

# **Anchored Ambitions: China's Free Trade Agreements and Domestic Constraints**

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## **Abstract**

This paper seeks to analyze how domestic constraints have constrained China's pursuit of diplomatic and economic objectives through free trade agreements (FTA). It will start with listing several political and economic motivations behind Beijing's foray into various bilateral and regional preferential trade agreements. Then it will look into China to analyze how the domestic conditions have constrained the state's ability to coherently and effectively realize its objectives for economic diplomacy. More specifically, it will focus the resistance from domestic actors originated from their experience or resentment with globalization, the growing political power of some domestic actors because of partial reform, and the limited bureaucratic capacity and coordination among ministries. The empirical data come from the author's field research in China in 2006 and 2007, drawing heavily from the cases of China's FTA negotiations with ASEAN and Australia.

## Introduction

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

**Table 1 Current status of China's FTAs**

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

Some call China's activity as 'charm offensive,'<sup>1</sup> emphasizing the usage of soft power by Beijing in diplomacy, including demonstrating China's development model and the benefits of China's rise for other countries. Indeed, FTAs are regarded by the Chinese

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<sup>1</sup> Joshua Kurlantzick, *Charm Offensive: How China's Soft Power Is Transforming the World* (New Haven: Yale University Press, 2007).

government as part of its economic diplomacy, which refers to strengthening diplomatic ties with the partner countries through economic arrangements. It is worth investigating, however, how much autonomy the Chinese state has in pursuing such diplomatic goals. Many studies analyze China's foreign (economic) policy with the assumption that China can be regarded as a unitary actor in international relations, perhaps because they think it is more authoritarian than other countries, in particular in the highly secretive decision making of diplomacy. Some studies have increasingly demonstrated that an increasing range of actors with different opinions have participated in this process.

This paper explores this question by discussing the factors that have constrained or modified the strategic pursuit of Chinese policymakers in FTA negotiations. It will first summarize the major motivations of Beijing in forging FTAs. This will be followed by a discussion of why some of those objectives have not been achieved, focusing on the resistance of some domestic interests in particular and the sensitivities in Chinese domestic politics in general. It will conclude by briefly discuss the implications of those domestic and international constraints for China's economic diplomacy and for the study of China's international relations.

### **Beijing's Motivations behind FTAs**

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

### *Official line*

When asked what benefits an FTA would bring to China in public interviews, Chinese officials seem to have a standard answer of five reasons.<sup>2</sup>

First, FTAs help China to expand exports. In particular, China expects the exports of manufactured goods to grow through the FTAs with countries of big domestic markets, and that small countries could be an avenue for Chinese products to enter the markets of each continent if Rules of Origin allow. Chinese trade officials from the Ministry of Commerce (MOFCOM) also stressed the increase of exports of temperate agricultural produce to ASEAN under the Early Harvest Program, particularly when they were asked about the impact of increasing imports of ASEAN's tropical produce on Chinese farmers. As will be discussed later, this shows different positions of the Chinese foreign policy and foreign economic policy agencies, which sometimes hinder the coherence of China's economic diplomacy.

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

Third, FTAs help reduce costs for Chinese customers and producers. Liberals at MOFCOM hold this view, and emphasize this point when they are questioned by the media about the impact of imports on local producers.

Fourth, FTAs help China to attract foreign investments and participate in international industrial restructuring. China hoped the FTA with ASEAN would create an enlarged

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<sup>2</sup> MOFCOM, "Yi Xiaozhun talks." MOFCOM, "Yu Jianhua talks."

‘domestic market’, which would attract more foreign investments to the region. At the same time, China is aware of the expansion of global production networks and hopes it can move higher in the chain by moving some of the labour intensive industries to partner countries.

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

***In fact, also:***

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

First, FTAs serve China’s strategic and political interests, in particular, to strengthen political relations with the FTA partner. Beijing’s full support for the CEPA with Hong Kong and Macau was to ensure their integration with the mainland, and to put pressure on Taiwan because Taiwanese companies might lose business opportunities because of the Taiwanese government’s political position. China’s proposal of an FTA to ASEAN was primarily to ease the latter’s apprehension about ‘the China threat’, in order to ensure a secure immediate strategic environment. In the Early Harvest Programs with ASEAN and Pakistan, China gave the partner countries a step earlier into the Chinese market and followed the principle of ‘giving more, taking less’ in order to show China’s ‘big country morals’ (*daguo fengfan*) that

are superior to those of other exploitative big countries. From the experience of the FTA with ASEAN, China has learned that FTAs can bind partners together especially if there is growing dependence in the bilateral trade relations. Through them, China hopes to be in a better position to compete for regional leadership in East Asia (notably with Japan but also with the US), to gain power to make rules in the region, and to construct a secure strategic environment for domestic development.

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

Third, China seeks to obtain recognition of Market Economy Status from FTA partners. Since China’s entry into the WTO, it has faced numerous anti-dumping measures and investigations, and feels greatly disadvantaged because of its status as an economy in transition within the WTO for 15 years. China hopes to redress this problem by seeking market economy status from individual countries. China has so far obtained it from 77 countries, including its FTA partners like ASEAN, South Korea, New Zealand, Australia, Iceland, Pakistan, and South Africa. It is usually a precondition to start FTA negotiations. China also hopes the recognition of some developed countries of China as a market economy would propel other major WTO members like the US and EU to follow suit because they would then be in a weaker position to oppose the assessment of other market economies.

However, the above objectives have not always been pursued coherently or effectively. For instance, the pursuit of pragmatic economic interests in the FTA with ASEAN has not

extinguished the latter's worry of 'the China threat', despite Beijing's initial concessions to ASEAN in agricultural trade. Notably, China has not been able to reach an FTA agreement with Australia despite the commitments given by the leaders of both countries. The most important constraint has come from domestic politics.

### **Domestic constraints**

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

### ***Protectionist forces***

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

policymaking of FTAs is still largely limited to the channel of state ministries and commissions as well as local governments, although some big state-owned enterprises seem to have an increasing role. This does not prevent sectoral interests from expressing their interests and the industrial ministries can be quite stubborn.

As a typical example, China's unwillingness to open its agriculture and services sectors to Australia has been a sticking point in their FTA negotiation, despite the strategic motivations of Beijing to strengthen relations with Canberra and to acquire energy and resources.

### Agriculture

Agriculture has been the most difficult sector in the Australia-China FTA (AUCFTA) negotiation on goods. From the first round of negotiations, "the Chinese were at pains to say that they were on the defensive on agriculture and would resist liberalization there."<sup>3</sup> An Agriculture Working Group was organized between the two countries at the second round of negotiations to deal with agricultural and quarantine issues.

The incidence of peasant protests has been on the rise in recent years, a problem the Hu-Wen government must solve in its "construction of a harmonious society" as the overarching social and political objective. Therefore the government put solving 'three agricultural' problems—peasant, rural area, and agricultural production—on the top of the government policies at the 16<sup>th</sup> National People's Congress; the three agricultural problems have remained on the No.1 Central Documents, which carry state policies of the highest priority.<sup>4</sup> There is no farmers' union in China, but the agricultural problem has become so prominent in China that the Ministry of Agriculture (MOA) gained influence in Chinese policymaking through assuming the role of the representative of farmers. MOA has been the

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<sup>3</sup> Alan Kohler, "FTAs Protectionism in Disguise: Garnaut", *Inside Business, ABC Australia*, 24 April 2005.

<sup>4</sup> Interviews with MOFCOM and MOA officials, Beijing, 2006 and 2007. See 'Zhongyang guanyu zengjia nongmin shouru ruogan zhengce de yijian' [The central government's view on policies to increase peasants' income], *People's Daily*, 9 February 2004.

most stubborn opponent to the prospective opening of Chinese agriculture to Australia.<sup>5</sup>

MOA asserted that Chinese trade negotiators had already made too many concessions under the WTO. For instance, MOA claimed that wool production in China was almost completely lost because of foreign competition after the WTO accession, which disproved what the Ministry of Foreign Trade and Economic Cooperation (MOFTEC, the former body of MOFCOM) had said about the benefits of liberalization on domestic productivity. In particular, MOA argues, in China agricultural production is still organized in the unit of families and they have very little resource to update technology.

Compared with China's FTA with ASEAN, the potential agricultural trade volume between China and Australia was much bigger, and the area to be affected by the potential FTA was much wider. According to MOFCOM officials, the representatives at the National People's Congress (NPC), traditionally a venue to discuss domestic issues and merely a 'rubber stamp', have now become more concerned with the impacts of foreign economic policy, including FTAs, on local economies. And the NPC has gained power in China's policymaking as a legislative body vis-à-vis the government.

Moreover, the provinces in North China that may be affected by the FTA (Xinjiang, Gansu, Ningxia, and Inner Mongolia) are also areas where many ethnic minorities reside, including Muslims and Mongolians, most of whom rely on cattle farming for a living. Ethnic issues have become more sensitive in recent years in China's domestic politics, with increasing incidence of violent conflicts between the Han majority and Muslims.<sup>6</sup> At a bilateral conference on FTA agriculture issues in Xi'an in September 2006, a researcher from

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<sup>5</sup> The information on MOA's views is based on the interviews with MOA officials, May 2006, Beijing.

<sup>6</sup> Interviews, Beijing April 2006. Also see for example "Ethnic Conflict Catches China Off Guard", *Asian Economic News*, 8 Nov. 2004, available online at [http://findarticles.com/p/articles/mi\\_m0WDP/is\\_2004\\_Nov\\_8/ai\\_n6343590](http://findarticles.com/p/articles/mi_m0WDP/is_2004_Nov_8/ai_n6343590). Mathew D. Moneyhon, 2004, "Taming China's "Wild West": Ethnic Conflict in Xinjiang", *Peace, Conflict, and Development: An Interdisciplinary Journal* 5, 5: 2-23. Jessica Koch, 2006, "Economic Development and Ethnic Separatism in Western China: A New Model of Peripheral Nationalism", *Murdoch University Asia Research Centre Working Paper* No. 134 (Aug. 2006), available online at <http://wwwarc.murdoch.edu.au/wp/WP134.pdf>.

the Xinjiang Uygur Autonomous region advised the Chinese government to open wool trade gradually so as to avoid adverse impacts on Chinese fine wool growers, which is essential to “protect the ethnic minorities’ economy and maintain the border stability.”<sup>7</sup>

Australia argued that Chinese producers of textiles and processed foods would benefit from cheaper raw materials from Australia.<sup>8</sup> The MOA, however, noted that intra-industry trade was already happening and profiting the processing industries, while further tariff reduction would damage raw material producers in China because their income barely meets livelihood needs.

### Services and Investment

In its FTA negotiations, China has preferred to negotiate FTAs on trade in goods first, and services and investment later, as it did with ASEAN and Chile. The only ‘comprehensive’ FTA China has reached is that with New Zealand, covering goods, services and investment. However, the areas of services of all these three agreements are very limited, with the notable exclusion of banking and telecommunication services. The areas on investment in the agreement with New Zealand are small too, again excluding those major sectors.

Services trade and market access for foreign investments are closely related, and have been another most contentious area in the FTA negotiations between China and Australia. Although Australian services industries have been keen to enter the Chinese market, Chinese domestic service providers and relevant government institutions have been clearly resistant to significant liberalization beyond the WTO commitments. That reflects China’s conservative position towards domestic reform under an FTA for consideration of economic security, as well as profits generated from monopoly.

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<sup>7</sup> Kechuan Tian, “Fine Wool Industry in China and the Free Trade between China and Australia”, in *Australia-China FTA Agricultural Conference* (Xi’an: Australian DFAT: 2006).

<sup>8</sup> Shichun Wang and Quanliang Ye, “Non-Market Economy Status: Anti-Dumping and Countermeasures”, *Finance and Trade Economics*, 5 (2005).

In recent years China has paid more attention to developing the services sector rather than focusing only on manufacturing for industrialization. It also noticed that services trade has become an important part of the multilateral and regional trade talks. However, compared with the WTO accession, Beijing is now taking a more conservative approach to reform in this area because economic security and stability have become the priority in China's current reform and opening strategy.

China is reluctant to open services trade under the FTA significantly beyond WTO commitments. The government thinks it made substantial concessions under the WTO and carried them out faithfully. Chinese services regulators hold that the impacts on domestic industries still wait to be seen, before any further liberalization can be experimented or committed.<sup>9</sup> For instance, the regulators of the banking sector believe that Chinese banks are still vulnerable to foreign competition. Australian negotiators try to persuade China that medium-sized Australian companies can enhance the competitiveness of Chinese companies without their facing the destructive force of big European and American companies, which is consistent with the rhetoric of some Chinese trade officials about the role of FTAs, China has been very cautious in such experiments. According to MOFCOM officials, imposing domestic reforms is not the starting point or motivation of the Chinese government in its pursuit of FTAs.

As for telecommunication and cultural industries, China has sought protection on the ground of national security. A more important reason some services sectors resist opening under the FTA, such as telecommunication, transportation and mining, is that a huge amount of profits is generated from monopoly in those sectors, usually by state-owned companies that have become increasingly independent and powerful.

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<sup>9</sup> Australia DFAT, "Updates on Progress in the Negotiations", available online at <http://www.dfat.gov.au/geo/china/fta/>; see in particular the 8<sup>th</sup> and 9<sup>th</sup> rounds of negotiations.

Because of reform, state-owned companies have gained economic benefits from reduced social burdens and autonomy to make market-based business decisions. Meanwhile, because the reform is only partial, they retained the rents in the monopolised system, and have become even more powerful in politics because the government relies heavily on them for revenue and employment. The presidents of major state-owned enterprises are often members of important political bodies of the state. Therefore the sectors that benefited from reform have become a significant source of resistance to further reform because their profits and rents under the current system are likely to be lost under external competition. Major state-owned telecom companies have pressured the MII not to rush to open markets to foreign competition.<sup>10</sup> MOFCOM officials think that monopoly profits and vicious competition between service providers in the telecommunication sector reflects that the state regulation lags behind the development of the sector and therefore needs to be updated. However, it is very difficult for the Ministry of Information Industry (MII) to push reform forward. Although the companies are supposed to follow the regulations of the MII, they sometimes resist implementing national policy. When they conduct monopoly activities in the market, the companies reason that they are owned by the state; when they defy government policies, they say that China is now a market economy.<sup>11</sup>

China is also reluctant to open its mining sector to Australia or any other countries. According to the Minerals Council of Australia, there are all sorts of restrictions in terms of ownership, access to geological data, the distinction between the right to explore and the right to mine, and dispute resolution, as well as lack of transparency of regulations and legal processes.<sup>12</sup> Mining is not listed as a sector for which China has liberalized investment; foreign companies only have the right to explore resources in China but not claim or own them because they are regarded by the Chinese government as 'national assets' and managed

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<sup>10</sup> Interview with a MII official, May 2007.

<sup>11</sup> Interview with a MOFCOM official, April 2007.

<sup>12</sup> James Attwood, "Australian Miners Place Big Hopes on China FTA," *Dow Jones Newswires*, 19 April 2005.

by the Ministry of Land and Resources. Although foreign miners hope to get projects off the ground in China, the profits in the mining industry in China is too lucrative for the Chinese to subject it to foreign competition. Some critics call mining in China a ‘grey area conspired by power and capital’. Various reports have also exposed the safety and corruption problems in mining in China; despite the central government’s measures to curb them, they are still quite serious.<sup>13</sup>

### ***Domestic Policymaking Institutions***

Domestic interests have constrained Chinese negotiators’ room for concession not only because of their assertiveness, but also because the features of the policymaking institution. In this section, I briefly analyse the main actors.

#### **MOFCOM**

MOFCOM is designated as the lead agency to negotiate the FTA, but it does not have the formal authority to settle conflicting domestic interests. Unlike the WTO accession, in China’s FTA policymaking there has yet to be a ‘Central Leading Group’ made of a Premier and ministerial representatives to coordinate policymaking. Neither is MOFCOM expected to report directly to the leadership or the State Council on what are regarded as ‘working issues’. Because MOFCOM has the same political rank as other industrial ministries and even lower than some national commissions, it is easily subject to pressure from other ministries and commissions to accommodate their interests. Moreover, because the power of trade, investment and industrial policymaking is fragmented among MOFCOM, the National Development and Reform Commission (NDRC), and other ministerial-level government agencies, MOFCOM cannot propel trade liberalization without the consent of others. MOFCOM officials are in general proponents of reform and liberalization, believing competition enhances productivity and free trade benefits consumers, but it has a lot of

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<sup>13</sup> Jianjun Tu, "Safety Challenges in China's Coal Mining Industry," *China Brief* 7, no. 1 (10 January 2007).

difficulty in persuading domestic sectors to subscribe to this belief. At the same time, MOFCOM seems to have more sympathy for the agricultural sector than they did during the WTO negotiations. Now they think that agriculture is a special and sensitive sector for every country because of political reasons and therefore it is natural that countries would not compromise their domestic interests in an FTA.

### The NDRC

Domestic resistance to the FTA has also come from the NDRC, a powerful institution with oversight of China's industry policies. It seems to not only have inherited a conservative position on reforms and opening from its former body, the State Planning Agency, but also enjoys increased power because part of the State Economic and Trade Commission was merged into the Agency to form NDRC. Other government agencies call the NDRC a 'small state council', because it has departments matching every sector of the economy, and holds a higher political position than the ministries. The Australian Department of Foreign Affairs and Trade (DFAT) is concerned that NDRC has not been fully involved in the negotiations and therefore MOFCOM cannot move beyond traditional agendas.

### The Leadership

The Chinese leadership and the State Council still have a lot of autonomy in China's foreign economic policymaking. Chinese government agencies think that the FTA with Australia is going to be realized sooner or later because both President Hu Jintao and Premier Wen Jiabao have given support to it. In the negotiation round after Wen's visit to Australia in April 2006, China seemed to become more flexible on some issues (such as a single undertaking approach, and the inclusion of provisions on investment and government procurement) that had been highly sensitive.

However, compared with China's policymaking on the FTA with ASEAN, this FTA has been less driven by political motivations and there is less involvement of the leadership

or the Ministry of Foreign Affairs in the policymaking of AUCFTA. Moreover, because of increasingly serious social problems in China, the leadership has raised 'building a harmonious society' as the highest policy objective. It has to consider possible social impacts of foreign economic policies, especially those associated with farmers and ethnic minorities. MOFCOM officials think that Wen Jiabao is more cautious than Zhu Rongji on reform; for instance, the central government policy priority is on agriculture and therefore would not ask much concession from the Ministry of Agriculture. At his meeting with the Australian Prime Minister John Howard in Shenzhen in September 2006, Wen said that in the FTA negotiation between China and Australia, both sides should demonstrate 'mutual understanding and *accommodation*' [italicization by the author].

#### Bureaucratic capacity and coordination

When China agrees to a proposal of an FTA, it usually says the FTA will bring both opportunities and challenges but on the whole it will be beneficial, without specific assessments. In this way, the central decision makers try to dismiss potential costs on both sides. It is probably part of the Chinese diplomatic culture that they give an in-principle approval if there is no crucial problem. Implementation of the in-principle agreement usually means selecting benefits while avoiding costs to the domestic economy. However, China's attempt to hide challenges does not always succeed. On the one hand, when Australia presented quantitative results of their potential loss, China was doubtful but it could not provide an alternative calculation. On the other hand, Chinese negotiators are often in an embarrassing situation at the negotiating table whereby Chinese domestic industrial sectors provide inaccurate or inconsistent statistics and offers. Chinese trade negotiators have also lamented at the limited domestic capacity of the government and research institutes for conducting rigorous economic studies, which was seen as one reason for the domination of Australia in their joint feasibility study of the Australia-China FTA and hence

‘unsatisfactory’ results for China. Moreover, Australia has very specific plans for the FTA negotiation but China cannot decide on many details including the schedule of negotiations because the government has to deal with many domestic issues and the negotiation team is overstretched. That is seen by Australia as a sign of lack of sincerity.

An important relationship for China’s FTA policymaking, or economic diplomacy in general, is that between the Ministry of Foreign Affairs (MFA) and MOFCOM. When China embarked on its first FTA—the FTA with ASEAN—the MFA was the leading agency in domestic policymaking. Its leading position during the stages of feasibility and negotiations of the Framework Agreement dictated that China’s positions were heavily informed by politico-strategic considerations. Reflected in economic policy, China voluntarily gave concessions to ASEAN on agricultural trade through an ‘Early Harvest Program’ in order to show its sincerity to benefit its neighbours. It resulted in the loss of profit or even the major source of income for some Chinese farmers in southern provinces, but the central policymakers told local governments and the MOA to calculate the total balance sheet that included political benefits and look at the big picture of potential benefits for the nation. If the Early Harvest Program boosted ASEAN’s exports of tropical produce to China, the Agreement on Trade in Goods increased China’s export of temperate produce and manufactured goods to ASEAN at higher rates and caused resentment among local producers. An important reason was that the MOFCOM took over the leading position in FTA negotiation from MFA after the Framework Agreement was signed because MOFCOM had expertise on trade negotiations. Compared with MFA, MOFCOM holds a more pragmatic position on FTAs—it pursues economic benefits for China as a major objective. Although the MFA still plays a significant role in the other FTAs that China has negotiated, it mainly acts as the reviewer of the ‘political qualification’ of a potential FTA partner country and assesses if there is enough political trust between China and the country to make binding trade

arrangements. Specific terms of the agreements are negotiated by MOFCOM, which is supposed to *represent* industrial interests. MOFCOM not only has responsibility for promoting trade, it is also more easily lobbied by industrial ministries because of their overlapping power over China's economic policies. For negotiated terms of an FTA to be ready for State Council approval, MOFCOM needs to get the co-signatures of every important ministry that has a stake in the FTA.

## **Conclusion**

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

There is no leading inter-ministerial agency to coordinate different domestic preferences, nor does the lead agency, MOFCOM, have the authority or enough power to do so. On the one hand, the nuanced positions between MFA and MOFCOM have resulted in the incoherence between China's pursuit of diplomatic objectives and economic benefits. On the other hand, MOFCOM has not been able to carry out the state's agenda effectively because domestic resistance has forced trade negotiators to take a conservative position at the FTA negotiations. The hope for a change in China's position in the negotiation may lie in institutional change, such as the formation of a central coordination agency, or a stronger commitment from the leadership. But as the above discussion shows, the study of China's

economic diplomacy needs to take account of the domestic constraints and consider the possibility that China's ambitious sail to the world will always be an anchored journey.