management), Beijing, No.3 (2001): 61-70.

government are often performed badly at the local level and hardly meet the state's earlier expectations.

Finally, the dilemma of the distribution of power between the central and local governments is embedded in the Chinese regime. The dilemma is that once power sharing is granted, China will become unstable and while power remains centralized, China will remain stable. After discussing the decline of central control over investment in post-Mao China, Barry Naughton argued that "the future path of the Chinese economy will be largely determined by the degree of success that the reformers in Beijing have in overcoming the pragmatic bureaucratic politics of local leaders in the provinces, cities and counties of China."<sup>21</sup> Although the argument is debatable, effectively managing the relationship with the local governments during the processes of policy formulation and policy implementation is a challenging task to which the central government has to handle carefully. Foreign economic policy-making is still strongly centralized in China as it is characterized interests and needs that are both numerous and complex, due to China's size and also because of the administrative layout of the country. The challenges presented to such a centralized decision-making regime will increase over time. After all, it is difficult for the central government to tightly grasp the reins of control and reconcile different requirements of local governments. The decision-making process is comparatively easier compared to western democratic countries. Nevertheless, when it comes to the policy implementation process, more difficulties and challenges exist. Due to this

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<sup>21</sup> Barry Naughton, "The Decline of Central Control over Investment in Post-Mao China," Chapter 6, in David M. Lampton, ed., *Policy Implementation in Post-Mao China* (Berkeley: University of California Press, 1987): 79.

inconsistency in policy formulation and policy implementation, many policies made by the central government are unsuitable. How to maintain consistency in the two above-mentioned processes will be a big challenge to the present regime.

The last thing to reiterate is that although informal avenues of bargaining will still be widely used by local governments for more financial and preferential policies from the central government and the decision-making is still authoritarian in nature, China's decision making process has become more rational and democratic. Bureaucracies at the central and local governments, the academia, as well as the public have begun to play more active roles to influence the policy making process. Policy justification is carried out more often both before and after the policy has been made. Thus, we cannot ignore the changes occurring, both qualitatively and quantitatively, in China's decision-making process. The political system of China has many shortcomings, which is normal in every state system, and these shortcomings are in the process of transformation and reform. Looking into the future, the policymaking apparatus at both the national and local levels will become more technocratic. Secondly, with the market becoming more important and the power of bureaucrats becoming more limited, the general public and local governments may become more assertive, demanding that their interests should be reflected in the policy formulation and implementation processes. Thirdly, the provinces in China will compete even more intensely against one another for trade and investment so as to accumulate social capital for the promotion of provincial leaders. In this regard,

China's policymaking process is likely to move towards greater pluralism as the country becomes more developed and globalized.

Presently, the CAFTA is still in the initial stages of implementation. Whether it is a wise policy made by the Chinese government in meeting the interests of both the state and the local governments can only be proven over time.]

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**APPENDICES:**

**Appendix 1: Ten Major Export Commodities of ASEAN to China (US\$ million)**

<b>1993</b>	<b>Value</b>	<b>1996</b>	<b>Value</b>	<b>2001</b>	<b>Value</b>	<b>2004</b>	<b>Value</b>
Min fuels, min oils & prd of distillation; bitum substan; min wax	1462.6	Min fuels, min oils & prd of distillation; bitum substan; min wax	1740.2	El.machnry,eqpmnt& parts; sound eqpmnt; tv equipment	7170.6	El.machnry,eqpmnt& parts; sound eqpmnt; tv equipment	6,713.7
Wood and articles of wood; wood charcoal	1025.1	Nuclear reactors, boilers, machnry & mechan applnc/ parts	985.3	Nuclear reactors, boilers, machnry & mechan applnc/ parts	4998.3	Min fuels, min oils & prd of distillation; bitum substan; min wax	6006.1
Anml / veg fats & oils; preprd edible fats; anml or beg waxes	379.4	El.machnry,eqpmnt& parts; sound eqpmnt; tv equipment	674.2	Min fuels, min oils & prd of distillation; bitum substan; min wax	4189.4	Nuclear reactors, boilers, machnry & mechan applnc/ parts	1,802.7
Nuclear reactors, boilers, machnry & mechan applnc/ parts	289.5	Wood and articles of wood; wood charcoal	654.1	Plastics and article thereof	1316.5	Organic chemicals	428.7
El.machnry,eqpmnt& parts; sound eqpmnt; tv equipment	272.3	Anml / veg fats & oils; preprd edible fats; anml or beg waxes	497.4	Organic chemicals	803.7	Wood and articles of wood; wood charcoal	421.9
Plastics and article thereof	146.9	Rubber and articles thereof	314.5	Wood and articles of wood; wood charcoal	638.2	Rubber and articles thereof	416.8
Iron and steel	106.4	Tobacco and manuf tobacco substitutes	293.3	Anml / veg fats & oils; preprd edible fats; anml or beg waxes	507.4	Miscellaneous chemical products	305.2
Postal packages and postal transactions	95.9	Cereals	277.0	Rubber and articles thereof	506.8	Optcl, photo & cinmatgraphic, measuring, precision, medcl instr.	243.5
Copper and articles thereof	82.4	Copper and articles thereof	233.5	Optcl, photo & cinmatgraphic, measuring, precision, medcl instr.	478.0	Ores, slag and ash	222.9
Organic chemicals	68.8	Plastics and articles thereof	220.5	Postal packages and postal transactions	427.8	Plastics and articles thereof	217.2
<b>Total</b>	<b>4,528.7</b>		<b>7,474.1</b>		<b>25,268.3</b>		<b>16,778.8</b>

*Sources: ASEAN Trade Statistics Database and ASEAN Statistical Yearbook, 2003-2005.*

**Appendix 2: Ten Major Import Commodities of ASEAN from China (US\$ million)**

<b>1993</b>	<b>Value</b>	<b>1996</b>	<b>Value</b>	<b>2001</b>	<b>Value</b>	<b>2004</b>	<b>Value</b>
Electrical Machinery, Sound Recorders, etc.	480.3	Electrical Machinery, Sound Recorders, etc.	1,982.0	El.machnry,eqpmnt& parts; sound eqpmnt; tv equipment	6,100.9	El.machnry,eqpmnt& parts; sound eqpmnt; tv equipment	10,371.1
Nuclear Reactors, Boilers, etc. & Parts	420.7	Nuclear Reactors, Boilers, etc. & Parts	1,355.8	Nuclear reactors, boilers, machnry & mechan applnc/ parts	4,166.5	Nuclear reactors, boilers, machnry & mechan applnc/ parts	2,353.7
Mineral Fuel Oils waxes & Products, etc.	389.2	Iron & Steel	512.1	Min fuels, min oils & prd of distillation; bitum substan; min wax	960.5	Iron & Steel	1,204.8
Cotton	242.5	Mineral Fuel Oils waxes & Products, etc.	474.9	Inor chemicals; org/inor compnds of prec	428.1	Plastics and articles thereof	978.9
Tobacco and manufacture of tobacco substitutes	184.0	Salt sulphur, earths, stones, lime, cement, etc.	295.9	metals/ra.active elmn	426.4	Min fuels, min oils & prd of distillation; bitum substan; min wax	881.4
Cereals	162.4	Articles of Iron or Steel	252.9	Optd, photo/cinmatgraphic, measuring, precision, medcl instr.	336.2	Vehcl; parts & accessories	729.5
Articles of Iron or Steel	141.6	Edible vegetable roots and tubers	229.2	Plastics and articles thereof	329.2	Organic chemicals	604.0
Inorganic chemical, rare-earth metals, etc.	129.2	Inorganic chemical, rare-earth metal, etc.	224.7	Apparel articles & accessories, knitted/ crocheted	319.3	Articles of iron or steel	307.3
Man-made stapple facbrics	128.5	Organic Chemicals	221.5	Articles of iron or steel	316.5	Copper and articles thereof	231.7
Oil seeds, fruits, medicinal plants, fodder, etc.	128.1	Ships, boats & floating structure	157.7	Aluminum and articles thereof	294.0	Aluminum and articles thereof	204.9
<b>Total</b>	<b>4,336.4</b>		<b>9,217.6</b>		<b>19,792.3</b>		<b>17,867.3</b>

*Sources: ASEAN Trade Statistics Database and ASEAN Statistical Yearbook, 2003-2005.*