

The London School of Economics and Political Science

The 'Dragonomic Diplomacy' (De)code

*A Study on the Causal Relationship between Chinese Economic
Diplomacy Preference Formation and the Influence of
Multilateral Economic Regimes*

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Abstract

Since the reformation of the Chinese economy, two notable trends have developed. First, the growing prominence of multilateral economic regimes (MERs) on the political agenda of Beijing has propelled deepened engagements between Chinese policy actors and institutions, and the agencies of MERs. This development is accompanied by a second trend, which is a growing dynamism in China's economic diplomacy within the multilateral arenas. This dynamism is reflected in the evolving national preferences and approaches for multilateral economic negotiations, from outright resistance to gradual flexibility, and in some cases, acceptance. The simultaneous and parallel developments of these two trends stem a curiosity on whether a causal relationship exist between the deepened China-MER engagements and the dynamism of China's economic diplomacy. Has Beijing's open-door policy to global economic integration opened new windows of opportunity for the MER agencies to influence China's economic diplomacy and its preference formation? In what way(s) and/or in which capacities can the agencies of MERs assert influence on China's economic diplomacy preference formation? Under what conditions is this form of external influence successful? What are the long-run implications of the deepened China-MER engagements on Beijing's economic diplomacy preference formation structure? What does the China-MER relationship tell us about China's economic diplomacy preference formation in the 21st century?

Although China's partake in the international political economy has received much scholarly attention, few studies have attempted to decode China's economic diplomacy preference formation, and even fewer have investigated the important nexus between the China-MER relationship and the behaviours of Chinese economic diplomacy. This thesis is a response to the knowledge deficit in these regards. By examining China's participation in the multilateral climate change, and trade

negotiations, the thesis addresses the primary research question, *how do multilateral economic regimes and their agencies influence China's economic diplomacy preference formation?* The study finds that the MER agencies *do* affect Chinese economic diplomacy preference formation. However, their influence peaks at an *absorption* level whereby Chinese preferences adapt to external preferences but not to the extent of reforming traditional principles and beliefs. The comparatively more effective ways of asserting influence for the MER agencies is through a costs-and-benefits calculus, information dissemination, shuttle diplomacy proximity talks, and informal negotiation practices. In general, Chinese policy actors do not refute the influence of the MER agencies; rather they absorb and adapt to it. In addition, the MER agencies assert influence at different stages of the preference formation, and over time, implicitly establish themselves as integrated policy actors in Beijing.

On the whole, this thesis contributes to a deeper understanding about how, why, and when international linkages matter in China's economic diplomacy, and to the extent of driving preference transformation. The study provides useful analytic lenses that flesh out the variety of functions the MER agencies have in shaping and informing China's national preferences and negotiation approaches. At the same time, it offers a fuller description of how the Chinese policy actors and institutions respond to (implicit) external interventions in its policy processes. Consequently, this thesis is a significant contribution that adds value to the scholarly debates and knowledge-building about one of the most important political and economic phenomenon of our time.

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List of Abbreviations

ADB	Asian Development Bank
APEC	Asia-Pacific Economic Cooperation
ASEAN+6	Association of Southeast Asian Nations Plus China, India, Japan, South Korea, Australia and New Zealand
CAS	Chinese Academy of Sciences
CASS	Chinese Academy of Social Sciences
CBD	Convention on Biological Diversity
CBP	Carbon Budget Proposal
CBRC	China Banking Regulatory Commission
CCF	China-China-Foreign
CDM	Clean Development Mechanism
CEO	Chief Executive Officer
CER	Certified Emission Reduction
CFELSG	Central Finance and Economics Leading Small Group
CIC	China Investment Corporation
CMA	China Meteorological Administration
CMEA	Council for Mutual Economic Assistance
CO ₂	Carbon Dioxide
COP	Conference of Parties
CPC	Communist Party of China
CST	Committee on Science and Technology
CSRC	China Securities Regulatory Commission
DDA	Doha Development Agenda
DSB	Dispute Settlement Body

ERI	Energy Research Institute
ESSP	Earth System Science Partnership
EU	European Union
FAWLSG	Foreign Affairs Work Leading Small Group
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
G20	Group of Twenty
G77	Group of Seventy-Seven
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GHG	Greenhouse Gas
GMO	Genetically Modified Organisms
GPA	Government Procurement Agreement
HFC23	Hydrofluorocarbon-23
IC	Integrated Circuits
IDA	International Development Association
IET	International Emission Trading
IGBP	International Geo-Biosphere Program
IHDP	International Human Dimensions Program
IMF	International Monetary Fund
IPCC	Inter-governmental Panel on Climate Change
IPE	International Political Economy
IPR	Intellectual Property Right
IR	International Relations

JI	Joint Implementation
JV	Joint Venture
LSG	Leading Small Group
MEP	Ministry of Environmental Protection
MER	Multilateral Economic Regime
MFA	Ministry of Foreign Affairs
MFN	Most Favoured Nation
MOA	Ministry of Agriculture
MOF	Ministry of Finance
MOFCOM	Ministry of Commerce
MOFTEC	Ministry of Foreign Trade and Cooperation
MOST	Ministry of Science and Technology
N ₂ O	Nitrous Oxide
NAMA	Non-Agricultural Market Access
NAPA	National Adaptation Programmes of Action
NCCCC	National Coordination Committee on Climate Change
NCSC	National Center for Climate Strategy and International Cooperation of China
NDRC	National Development and Reform Commission
NEPA	National Environmental Protection Agency
NGO	Non-governmental Organisation
NPC	National People's Congress
ODA	Overseas Development Assistance
OECD	Organisation for Economic Co-operation and Development
PBOC	People's Bank of China
POE	Privately-owned Enterprise

PPP	Purchasing Power Parity
PRC	People's Republic of China
RAM	Recently Acceded Member
RMB	Renminbi
ROC	Republic of China
SAFE	State Administration of Foreign Exchange
SASAC	State Asset Supervision and Administration Commission
SAT	State Administration of Taxation
SCLAO	State Council Legislative Affairs Office
SCO	Shanghai Cooperation Organisation
SCORES	State Council Office for Restructuring the Economic System
SDPC	State Development Planning Commission
SETC	State Economic and Trade Commission
SIR	Second-Image Reverse
SME	Small and Medium Enterprises
SOE	State-owned Enterprise
SPC	State Planning Commission
SSTC	State Science and Technology Commission
TFP	Total Factor Productivity
TNC	Trade Negotiation Committee
TVE	Township and Village Enterprises
UN	United Nations
UNCCD	United Nations Convention to Combat Desertification
UNDP	United Nations Development Programme
UNEP	United Nations Environmental Programme
UNFCCC	United Nations Framework Convention on Climate Change

UK	United Kingdom
US	United States
VAT	Value-added Tax
WCRP	World Climate Research Program
WTO	World Trade Organization

Dedication

To

My parents

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PART ONE

Connecting the Dots and Identifying the Nucleus of Study

THE CODED '*DRAGONOMIC DIPLOMACY*'

1.1 Introduction

In the mainstream academia, a prevalent assumption about China's economic diplomacy decision-making is that it is often characterised by adjectives such as "centralisation," "convolution," and "asymmetric transparency" (Johnston 2008). Like any government across the globe, the decision-making system and process in Beijing is without a doubt a complex one for the exterior eye to decipher. This is further challenged by the asymmetric transparency genome of the People's Republic of China (PRC), which does a good job of sheltering its inner processes away from international scrutiny. However, when one considers the genesis of China's economic diplomacy preference formation, characterising the process as "centralised" – as the notion is conventionally understood – dismisses the metamorphosis of the central government over the last 30 years, and distorts the imagination of China from its modern reality. To consider a process as "centralised" is to suggest that it has a consolidated power under a central control. Perhaps this was the case some 60 years ago when Chinese diplomacy was defined by a "strong man" politics under Mao Zedong. Chinese economic diplomacy in the 21st century has departed away from such motif of governance and subscribes to new notions such as "collective decision-making," "social democracy," and "liberal conduct."

When Deng Xiaoping emancipated the national economy from state planning, the central government recognised China's need for economic and professional resources to pull itself out of the poverty gutter and international isolation and opprobrium. As part of its catching-up strategy, entry into numerous mainstream

multilateral economic regimes (MERs) were pursued. Chinese leaders believed doing so will not only help China access economic resources but also mark its place in the multilateral fora. Since then, two notable trends have developed. First, China has established close relations with the MERs in which it holds membership. As such, the engagements between the Chinese policy actors and the agencies of the MERs have grown rapidly. Beijing frequently invites the MER agencies to take part in the preference formation of China's economic diplomacy – directly or indirectly – as policy advisors or information distributor, among other capacities. In the words of one Chinese policymaker, “Seeking policy advice from agencies of the MERs has almost become a normal practice in the decision-making process; and we communicate with MERs very frequently in our daily works.”¹ Hence, the engagements between China and the MER agencies have grown substantially since Beijing opened its front doors in the late-1970s.

The second notable trend is the augmented dynamism in China's economic diplomacy. This is reflected in their national preferences and approaches to multilateral economic negotiations. For example, China's preferences and negotiation approaches for the multilateral climate change and trade negotiations have evolved much since its initial participation. Although the basic principles of China's negotiation approach remained constant, their national preferences for some of the substances of negotiation have evolved from outright resistance to gradual acceptance and/or flexibility. Some examples of such transformations include the clean development mechanism (CDM) and mitigation modalities under the climate change negotiations; and the government procurement agreement (GPA) and the trade on services under the trade talks. Evidently China's preferences are not static; rather, it is dynamic. Based on the researcher's observations, this dynamism has become much more prevalent in China's economic diplomacy in recent years.

¹ Personal interview.

Significantly, the two trends seem to have manifested in relative proximity to one another; and from an observational point-of-view, the deeper the China-MER engagements, the more dynamic China's economic diplomacy become. This kind of observation prompts one to ponder whether there is any causal relationship between the two trends. To what extent is China's growing economic diplomacy dynamism the result of the deepened China-MER relationship? Did Beijing's "open-door" policy open new windows of opportunity for the MER agencies to influence China's economic diplomacy preference formation? If so, in what capacity or through which mechanisms can the MER agencies assert influence?

The purpose of this thesis is to examine the interesting and meaningful nexus between the deepened China-MER relationship at the agency-level, and the growing dynamism in China's economic diplomacy. To be sure, the thesis is interested in the institutional *agents* and *agencies* that administer and govern the broader member-state-driven MERs. As such, rather than referring to the impacts of the geopolitical composition of the MERs, this study places emphasis on the actors and agencies that facilitates and mediates between the member-states (i.e., the heads of the MERs such as the Secretary-General and Managing-Director, the presiding staff and Secretariat, the Negotiation Committees, the Chairs, the Working Groups, the research units, and so on). An investigation on the cause-effect of economic diplomacy implies a focus on the preference formation process. As such, the thesis has a particular interest in examining the causal relationship between the aforementioned nexus in the context of China's economic diplomacy preference formation. Ultimately, the thesis aims to address the following primary research question: *how do the MER agencies influence Chinese economic diplomacy preference formation?*

Despite much scholarly attention to the domestic-international linkage debate (as will be discussed later in this chapter), significant gaps remain in our knowledge,

especially regarding the nexus of the MER agencies and Chinese economic diplomacy preference formation. The goal of this thesis is to address the primary research question. It does so by parsing the interaction of domestic policy actors and the agencies of the MERs along two dimensions. The first dimension concerns the ways the MER agencies assert influence on China's economic diplomacy preference formation. This is the *how* question, and it is embodied in the primary hypothesis. Three possible mechanisms of influence are explored: the costs-and-benefits calculus, information dissemination, and reputation reinforcement. The thesis finds the first and second mechanisms have the most consistent *absorption* level of influence where China absorbs and adapts to the MER agencies but not at the expense of their traditional principles and beliefs. The second dimension looks at the roles of the MER agencies in shaping China's negotiation approach. This dimension poses the *what* question, and it is addressed by the secondary hypothesis. Three *likely* roles are tested: the MER agencies as mediators of shuttle diplomacy proximity talks, as facilitators of informal negotiation practices (INPs), and as instigators of side-payment bargaining. The thesis finds that all three roles have some degrees of impact, although the former two are believed to trigger more immediate and sustainable influences than the latter. The three primary theoretical approaches that guide the derivation process of the two claims are rationalism, cognitivism, and contractualism. The empirical bases of analysis are case studies on the Conference of Parties (COP) climate change negotiations under the United Nations Framework Convention on Climate Change (UNFCCC), and the Doha Development Agenda (DDA) trade negotiations under the World Trade Organization (WTO).

Building from the aforementioned two claims, the thesis makes three additional arguments about the correlation between the deepened China-MER engagements and China's growing dynamism in economic diplomacy. First, the Chinese policy actors do not reject, but absorbs the influence of the MER agencies into its preference formulation

equation. This is indicated by China's adaptive – rather than retrenchment – reaction to the MER agencies' costs-and-benefits calculus, information dissemination, proximity talks, and INPs. Second, the MER agencies' influence occurs on a progression, and it is asserted at different stages of the economic diplomacy decision-making process (discovery, definition, determination, and deliberation). As a result, Chinese policy actors find it much more difficult to escape from the external influences when shaping preferences. Third, the MER agencies are implicitly and indirectly integrated into China's economic diplomacy preference formation process as an interested party. This implies that China's economic diplomacy decision-making is essentially not a national-only activity. Rather, national preferences and negotiation approaches are the products of an implicitly *shared* process involving national and international agencies.

The added-value of this thesis to the existing body of knowledge is considerable. The study offers a clear understanding about the transnational interactions at the agency-level of political polities, and in the context of economic diplomacy. It fleshes out the variety of functions that the MERs have in their dealings with Chinese policy actors and agencies. As well, a fuller description of how Chinese policy actors and agencies respond to the ways the MERs' agencies assert influence is provided. This thesis, therefore, illuminates the ways in which the MER agencies may influence the growing dynamism of China's economic diplomacy, its preference formation, and negotiation approaches. The study also offers some thoughts on the long-term implication of this causal relation on China's economic diplomacy decision-making structure. Relatedly, the thesis forwards a pair of testable hypotheses distinct from the extant literature. Finally, the present study contributes to thin scholarship on Chinese economic diplomacy. For all the research on China's integration with the global political economy, there has been surprisingly little work on how Chinese economic diplomacy should be conceptualised, about its genesis, and the underlying processes

(i.e., how policy actors and agencies from different levels bargain and coordinate with each other to derive a coherent national position, what resources they bring to the negotiating table, and what determines the outcome of these bargains). The lack of analyses on Chinese economic diplomacy is worrying because of the level of significance attached to China in many of the world's most important economic negotiations, including climate change and international trade. Therefore, this study is both vital and timely for the academic and policy communities alike.

The present introduction chapter is divided into six sections. In section two, China's discussion of the research enquiry is made with considerations about the history and approach of China's participation in MERs, the research puzzle, and limitations in the existing literature. Section three subsequently offers a summary of the research design. Section four provides a structural overview of the thesis.

1.2 A Chinese Economic Diplomacy and Multilateral Economic Regimes

Economic diplomacy is a new concept in China. Broadly speaking, economic diplomacy is an instrument for negotiating cross-border economic issues between national governments on matters including exports, imports, investments, aid, the environment, property rights and so on.² For much of China's modern political and economic history, economic diplomacy has been blurred with the general practices of diplomacy. As the country opens up to global economic integration, however, it became more aware of the intricate political implications entangled with economic transactions, such as the political risks involved in cross-border financial investments. In turn, Beijing has, over the past decade, recognised the pertinence of economic diplomacy and has actively used the instrument for protecting Chinese interests abroad.³ In particular, Beijing views economic diplomacy to be crucial for economic growth and national development

² For more on economic diplomacy, see Nicholas Bayne and Stephen B. Woolcock (2007); and Henk-Jan Brinkman (2005).

³ Interview with an expert from the Chinese Academy of Social Sciences, Beijing, 8 November 2012.

through its function facilitating access to foreign markets, attract foreign capitals, establish free trade agreements (FTAs) and encourage Chinese enterprises to venture out into the global economy. In this sense, economic diplomacy in a Chinese context is *the promotion of cross-border economic interests and relations in support of its national objective (development) through trade, investment, financial, and environmental policies.*

When economic diplomacy is placed in a *multilateral* scope, its objectives become institutionalised and facilitated by the MERs – conventionally referred to in the literature of International Relations (IR) as “international regimes.” Stephen D. Krasner (1983) famously defines international regimes as “implicit or explicit principles, norms, rules, and decision-making procedures around which actors’ expectations converge in a given area of international relations.” Oran R. Young (1989: 13) likewise perceives international regimes as “specialised arrangements that pertain to well-defined activities, resources, or geographical areas and often involve only some subset of the members of international society.” This thesis builds from these definitions, but makes references to *multilateral* rather than *international* regimes on the grounds of definition. To refer to regimes as *international* generally implies an arrangement only involving nation-states. But to refer to regimes as *multilateral* means having many sides and therefore diverse parties that goes beyond just nation-states and include agencies of the regime itself as well as other non-governmental organisations. For this reason, *multilateral* is the more fitting name for the kind of regimes this thesis is concerned with. As such, this thesis understands the MERs *as specialised intergovernmental arrangements with particular focuses on economic issues, and characterised by multi-parties, multi-issues, multi-roles, and multi-values.*

The various types of MERs include international economic organisations (in the broader sense) such as the United Nations (UN), the WTO, and the Bretton Wood

institutions; international economic conventions such as the UNFCCC, and the Basel Convention; and other treaties and accords involving three or more parties. The MERs serve crucial functional needs of the international political economy as an overseer of cross-border economic activities, and as a facilitator of multilateral economic negotiations. Although nation-states ultimately establish and maintain the MERs, once institutionalised, it can exert independent influence. For example, the WTO has certain rights to monitor the trade activities of its member-states. The classic example is the annual review of China's implementation of its WTO commitments in the first eight years after accession. Insofar as the MERs are organised by means of treaties, they provide an important source of formal international economic law.

When Deng Xiaoping, a former leader of the People's Republic of China, opened the country's front gates in 1978 to a liberal economy, memberships in numerous MERs were pursued for the purpose of overcoming domestic resistance to economic reforms, and address its resource deficit problems (Bergsten et al., 2008: 13, 223). Maintaining good relations with MERs have since occupied a prominent position on China's political agenda. As Elizabeth Economy (2001: 230) describes, "China has shifted from an insular, autarkic state into one that has assumed a prominent role in global affairs, seeking to participate in the full range of debates" and virtually all accords and treaties that regulate state behaviour. Today, China holds membership to most existing MERs (*table 1.1*) and has a participation rate well above the global average (Johnston, 2008: 32-39).

Beijing's congenial view of the MERs spawned out of three beliefs. First, Beijing likes the fact that MERs are congenial to their national interests, and that it enables member-states the option to suspend their obligations without the need to withdraw from the system altogether (Lanteigne, 2005: 148). The flexibility puts China at ease with adapting to, and managing the multilateral system within the domestic

circumstances. Second, MER memberships assist Beijing in their efforts to implement economic and political reforms across numerous sectors and institutions, including the state administration and bureaucracy, state-owned enterprises (SOEs) and private businesses, and the trade of goods and services. By attaching domestic governance with international rules, Beijing was able to justify domestic reforms as a need to adapt to the international market. Third, the establishment of stronger ties with the MERs is a part of China's interest to preserve a stable international environment that is conducive to its domestic development goals. An additional incentive is reputation-building. The implicit offshoot effect of doing so ensures the political legitimacy of the ruling Communist Party of China (CPC).⁴ In a way, these three beliefs also constitute the macrostructure of China's approach to the MERs and form the foundation of their preference formation for economic negotiations.

Table 1.1 **China's Multilateral Economic Regime Memberships (1949-2007)**

<i>Year</i>	<i>Membership</i>
1949-1970	7
1980	66
1990	161
2000	222
2007	298

Source: Ministry of Foreign Affairs of the People's Republic of China.

In this context, Samuel S. Kim (1998: 60-71) defines China's approach to the MERs as characterised by the "maxi-mini principle." The principle implies the maximisation of rights and the minimisation of responsibilities. That is, China's approach to MERs is directed at "state-enhancing, not state-diminishing functionalism." Economy (2001: 232-233) likewise argues that Beijing employs the MERs for the purpose of enhancing its own economic capabilities rather than to transfer the rights of the state to an international decision-making body. Undeniably, it is naturally expected

⁴ The political legitimacy of the CPC rests on nationalism, economic growth, and social development.

that China, as like other nations, will first question how the MERs can benefit the state, and only second vice versa. At the same time, however, the principle is also too simple an explanation of China's real approach to the MERs. An obvious case in point is China's WTO accession. Beijing paid a significant admission price for membership and was unable to play the game on its own terms. Even in the years following accession, China was subject to WTO surveillance. Looking further back into China's early reform years, China has been largely in the catching-up and integration phases of MER participation. As it grapples with the international regulatory frameworks, rules and norms, China felt it was treated, especially by other major economies, as a marginal player in many economic negotiation processes.⁵ Even today, the Chinese government believes it has limited actual and real rights in some of the key MERs. Beijing begs the question, "how can China maximise responsibilities if it does not have sufficient institutional rights?"⁶ MERs like the International Monetary Fund (IMF) and the World Bank have recently granted more voting quota to China, but much more MERs have yet to follow suit. Before more rights are acquired, however, the Chinese government feels it is holds an undermined capacity to participate proactively.

Some scholars (i.e., Christensen, 1996: 37) have pointed to China's unresolved ambivalent approach to the MERs, and that Chinese leaders will continue to view the MERs with suspicion, especially those whose rules they did not help write. Nicholas Lardy (1999: 221) similarly argues that the Chinese leaders have at times resisted reformative steps necessary for integration to the MERs. But this was not done out of political spite. Rather it was for fear of slowing economic growths and triggering an inflation of the unemployment rate. This view is very much shaped by their socialist principles; the Chinese leaders believe international cooperation and interdependence can, at times, be in conflict with the perceived needs of domestic stability, with the

⁵ Interview with an expert from Tsinghua University, Beijing, 22 November 2012.

⁶ Interview with an expert from China Foreign Affairs University, Beijing, 25 October 2012; Interview with an expert from Peking University, Beijing, 23 October 2012.

authority of the party leaders more generally. Such is a contrast with liberal democracies, which generally view international cooperative behaviour as complementing the domestic standards and goals.

With these said, the observations of this study does find China's participation in MERs to be generally a dynamic one that have shifted from reserved postures of a spectator to active participation as reflected in their negotiation behaviours. It has frequently spoken out against trade protectionism at the WTO;⁷ and in 2003 alone, China submitted a total of 65 independent written submissions, and over 100 joint submissions in relation to the DDA to Geneva (Xinhua Newswire, 24 July 2008). Although these figures are below that of the European Union (EU) and the United States (US), it is greater than most other member-states. At times, the Chinese delegation has demonstrated direct and blunt articulation of criticisms for other countries. Such was the case when China highlighted the weaknesses of the economic and financial policymakers (of American origin) from the IMF (International Monetary Fund, 8 October 2010). These behaviours implies that Beijing is not only motivated by a *system-maintaining* approach to the MERs, but also by one of *system-reformation* as it grows more confident and competent in dealing with international economic affairs. This is even more so given China's incentive to transform the unipolar concentration of world power towards a multi-polar system (Kent, 2002: 348). As a responsive strategy to the international standing of the US, the MERs are therefore an important vehicle for China's international reform agenda.

With increased multilateral activities, the government elevated the use of economic diplomacy since the 1990s, for managing and executing multilateral economic negotiations under the auspice of the related MERs. China's economic diplomacy since then has seen both continuities and changes. While the fundamental principles of Chinese economic diplomacy have largely remained constant, some more

⁷ Interview with an expert from Tsinghua University, Beijing, 22 November 2012.

substantive policy preferences have evolved from a posture of resistance to inclinations for flexibility, pragmatism, and in some cases, even adoption. Dynamic negotiation behaviours as such can be found in China's postures at the DDA under the WTO, and the COP under the UNFCCC. For the purpose of illustration, let us briefly consider these examples with more details.

Since COP1, China has presented both continuities and changes in its national preferences on climate change issues. What remained the same are the fundamental principles for negotiation: (i) the principle of "common but differentiated responsibilities;"⁸ (ii) support for the UNFCCC as the only climate change regime; (iii) insist on the "no regret" principle⁹ (Yu 2008: 59). Beijing further holds that policies which do not advance its economic development should be funded by the developed countries (China Ministry of Science and Technology, 1998: 3-10; Economy 1997: 20). Yet, China has had preference changes for the Kyoto Mechanisms, which include the joint implementation (JI), the international emissions trade (IET), and the CDM. In the early phase of negotiations on the Kyoto Mechanisms (1997-2000), China was in clear reluctance to negotiate the modality, arguing that they are measures designed to help the developed countries escape from their mitigation commitments. Observers viewed China's negotiation posture as passively resistant, and often articulate a preference for "no response." By the turn of the millennia, however, China's policy preference on the matter transformed from outright opposition to gradual, if muted, acceptance (Yu, 2008: 58). In 2000, China forwarded a "no regrets" policy and accepted the IET. Two years later, China had formally accepted and ratified the CDM. Implementation followed immediately thereafter, with projects in Gansu and Shanxi provinces. Beyond the Kyoto Mechanism, China has also demonstrated growing flexibility and pragmatism towards

⁸ The "common but differentiated responsibilities" principle implies that China will share responsibilities in information communication and scientific research without incurring any economic burdens or requirements that would reduce their energy use.

⁹ The "no regret" principle means that China will share some concrete responsibilities to reduce the greenhouse gas emissions provided they do not adversely affect its economic development.

the international binding mitigation targets. The shift in preferences was reflected in their negotiation position at the 2011 COP17 meeting in Durban.

Like climate change, China's participation in the DDA trade negotiations has entailed both continuities and changes in policy preference. For the most part, China has remained consistent in its overall position, which is also in line with the Recently Acceded Members (RAMs): it is unwilling to contribute further beyond its WTO accession commitments. China regularly reinforces its status as a developing nation still in the process of digesting its WTO obligations made during accession. Yet, when the negotiation issues are considered more specifically, shifts in China's policy preferences can be identified. One notable example is China's attitude towards the GPA. Although joining the GPA was one of the sub-conditions of China's entry into the WTO, the Chinese delegation hesitated to partake in the negotiations for several years post-accession. This position swung the other way in April 2006 when Beijing agreed to commence its GPA accession negotiations by late-2007. To date, China has submitted three revised proposals to the GPA Committee, each with expanded, though incremental, amendments on the procurement coverage. Other areas of preference change include the negotiations on the trade in services. For much of the DDA round, observers have criticised China for acting passively during the services negotiations and for purposely marginalising itself (Sally, 2011: 9). The Chinese delegation argues that it has already made comprehensive commitments during its accession and therefore should not be subject to further obligations. China further argues that its service sectors are too underdeveloped to weather the competitive storms of foreign firms. But in the recent years, China has actively promoted liberalisation and a reduction in restrictions, especially in developed countries, on the movement of natural persons at lower skill levels (Mode 4 services trade). China has also expressed new interests to negotiate on

opening up cross-border trade (Mode 1 services trade), which is the delivery of a service from one country into another.

Although not all preference changes are extensive in an equal magnitude, the climate change and international trade examples nonetheless illustrate that China's approach to the MERs and its economic negotiations is a dynamic one that have evolved from rigid resistance to flexibility, and in some cases, adoption. The dynamism of China's economic diplomacy develops as the relationships between the agencies of the Chinese government and the MERs deepen. In an interview with a Chinese policy officer from the Ministry of Foreign Affairs (MFA), it was suggested that dialogue with members of the MERs occur on a very regular basis, and consultation with the MER agencies during the preference formation process has become an informally integrated stage of policymaking for cross-border economic issues.¹⁰ These two developing trends – a growing dynamism in Chinese economic diplomacy and the road towards a tight-knitted inter-agency relationship between Beijing and MERs – prompts questions concerning the consequential impact the MER agencies have on China's policy preference formation for multilateral economic negotiations. Have China's global integration created new windows of opportunity for the MER agencies and actors to influence China's economic diplomacy preference formation? If yes, in what way(s) and/or by what function(s) can they do so?

Questions about influence on policy, in essence, concerns the preference formation processes. Here, policy preference formation is understood as the complex process by which a range of relevant political and private actors (referred to in this thesis as *agencies*) concerned with a policy issue, work with or against one another to carry out a proposed course of action. Policy initiatives are often considered simultaneously, with each involving different sets of specialised and concerned agencies. Some scholars believe China's economic diplomacy policy preferences are

¹⁰ Personal interview.

shaped solely by the centralised decision-making process within Beijing and have no relevance to external agencies whatsoever. For example, Hongyi Lai (2010) describes preference formation is shaped only by the paramount leader, the formal institutions, and the growing pluralistic government agencies. In a similar vein, Zhu Liqun (2010) places emphasis on the domestic factors as playing more decisive roles in shaping Chinese preferences. Michael H. Hunt (1996) and Thomas Robinson (1994) also believe in the primacy of domestic politics, the weight of the past, and the importance of ideology and personality as the primary determinants of Chinese preferences.

Without denying the significance of domestic actors in shaping Chinese preferences, it is also important to recognise that political steps towards economic liberalisation has prompted an outburst of international transactions, and spawned concomitantly, a stark increase in global externalities including the standardisation of product labelling to the enforcement of copyright and patent laws. The implication of these developments on China, as like most nation-states, is a reduced capacity to manage the global externalities without multilateral policy coordination. Although economic liberalisation has not deprived China of its sovereignty, it has, to an extent, circumscribed its economic policy space. Since China is a political subject participating in the MERs, there is therefore no reason to expect that it will not be influenced by them.

Over the past 30 years, an influx of scholarly attention has invested into learning about the domestic-international linkage (Dai, 2007; Moravcsik, 1998; Milner, 1997; Pahre and Papayoanau, 1997; Keohane and Milner, 1996; Evans, Jacobson and Putnam, 1993; Cowhey, 1993; Snyder, 1991; Rogowski, 1989). IR students have studied the ways that multilateral systems can either propel or undermine national politics; and how national interests can circumscribe their postures for multilateral negotiations. For realists, the nation-state's preference formation is bounded by the international

distribution of power. Robinson (1994: 555-602), for instance, argues that the structure of the international system, and the Chinese decision-makers' estimation of its relative power against the international power structures determine China's preferences. Meanwhile, liberal scholars believe that the world economic activities, including international norms and institutions, constrain a country's policy preferences (Keohane and Nye, 1989: 34-35; Ruggie, 1992: 561-598). For instance, Thomas G. Moore and Dixia Yang (2001: 194) argue that the MERs condition Chinese preferences by conforming them to international rules, structures and norms over time.

Even though international factors have impact, both the realist and liberal camps overemphasise their influence capacities and underestimate the decisive role of domestic variables in the preference formation equation. Of equal seriousness, even in their claims about international influences, details about the method to which the MER agencies influence national interests and incentives are neglected. So while they argue for influence, it is uncertain how such influence are stemmed or channelled to the national level and constrains preferences. Other studies have also criticised these traditional schools of thought for underestimating the impact of factors such as ideology and transnational networks on altering the preferences of nation-states; and for the lack of empirical observations, which renders their assumptions insignificant (Haas, 1990; Moravcsik, 1989; Smith, 1987; Donnelly, 1986).

From an international political economy (IPE) perspective, Robert Putnam (1988) plugs economic diplomacy preference formation into a "two-level game." The logic is that the interaction between the international and domestic levels shape national preferences. Putnam's argument crucially takes into consideration the dynamic interaction between the domestic and international levels in economic negotiations. However, his approach also suffers from a risky assumption that preferences are shaped

only by the two levels and disregards the interactions between the international, domestic, and individuals who make policy decisions.

Jeffrey C. Alexander and Bernhard Giesen (1987) examine such relationships in the “micro-macro linkage” approach. The approach examines the three levels of activities and the fluidity of movement between the international, domestic, and individual agencies. Because neither the macrostructure nor the decision-makers at the micro level have absolute control over the national policy, the three levels mutually influence each other in preference formation. The advantage of this approach is its encapsulation of the three dimensions of the policy macrostructure, taking into account elements of the *levels* (in a vertical way) and the *structures* (in a horizontal way). Yet, this approach also leaves questions unaccounted for. For instance, how the multilateral agencies’ influence converges with, and therefore alters, the preferences of the national macrostructure and individual decision-makers? In what way(s) or through which functions does the multi-level relationship affect each other?

Building from previous studies on the reciprocal nature of the domestic-international linkage (i.e., Almond, 1989; Gourevitch, 1978; Hintze, 1975), some researchers have investigated in the ways of which national policymakers are connected with the multilateral system (Coleman and Perl, 1999; Finnemore and Sikkink, 1998; Keck and Sikkink, 1998; Risse-Kappen, 1995). This strand of literature posits that the influence of the MERs varies as it is often mediated by different kinds of national government agencies (Bernstein and Cashore, 2000; Walsh, 1994; Bennett, 1991). The shortfall of this literature is that while they claim the MERs have fundamentally changed how nation-states make policy, they do not specify how the changes are actualised (Botcheva and Martin, 2001; Lazar, 2001). Scholars of public policy also avoid this question. The literature (i.e., Gummert, 1996, Parry, 1993; Willett, 1988) that looks at the MERs and public policy tend to place more attention

on international public policy (i.e., the analysis on cross-border interactions for solving common public policy concerns) as opposed to how national preferences are affected by the MER processes, or their affiliated agencies.

Numerous studies have considered China's relationship with the MERs more specifically. For example, Economy (2001: 231) argues that the process of establishing the MERs may influence the manner in which China makes policies through the establishment of new institutions, the emergence of new policy actors (or the enhancement of others), and the development of new ideas, values, or orientations among Chinese decision-makers. Margaret Pearson (2001: 338) adds that the MERs can affect preference formation through an international imposition of market norms in the domestic economy. Kim (1998) looks at the decision-makers' perceptions of the MERs as key to shaping preferences. R.W. Hu (1998) contends that the learning process in the integration with the MERs drive domestic preference formation. Based on the theoretical assumption that a state's preferences are shaped by its national identity, Qin Yaqing (2010: 47-50) argues the deeper China's integration with the international system, the more its identity changes, and this gives MERs a stronger and more positive effect on China's preference formation.

Although these studies have respectively contributed to the understanding of China's relationship with the MERs, they commonly suffer from three drawbacks. First, the literature dismisses details about how the MERs' influences are actualised and subsequently channelled through to the national preference formation processes. As well, there are seldom discussions about the agencies involved, it does not explain the actual role of the MER agencies in shaping Chinese economic diplomacy, how or why their influences are either positive or negative, and the effects spawned from the China-MER relationship. Second, these studies takes *China* for granted, viewing it as a generic unit, while disregarding the reality that it umbrellas a complex and

multileveled system with an array of political agencies and actors. The disregard for this problematically dismisses the fact that different agencies have different relationships with various MER actors and therefore can stem different kinds of policy effects and/or acceptance of external influences. Finally, these studies do not treat their claims with sufficient empirical backing and therefore are largely hypothetical and theoretical by nature in terms of what decision-making axioms and rules would have been necessary in order for given observable outcomes to have occurred. This was perhaps due to a methodological constraint (i.e., a lack of access to the relevant Chinese policy actors). As a result, their findings only drew causal inferences and certain basic rules about Chinese preference formation based on patterns of manifest actions.

Despite the abundant academic attention on the international-domestic linkage, little is known about the implications of the deepened relationships between the agencies from Beijing and those of the MERs on China's economic diplomacy preference formation. Nor is there a clear understanding about how the MER agencies can either promote or inhibit Chinese policy preference changes. As the preceding discussion shows, the current literature has, by and large, only addressed the obvious dimension of the China-MER interaction (i.e., on the macro-institutional level). As such, it has overlooked the possibility that the MER agencies can also have an influence on Chinese preferences for economic negotiations. Thus there remains a research gap in the possibility of incorporating policy preference changes induced by the MER agencies into China's economic diplomacy decision-making. What are the impacts of the MER agencies on Chinese economic diplomacy preference formation? What accounts for China's varying responses to the MER agencies – from acquiescing to standing firm? What are some long-run implications of the China-MER engagements at the agency-level have on the decision-making structure of Beijing?

The primary objective of this thesis is to address this literature gap and contribute to the knowledge-building in this respect. The thesis is interested in two aspects of the China-MER relationship. First, it is interested in the mechanisms to which the MER agencies can influence China's economic diplomacy policy preferences. This is important for understanding the role(s) the MER agencies play in the macro-political structure. As such, it contributes to a better and more comprehensive understanding about how Chinese economic diplomacy is shaped and by whom. Of course, the study of economic diplomacy is not only concerned about preference formation. It is also interested the derivation of national approaches at the negotiation-stage of decision-making. As such, the second dimension of this thesis examines the role(s) of the MER agencies in shaping China's approach to multilateral economic negotiations. As part of this analysis, the thesis looks at how the MER agencies make deliberate efforts to shape the negotiation outcomes. Thus the primary research question of this thesis is: *how do multilateral economic regimes and their agencies influence Chinese economic diplomacy policy preferences and negotiation approach?*

Two on-going economic negotiations are used as the case studies that form the basis of analyses: the COPs climate change negotiations under the UNFCCC, and the DDA trade negotiations under the WTO. Ultimately, the contribution of this thesis is considerable. It provides a new conceptualisation of the relationship at the agency-level between the Chinese government and MERs. Further value added is given to the fact that this is a study on Chinese economic diplomacy policy preference formation – an important policy concern that has thus far received little scholarly attention.

1.3 The Research Design

The *primary* hypothesis addresses the primary research question: *how* MER agencies influence Chinese economic diplomacy preference formation. This hypothesis is mainly concerned with the preference formation stage of decision-making. The hypothesis holds that:

H1: The agencies of multilateral economic regimes can influence Chinese economic diplomacy preference formation through three primary mechanisms: costs-and-benefits calculus, information dissemination, and reputation reinforcement.

An underlying assumption for the primary hypothesis is that the level of actual influence the MER agencies have through the three mechanisms is contingent on four situational factors: national objective, policy goals, policy settings, and policy instruments.

The *secondary* hypothesis addresses the supplementary impact of MER agencies on the negotiation dimension of Chinese economic diplomacy. The hypothesis is therefore concerned with the decision-making during the negotiation processes. As such, it holds that:

H2: The agencies of multilateral economic regimes can shape China's negotiation approach and ultimate outcome through three capacities: as a mediator through shuttle diplomacy proximity talks, as a facilitator of informal negotiation practices, and as an instigator of side-payment bargaining.

An underlying for the secondary hypothesis is that the actual influence of the three roles, which are also their advantage as well as contingencies, rest on a core set of drivers for

China's negotiation approach, referred to in this study as the social instigators. They are expectation, trust, and personal reputation. The three social instigators are cumulatively necessary criteria for maximising the MER agencies' impact.

The research strategy can be summarised in three stages. The first stage is to *identify the mechanisms* of MER influence on the Chinese government, for which the propositions of the aforementioned three schools of thought were referred to as the research skeleton of this study. The second stage is to *account for the degrees and variations* of MER influence on China's economic diplomacy policy preference formation. The third stage elaborates on *how MER agencies shape China's approach to economic negotiations* and the consequent outcome. This study approaches the research question and the hypotheses testing (more details in the next chapter) through an integrative methodology of comparative analysis. The research variables of this study:

- *Independent variable:* (the influence of) the MER agencies; and
- *Dependent variable:* Chinese economic diplomacy policy preference formation.

The sceptical reader might find this research enquiry problematic. The MER agencies do not appear out of thin air but are promoted by nation-states to serve particular global interests, values, or preferences (Kowert and Legro, 1996: 492). By focusing on the influence of the MER agencies on China, it carries the risk of omitting a relevant part of the story (i.e., China's influence on the MERs) and perhaps takes instances of strong Chinese influence on MERs as cases of precisely the opposite process. To be sure, given the interaction between the political agencies of China and the MERs, it is comprehensible that both directions of influence exist, and the need to avoid the risk of circularity is a legitimate concern. With this said, the thesis has several justifications for only focusing on the influence of the MER agencies on China. First,

the empirical research of this study gives at least some indications about the depth and width of the influence of the MER agencies, which makes it significant and relevant in itself. Under certain circumstances, the MER agencies are found to shape, at varying degrees, both policy preferences and negotiation processes, even in ways unintended by the MER agencies. In this context, the aim of this thesis is to explore how and under what conditions the MER agencies make a difference in China's economic diplomacy policy preferences and approach to negotiations.

Second, wherever this kind of influence proves to be significant, it is important to recognise that the MER actors constitute just as much policy influence on the Chinese government as the reverse happens. Finally, if under certain conditions the influence of the MER agencies can modify Chinese preference formation, then it is expected that it will also trigger (possibly with low-intensity) processes of integration and therefore the dynamic between national and international agencies.

1.3.1 Why multilateral economic regimes?

Why does the present thesis choose the MER agencies for tracing international influence on Chinese economic diplomacy? After all, Chinese policy actors encounter a myriad of external influences from bilateral interactions with other nation-states, as well as on a regional level. From a theoretical perspective, rationalists, cognitivists, and contractualists commonly assume a connection between existing normative structures within the MERs and the assimilation of these norms in the preferences of nation-states. It is in the MERs where the interaction between agencies is most likely and where processes of internalising external influences are most concentrated. As James P. Muldoon (Jr.) (1998: 3) observes, it is also within the MERs that economic diplomacy with an emphasis on interpersonal communication, informal discussions, and bargaining manifest. As well, the MERs generally have features, objectives,

norms, and beliefs that challenge the core assumptions and ideologies of national policy actors. So if China is to be influenced by any counter-attitudinal agencies, it ought to be from those of the MERs.

For the most part, when IR scholars look for the effect of international regimes, the unit of analysis has tended to be the regime (Johnston, 2008: 27; Meyer et al., 1997; Eyre and Suchman, 1996). The problem with this is that regimes are unitary actors that do not participate in the preference formation; rather, the agents and actors of the MERs do (i.e., the Secretary-General, Chairs of the negotiation committee, working group members, and so on). For this reason, this thesis treats the influence of the MERs as effects of the individual or agency affiliated with the regimes, and in turn, the effects of these agents on the economic diplomacy policy preference formation and negotiation approach of China.

But how would one know if the costs-and-benefits calculus, information dissemination, reputation reinforcement, side-payment bargaining, proximity talks, and INPs had led to cooperative policy preferences from China? First, it is necessary to show that the Chinese government and its policy actors are conducive to these mechanisms of influence. Second, it is of imperative to show that after some engagements with the MER agencies, the preference of policies (as reflected through their postures and arguments) have evolved in a way that converges with the preferences of the MER. Third, it is essential to show a shift in China's preferences that is consistent with the arguments made by the MER agencies. These are the areas to which this thesis tests.

Crucial to note that it is one thing to identify the consequences of influence (i.e., the instances of change) and quite another to measure it, particularly since the MER agencies can generate different kinds of change, which renders them difficult to analytically and methodologically compare with each other. Therefore, the dependent

variable of this research needs to be measured in a consistent but flexible way. The literature on “Europeanisation” has established four indicators of impact: *inertia*, *absorption*, *transformation*, and *retrenchment* (Radaelli, 2000, 2002; Borzel and Risse, 2000, 2003; Lenschow, 2006). *Inertia* indicates a lack of MER influence. Under this circumstance, the Chinese government stay beyond the reach of MER the agencies, and no changes in the preference or approach changes can be identified. Furthermore, the policies and norms derived from the MER agencies are not endorsed by any domestic actor, or it is only able to build weak intra-governmental coalitions with no or very little impact. *Absorption* implies some influence of the MER agencies over China, but it is only to the point of adaptation. In other words, absorption implies a situation in which China formally adopts new policies and measures derived from a MER agency, but “without changing their essential features and the underlying collective understandings attached to them” (Borzel and Risse, 2000: 10). What it does do is allow Chinese decision-makers to acquire new capacities to address particular issues both internally and externally.

Transformation indicates a deeper influence from the MER agencies on China, both in terms of preference formation and in shaping the negotiation approach. In both cases, it implies a paradigmatic change in “the fundamental logic of political behaviour” (Radaelli, 2002: 117; Borzel and Risse, 2000: 10). Such preference changes are expected to become institutionalised. The implication on the process is that the change is expected to lead to a sizeable alteration in the distribution of power within Beijing, as well as the emergence of dedicated administrative entities, working groups, committees or networks, and/or the creation of specific bureaucratic routines. A relevant increase in the competence and ability of the Chinese government to address a particular issue is subsequently expected both in terms of its internal capacities and its international “actorness” (Costa and Jorgensen, 2012). Finally, *retrenchment* indicates a situation

where the Chinese government reacts against the activities of the MER agencies. In contrast to inertia, the negative reaction from China towards the MER agencies is active and explicit. Therefore, China is expected to take specific measures to counteract the effects of the MER agencies.

The way that this thesis identifies the qualitative influence and classifies them under any of the four indicators is as follows. If a MER agency is found to have triggered preference changes without any constraints imposed by the situational factors, then it is considered to have *transformation* influence. If a MER agency stimulates new policy adaptation but is circumscribed by one or more of the situational factors, then the influence is at the *absorption* level. If the MER agency does not lead to any adaptation processes *and* is limited by one or more of the situational factors, then it has *inertia* influence. Finally, if there are indications of rebellion or lashing-out behaviour from China as a result of its engagements with MER agencies, then it indicates a *retrenchment* influence. On the whole, this qualitative scale covers all the possible magnitude and directions of policy change and is comprehensive enough to include different kinds of preference changes. For these reasons, this study adopts these four indicators as the measurement of influence.

1.3.2 Why Chinese economic diplomacy?

Chinese economic diplomacy is an appropriate area of focus for analysing the influence of MER agencies on China. China is at present still novice in the practice of economic diplomacy based on its brief history participating in economic negotiations under the auspice of MERs. Yet, China is also a “hard-realpolitik” state. These two features make Chinese economic diplomacy ideal for testing because if there is any MER influence, it is expected to be relatively easy to identify given the likely contrast between a China that just entered MERs and a China deeply involved in MERs. And

China is the kind of state where its hard-realpolitik worldviews stipulates a strong resistance to external influences. For these reasons, Chinese economic diplomacy is a relatively easy case for identifying the MER agencies' influence.

If the rationalists are correct, then Chinese preferences is expected to be formed on the basis of (i) exogenous material (dis)incentives that constrains China from insisting on its traditional preferences; (ii) fresh information that ensures the Chinese decision-makers are not disadvantaged by any means; and (iii) an alteration of policy actors involved either as a result of previous policy failures or in response to a desire for effective participation in MER-related affairs and therefore requires a reconfiguration of the locus of decision-making. Suppose the cognitivists are right, then a positive preference should be a function of the learning processes and therefore internalising global norms and practices. In such case, one should anticipate a convergence over time in the views and beliefs between Chinese policy actors and the MER agencies. If the contractualists are right, then pro-social policy preferences should be the outcome of a desire to secure an internationally recognised co-operator reputation.

Assuming that the Chinese government engages with MER agencies with realpolitik preferences that are generally at odds with those of the MER agencies, the following analytical assumptions are expected to be empirically plausible. First, the thesis assumes that the growth of global interactions has created a situation of complex interdependence of which strips China of its full autonomy to unilaterally regulate its economic affairs.¹¹ In this context, *MER agencies to which China engages does affect Beijing's economic diplomacy policy preference formation*. This assumption is derived based on three reasons. First, the most current MERs are designed around the concept of "embedded liberalism," which challenges China's socialist ideology, generally speaking. The need to adapt to a *socialist liberal* framework therefore implies the need

¹¹ Interview with an expert from the Chinese Academy of Social Sciences, Beijing, 8 November 2012.

to integrate with new ideas and different approaches to the formation of preferences. It also implies the need to adapt to new realities in the political and economic paradigms, and reshapes how Beijing understands the global political economy. Second, MERs operate on a principle of *multilateralism*, which have already reoriented China's economic diplomacy philosophy to also place a heavy emphasis on this principle. Third, some MERs have important distributive functions that can affect Chinese politics. These three reasons collectively impose significant challenges to Beijing especially because China cannot change these features upon joining MERs.

The second assumption is that MER agencies matter in Chinese policy preference formation. MER agencies have agenda-setting powers alongside their roles as facilitators and implementers. These agencies are endowed with the first-mover advantage when they propose a certain course of action or set of policy recommendations that may alter China's preferences. Crucial to acknowledge is that although Chinese decision-makers do not have the first-mover advantage, they do hold veto powers, which is why it is important for MER agencies to take into account their preferences. In addition, as the principal-agent theory (Tirole, 1986; Pratt and Zeckhauser, 1985; Grossman and Hart, 1983) points out, the MER agencies possess attributes (i.e., expertise, material resources, and signalling capacities) of which the Chinese decision-makers may benefit. In addition, the MER agencies disseminate standards for which the Chinese decision-makers establish their expectations on matters such as compliance by all member-states. Therefore, with its insulation from power politics, the MERs have the ability to alter the range of available national preferences, negotiation approaches, and bargaining strategies of China. The MER agencies, consequently, constitute an important intervening variable, even if it is not an independent one.

Third, MER agencies generally use a mixture of approaches to interacting with Chinese policy actors. One such strategy is *contracting*, a form of interaction that generates Pareto-efficient outcomes (Drezner, 2006: 11-12). In this type of interaction, the MER agencies influence Chinese decision-makers through the proffering of pacific, rather than coerced, incentives. It is important to recognise that this criterion does not exclude the plausible situation where decision-makers are offered new incentives for cooperation. Unlike contracting, *persuasion* enables the preference ordering of Chinese decision-makers to be altered through new forms of inter-subjective understandings (Hurd, 1999). Persuasion in this sense comes with different components. In order to persuade Chinese decision-makers, it is essential that they are exposed to new ideas in order to transform their worldviews. Persuasion is also generated through the establishment of social connections and creates non-material incentives that run in parallel with other national-states. The friendly relationship between China and the United Nations Conference on Trade and Development's (UNCTAD) Intergovernmental Group of Experts on Restrictive Business Practices had China align their preferences for the global antitrust policy with international practices (Sell, 1998). As such, persuasion requires a great degree of social interaction. Like contracting, however, persuasion is choice theoretic, and has important elements of strategic interaction. For instance, the MER agencies strategically select the forums for objectives involving persuasion. Forums that are suitable for persuasion may not necessarily be appropriate for contracting. It is assumed that the MER agencies use a combination of both interaction approaches with Chinese political actors, under varying circumstances and at different stages of the preference formation.

1.3.3 Case selection and analysis

This thesis centres on how MER agencies can influence China's economic diplomacy preference formation, and two sets of mechanisms are examined as possible ways of causing preference changes. In this context, the analysis centres on how these three mechanisms engages with, and alter, China's preference formation. Choosing the main empirical cases, however, requires some care. Two main MERs were selected: the UNFCCC and the WTO. In most cases, the level of China's ultimate preference change is not necessarily in China's interests in an obvious sense. To derive optimum accuracy, each MER case study is dissected into more specific "case pair" focuses, based on two modalities within the negotiation agenda. Each "case pair" will be from the same negotiation process but with different outcomes. The first set of case studies concerns China's participation in the UNFCCC, and the "case pair" focuses on the CDM and the international mitigation commitment negotiations. The second set is on China's participation in the WTO's DDA negotiations. The "case pair" looks at the international trade in services and the GPA negotiations. The reason these two sets of case studies were selected is because they commonly demonstrate evolving Chinese preferences, from strong resistance to either adoption and/or flexibility positions. At the same time, the case studies exhibit different degrees of preference shifts and flexibilities which enable this thesis to analyse causes and implication of variances and draw clearer probable causalities. And lastly, these two on-going negotiations have more resources available for research purposes, which is a methodological advantage. To determine the shape of the variables, observable implications are derived from the hypotheses.

The one challenge for this study is the level of access to China's preference formation processes. Any research that involves micro-level analyses involves what Herbert A. Simon (1985: 303) calls "specification of the situation" which is "data intensive," and "time consuming." And due to the opaque nature of the Chinese

political system, access to the relevant data at the micro level presents an obstacle to the empirical research of this thesis. Yet, it must be made clear that this thesis does not intend to open every “black box” in Chinese economic diplomacy decision-making. Its purpose is more modest, but none the less valuable – namely to provide a preliminary understanding and framework within which to examine the combined impact of international and domestic environments on the multiple levels of agents involved in China’s economic diplomacy decision-making. It also intends to enhance scholars’ ability to analyse the choices and preferences of Chinese decision-makers when faced with concrete economic policy issues in a diplomatic context. Out of necessity then the qualitative data are collected from a mix of sources. The starting point was the related academic resources, such as books, journal articles, and conference papers. Government documents circulated by Chinese policy actors were also used. Internet sources including the online editions of Chinese newspapers and other related websites concerning climate change and international trade were useful. To ensure accuracy of information, multiple sources were gathered to ensure the reliability of events, and facts.

Just as important, this study has relied on over 190 interviews with key Chinese and non-Chinese decision-makers and negotiators that work in climate change and international trade-related policy issues, representatives of the UNFCCC and WTO Secretariats and other international organisations, Chinese industrial actors, and experts from the Chinese and international epistemic community. In addition, data from the participant observation at the COP17 and 2011 DDA negotiations are used to complement the interview data. Undoubtedly, the researcher has limited access to the decision-making processes due to the “asymmetric transparency” (不对称的透明度) characteristic of the Chinese political system. As a result, there is reason to suspect the level of honesty interviewed policy actors have communicated their responses. Another

possibility is that interviewees can purposely exaggerate or simplify their answers. This makes the data problematic on empirical grounds and the actual intentions of Chinese decision-makers difficult to decipher. But to minimise this effect, the researcher has carefully paid attention to the professional position of the interviewee, the inter-personal dynamics during the interviews, the wording of the interview questions, and carry out follow-up interviews where necessary for clarification. In doing so, some of the aforementioned obstacles are remedied.

Data about the events during the negotiations are based on onsite observations and reports from non-governmental organisations. To supplement the above information sources, participatory observations were conducted on-site at the UNFCCC's COP17 negotiations in Durban for the climate change case study; and at the 2011 Ministerial negotiations on the Doha Round in Geneva for the trade case study. Access into the informal negotiations between Parties of the Member States were granted during the observations; and further onsite interviews were conducted with representatives of numerous delegations as well as the multilateral economic regimes participating in the negotiations. Additionally, reports from organisations such as the Earth Negotiations Bulletin (ENB) published by the International Institute for Sustainable Development (IISD); and the International Centre for Trade and Sustainable Development (ICTSD) were used. Both organisations are regarded as independent and reliable sources of information, and are widely referenced within academia as empirical observations of the various dimensions of the multilateral climate change and trade negotiations.

1.4 Structure of Thesis

The present chapter begins *Part One* of the thesis. In *Chapter Two*, the theoretical debates and frameworks are presented for the purpose of generating the primary and

secondary hypotheses. The hypotheses are informed by an eclectic set of theories from the existing literature, and tested through an integrative methodology and within-case analyses. *Chapter Three* traces the evolution of China's economic diplomacy preference formation processes, from the Mao Zedong government to the Deng Xiaoping and Jiang Zemin eras, and the Hu Jintao administration. This chapter provides the context for probing the hypotheses in the subsequent sections of the thesis.

Part Two of the thesis starts with *Chapter Four*, which inaugurates the empirical analyses by examining China's participation in the COPs climate Change talks and the "case pair" negotiations on the CDM and international mitigation commitment. Both negotiations witnessed unique negotiating position changes from the Chinese delegation. *Chapter Five* examines the DDA negotiations for international trade and particular attention is on the "case-pair" negotiations on the GPA and trade in services. As like in climate change, both these case studies exhibited increases in China's negotiation positions' flexibilities from the start of the negotiations to the present-day. *Chapter Six* offers a comparative analysis on the findings from the two case study chapters and draws some "probabilistic causalities" on how the MER agencies influence Chinese preferences through the evaluation of each individual variable before analysing any interplay between them. Due to the qualitative nature of the data, any causality established can only be treated as relative rather than absolute. Furthermore, the long-term consequence of the China-MER engagement on Beijing's decision-making structure is discussed.

Part Three of the thesis begins with *Chapter Seven*, which offers a discussion on the role(s) MER agencies play in shaping China's negotiation approaches. Here, the mechanisms of side-payment, proximity talks, and INPs are examined alongside the social instigators. Finally, *Chapter Eight* concludes the thesis with an overarching discussion on the broader implications of the primary findings from both theoretical and

policy perspectives. The relevance of the findings on other emerging market economies is assessed thereafter. Finally, some remarks are made regarding a future research agenda.

LAYING THE THEORETICAL BRICKWORKS

2.1 Introduction

In the post-Cold War era, China recognised that economic globalisation has blurred the boundaries between the domestic and international spheres, turning many national affairs into transnational issues. In the face of this mainstream current, Chinese leaders believed it was of imperative to establish itself as a prominent member in multilateral economic regimes (MERs). In 1989, China joined 157 MERs in the form of accords, treaties, international conventions, and international institutions. By 2011, this figure rose to approximately 300 (Zhang, 2011: 129). As China's relationship with the MERs deepen, what are some consequential implications on China's economic diplomacy preference formation? Suppose the MERs and their agencies do affect national preferences, through what mechanisms can it best diffuse its influence? Numerous theoretical approaches have contributed to the international-domestic debates, and offer a selection of possible variables for this thesis. The purpose of this Chapter is to discuss these contending perspectives. The goal is to look across various research lenses to see how different streams of literature could illuminate the drivers, engagement processes, and motivational attributes that enable a *shared* preference formation process.

Given that economic diplomacy is about both national preferences and the negotiation process, this chapter crafts two analytical frameworks in order to analyse the different stages of decision-making and hence dimensions of possible MER influence. Both frameworks are integrative and built from the assumptions of rationalism, cognitivism, and contractualism. The underlying assumption is that MER

agencies influences Chinese economic diplomacy through different stages of decision-making and participation in the multilateral processes. As such, the first framework looks at *how* MER agencies influence Chinese economic diplomacy preference formation. The mechanisms of the costs-and-benefits calculus, information dissemination, and reputation reinforcement are identified as the most likely variables. The purpose of the second framework is to examine *what* role(s) MER agencies play in shaping China's negotiation approach within a multilateral setting. The MER agencies as an instigator for side-payment bargaining, a mediator through shuttle diplomacy proximity talks, and a facilitator of informal negotiation practices (INPs) are identified as the most plausible roles with a capacity for influence. Together, these two frameworks help yield the primary and secondary hypotheses of this thesis on the causal relationship between the dependent (Chinese economic diplomacy preference formation) and independent variables ([the influence of] the MER agencies).

In the next section, a brief discussion on the limitations of the mainstream theoretical approaches is made. In sections three and four takes on the tasks of presenting the first and second frameworks respectively. Section five introduces the primary and second hypotheses of this study. Section six makes some concluding remarks.

2.2 The Limits of Orthodox Traditions

When the notion of preference formation is meshed with an investigation about the influence of MER agencies, it often implies a concern about *preference change*. In other words, it is about how national preferences are affected by the activities and processes of the MERs and its agencies. The conventional perception of preference change occurs from events and/or processes outside of the relatively stable internal decision-making system (Sabatier, 1998; Hecló, 1994). This perception is based on the belief that the

preference formation process constitutes distinct and self-equilibrating national decision-making systems consisting of already-established definition of policy issues, legal and fiscal frameworks, government programmes, actors and institutions (Eisner, 1994; Harris and Milkis, 1989). But in the event that new extraneous elements are introduced into the system, the preference formation processes could be thrown out of equilibrium and thus trigger preference changes. In this context, the MER agencies are the external intervention intruding in an otherwise stable Chinese preference formation process. Based on this logic, it is assumed that *engagement with MER agencies, one way or another, disturbs Beijing's economic diplomacy preference formation process*. The more interesting question is *how?*

Scholars of international politics and economy have had a long tradition of debating about the relative weight of external forces on the domestic environment. The most classic school of thought is the systemic theory *realism*. Realists argue that the primary goal of foreign policy, broadly speaking, is the survival of nation-states in the international system. Applied to the present context, realists would argue that Chinese economic diplomacy preferences are shaped by the interplay of international forces (i.e., between the MER agencies and the multilateral processes). Descended from realism is Peter Gourevitch's (1978) *second-image reverse* (SIR) model, which highlights the impact of the international actors, like MERs, on the domestic settings. SIR advocates argue that MER agencies impose critical constraints onto, and frame, China's available preference options; and that national preferences are largely shaped in response to the changing dynamics within the MERs (Tow, 1994; Ross, 1986). To this effect, "the external sources of Chinese policies" can be viewed as "a matter of conditioning and shaping" its policy options (Cumings, 1989: 220); the internal elements of Chinese politics are "not the critical determinants" of economic diplomacy preference formation (Pollack, 1984).

A second stream of theorising began with the works of Karl Deutsch (1957) and Ernst Haas (1958) on the impact of parties and interest groups in the process of the European regional integration. They highlight the importance of the “spill-over” effect and the feedback process between domestic and international developments. As such, their work gave birth to the themes of *international regimes*, *interdependence*, and *transnationalism*. The intellectual heirs of this tradition, namely Joseph Nye and Robert Keohane (1977), eventually reformed the school of thought into the *interdependency theory*. The theory has three primary characteristics, including the use of multiple channels and actors in the interaction between states, and between states and the MERs; the role of economic variables in changing agendas and linkages between prioritised issues; and bringing about non-military instruments of statecraft (Keohane and Nye, 1989). By focusing on the MERs, the theory promotes the greater use of soft power, diplomacy, and cooperation through the forms and procedures of international law. In this respect, MER agencies influence Chinese preferences through the general interactions of diplomacy, and institutional rules, norms and principles.¹²

A case in point for the two strands of thought is China’s accession into the World Trade Organization (WTO) – the descendent of the General Agreement on Tariffs and Trade (GATT). Advocates of both theoretical traditions can extract evidence to suggest how porous China’s preference formation is to the WTO agencies’ influences. For instance, the realists would point to the fact that the leading trading partners, particularly the United States (US) and the European Union (EU) used their power advantages to compel China in accepting more protocol and obligations on the accession than China was initially willing to accept. The interdependency theorists, in the meantime, can find support for their claims in the fact that China’s preferences were constrained by the WTO’s systemic rules and norms, as well as by the monitoring

¹² The effectiveness of these mechanisms lies in the fact that they imply obligations, even though these obligations are not enforceable through a hierarchical legal system.

systems, such as the Trade Policy Review Mechanism and the Dispute Settlement Mechanism. Taking into consideration the binding force of the WTO's regulations, China had a limited capacity to make a selective application. For example, although some aspects of China's trade policy regime remain opaque, China has adopted measures to increase the alignment of its national standards with international norms and hence have increased the level of transparency of its trade-related policies, practices and measures. This was the case for the Regulation on Open Government Information. Just as well, some reformist Chinese decision-makers were perhaps also interested in exposing its policies to the WTO's influence in order to push for economic reforms.

Yet, as important as the WTO agencies' influences were, it did not take on a blank slate. Margaret Pearson (2001) found that even though the GATT/WTO influences came to affect China's trade policy in the mid-1980s and much of the 1990s, China's preference changes throughout the process were also the product of domestic influences. The vitality of domestic forces was particularly apparent in the original impetus for a policy of openness, and this remained in place even as the international influences grew. Two of the strongest domestic influences during China's GATT/WTO accession negotiations were the pluralisation of policy inputs and the related role of internal lobbying. Domestic actors beyond the core political structure placed brakes on numerous occasions during China's quest for WTO membership. As well, the agencies peripheral (i.e., ministries, local governments, and grassroots actors) to the formal decision-making structure became much more influential over time. Even if they did not ultimately prevent a WTO accession, this periphery certainly shaped the process. Thus, it is clear to see that domestic variables do matter in China's preference formation – a reality that is underestimated by the realist and liberal traditions. Additionally, by overemphasising on the role of MER agencies, they assume that the Chinese government (and perhaps even the MERs), as a unitary actor, can only fashion national

preferences in a one-off manoeuvre. As a result, they disregard the important micro-processes of the Chinese political system in preference formation and neglect to answer the crucial question of *how* different domestic actors interact with the MER agencies.

Even in their assumptions on external influence, the systemic and liberal traditions provide few prescriptions for the way(s) the MER agencies can actualise influence. Although the interdependency theory does comparatively better in this regard by placing some attention to the conduits of influence and the way in which it can shape perceptions of national interests and policy preferences, it nonetheless dismisses details on the dynamics between its proposed channels and the domestic dimensions of decision-making. These theoretical approaches further lack generalisability across time, settings, and policy sectors. Due to the limitations of the orthodox traditions, the thesis will adapt to the inclusiveness of the conventional theories as only analytical guidance for the dependent variable. They are not adopted as part of the analytical framework.

2.3 A Framework for Preference Formation

To capture *how* the MER agencies can influence China's national preference formation, a framework that prescribes mechanisms with the potential capacities to affect China's *symbolic macrostructure* is needed. The symbolic macrostructure refers to the political motivations, incentives, and ideological beliefs that are part of the interpretive lens through which Chinese decision-makers' perceptions are formed. A shift in the symbolic macrostructure is important in effectively influencing Chinese preferences, as well as in identifying the role(s) MER agencies play in contributing to such a change process. This thesis identifies three strands of theoretical assumptions that inform a framework for preference formation: rationalism, cognitivism, and contractualism. These three theoretical approaches were selected for their assumptions

about how various dimensions of the symbolic macrostructure can be affected through the respective mechanism of influence they assume.

2.3.1 Rationalism and the costs-and-benefits calculus

Rationalism is an interest-based framework that assumes nation-states act as unitary, rational actors. The approach begins with the identification of problems to solve and objectives to achieve. Decision-makers thereafter select utility-maximising policies based on a costs-and-benefits calculus of the options vis-à-vis their national objectives, and the consequences of each available alternative (Underdal, 1998: 7). This behaviour is congruent with the generally value-maximising mentality of the Chinese decision-makers when meeting economic objectives (Lieberthal and Oksenberg, 1988). For instance, the most beneficial long-run solution for the Chinese government is one where the predicaments of climate change or trade protection are avoided. Still, rationalists argue that as a rational actor, China will weigh the benefit against possible consequences of committing to greenhouse gas (GHG) emission mitigation, or in reforming the national monetary system for inflation control. In the process of executing the calculus, however, decision-makers (of any government) are often constrained by the access to complete information on the consequences of the available policy options.

MER agencies, on the other hand, are well-resourced with private, public, and professional information, which grants them a comparative advantage in determining the costs and benefits faced by China. It also enables them to envisage solutions to a given problem based on their interests. For instance, Chinese decision-makers involved in the climate change debate often associate China's abatement costs to the potential consequences of limiting economic development.¹³ However, the Conference of Parties (COP) presidencies rationalises that abatement measures do not necessarily have

¹³ Other factors include uncertainties about the availability of alternative energy sources, scientific doubts, and its own institutional, technological and financial capacity to take on mitigation measures.

negative costs attached. Given that GHG mitigation can improve areas such as air quality, energy efficiency and security, abatement measures actually benefit China's national development (Buen, 1998). The calculus made by the COP presidencies, in theory, reframes the symbolic macrostructure of the Chinese decision-makers by restructuring their incentives in tackling climate change. In reality, although the Chinese government has yet to accept international mitigation targets, its domestic efforts, over the recent years, in reducing GHG emissions, as well as their augmented flexibility at the multilateral negotiation table indicates that, with other variables held constant, it is plausible that the costs-and-benefits mechanism has some degree of impact on China's preference formation. Accordingly, the rationalists argue that the MER agencies influence Chinese policy preference formation by framing China's costs-and-benefits calculus on cooperation.

2.3.2 Cognitivism and information dissemination

Like the interdependence theory, cognitivists focus on the role of the MER agencies, and argue that decision-makers enter the preference formation processes with both imperfect information and tentative preferences, but both of which can be resolved with new information (Underdal, 1998: 21). A sizeable literature argues that preference changes usually require the manifesto of new ideas to be incorporated in the preference formation (True, Jones and Baumgartner, 1999; Campbell, 1998; Blyth, 1997). Nye (1987: 378) points out, "New information alters prior beliefs about the world...Knowledge is used to redefine the content of the national interest, and eventually goes further to take effect in the whole procedure." In turn, cognitivists believe the MER agencies can influence national preferences through a function of

information dissemination. This function enables the MER agencies to alter how decision-makers define their interests (Krasner, 1983: 363).¹⁴

In post-reform China, economic expertise ran thin across many policy areas. Hence, the external information disseminated from MER agencies was instrumental to China's development of issue-specific expertise among its decision-makers (Economy 2001). Harold K. Jacobson and Michel Oksenberg (1990: 151) and Pearson (2001), for instance, found strong evidence that the World Bank and the International Monetary Fund (IMF) contributed not only to the deepening of the expertise among Chinese decision-makers concerned with international trade, but also to reconfigure the balance-of-power among various individuals and groups of Chinese technocrat policymakers involved in the preference formation process.

As a matter of fact, cognitivists argue that the impact of information dissemination goes beyond just changing ideas, it also affect domestic policy structures. In order to manage external information (i.e., synthesise information, analyse its implications on China, monitor details, and outcome assessments), new policy structures are established. For example, the intellectual property rights tribunal was created within China's judicial system in order to treat the national patent, copyright, and trademark protection affairs vis-à-vis the WTO protocol. For every environmental treaty China has signed, national expert-led leading small groups (LSGs) are established to coordinate the information and preference formation (Oksenberg and Economy, 1997: 12-13). The LSGs typically involve various government agencies as participating policy actors in the preference formation process, either by being tapped to provide data, participate in policy discussions, and/or engage in offshoot activities. This development thereby stems a trend of pluralisation and decentralisation in the decision-making system.

¹⁴ The catch is that for ideas to have an impact, they must be widely shared by key policymakers (Krasner, 1983: 19).

Furthermore, through frequent interactions, domestic decision-makers are expected to become inculcated with the values held by the MER agencies and advocate for broader preference reforms of its national preferences (Economy, 2001: 237). For instance, officials from the former State Planning Commission (SPC) who were assigned to represent China at the United Nations Framework Convention on Climate Change (UNFCCC) have, over the years, become far more sympathetic to environmentally proactive measures than their colleagues with less engagements of this nature. On the whole, information dissemination has the potential to affect China's symbolic macrostructure by influencing the ideological beliefs of decision-makers, and therefore, constitute a probable mechanism with likely influences on China's national preference formation.

2.3.3 *Contractualism and reputation reinforcement*

The *contractual* framework is an interest-based theory that adopts the systemic assumptions of the state as "crucial actors" in world politics; and that states cooperate not to implement high ideals but as a means of advancing their utility functions by furthering self-interested economic and political interests (Axelrod and Keohane, 1986: 226; Keohane, 1984: 24; Harsanyi, 1969: 521). These calculations are informed, although not exclusively determined, by the stable and (temporarily) consistent preferences of actors (Powell, 1994: 318; Snidal, 1986: 43). In the present context, contractualists would argue that the MER agencies help China overcome barriers of cooperation by reducing the kind of uncertainty imposed by a Prisoners' Dilemma (Keohane, 1984: 97). As long as the MER agencies have monitoring arrangements, they will reduce China's fear of being cheated on due to the greater probability that the cheater will be caught and therefore reduces the expected utility of cheating (Hasenclever, Mayer and Rittberger, 1996: 186). Moreover, the more material benefits

(i.e., aid and technology) China receives, the more likely that it will deposit more attention to its international compliance and commitments. However, a monitoring function does not necessarily constrain Chinese preferences for economic negotiations. Surely, economic negotiations are generally for the establishment of new rules and protocols rather than to reinforce the existing ones.

With this said, contractualists argue that the monitoring of national reputation is one mechanism to which monitoring does have an impact. MER agencies often assess the nation-states' reputation by setting international standards of behaviour of which national performances are measured against. They also do so by linking these standards to specific issues, and by providing forums where such evaluations can be made (Keohane, 1984: 94). Thereby reputation monitoring creates "either an enabling or a disabling environment," (Foreign Policy Centre, 2002: 9), and enables the MER agencies to raise the costs associated with non-compliance. The significance of this mechanism lies in the fact that reputation in politics is an instrument of power, and can affect a country's international status quo (Wang, 2006: 91). Robert Jervis (1970: 6) goes further to suggest that a desired reputation can often be "of greater use than a significant increment of military or economic power." For China, its reputation capital can affect its capacity to build international alliances that are vital for achieving their national objectives, as well as for influencing international events. As such, when public opinion is activated, the climate of opinions can limit or broaden policy choices and actions available to China. That is why foreign perceptions and opinions of China are important to the Chinese decision-makers.

In fact, cultivating a favourable reputation has been a part of China's diplomatic mandate, especially following the 1989 Tiananmen incident. Hence, it is safe to assume that reputation-management is a part of China's economic diplomacy thought process. For this reason, it is also probable that an international standardised system for

measuring reputation can incentivise as well as constrain China's preference formation. In fact, contractualists believe even in situations where there is no change in economic calculations, China's preferences can still evolve along the spectrum of commitment because of concerns regarding non-monetised commodities like reputation (Johnston, 1998: 584; Rowlands, 1995: 247). Since the reputation mechanism can alter China's symbolic macrostructure by restructuring its motivations, it is a plausible mechanism for testing in this thesis.

2.3.4 Similarities and differences

The three approaches outlined above provide three different mechanisms for understanding how MER agencies can influence China's economic diplomacy preference formation. Based on the rationalist approach, one can expect that preference formation is influenced by the expected costs relating to an economic problem, on the one hand, and the costs of taking action, on the other. This implies that Chinese decision-makers face a two-fold challenge in economic diplomacy decision-making. While the Chinese decision-makers have to evaluate the costs of commitments versus the costs of non-commitment, it has to also consider the costs-and-benefits of participating in a multilateral cooperation. Yet the two-fold challenge offers the MER agencies the opportunity to reshape China's perceived costs and benefits by establishing their own calculus based on its access to the private and public information of the member-states. In this way, the costs-and-benefits calculus mechanism constitutes a key method of influence diffusion.

The cognitive theory, by comparison, highlights how national interests are tentative by nature and are variable as new information is encountered. Informal dialogues, research collaborations, and other social forums are all occasions where the MER agencies can use information to reshape the perceptions of the Chinese decision-

makers regarding the optimal policy preference. Contractualists move away from the socialisation process and maintain a microeconomic and game theoretic style of analysis. Advocates of this approach believe neither information nor calculus-based mechanisms have much impact on shaping preferences. Rather, it only alters the perceived costs-and-benefits of pursuing those preferences (Frank, 1988: 143). When attempting to maximise economic gains, the effects of non-monetised values such as reputation take particular prominence in the thought process of the Chinese decision-makers. The MER agencies therefore can best influence Chinese preference through a reputation reinforcement mechanism.

Although the three approaches embody different assumptions, they commonly assume that the Chinese government behaves in accordance with the principle of rationality as the starting point (Bang, 2004: 17). Hence, all three approaches expect Chinese decision-makers to act in a rational manner, and participate in multilateral economic negotiations for the advancement of their national interests. Yet, the approaches differ in their assumptions about the actualised degrees of rationality, and in how national preferences are formed and influenced. Rationalists believe preferences are based on rational calculations of the costs and benefits of different policy alternatives. Here, the MER agencies play a crucial role in providing better-informed costs-and-benefits analyses that would otherwise not be available to China. Cognitivists, on the other hand, have a more dynamic view of rationality and assume that preferences evolve through the exposure of new information. Hence, the MER agencies are more effective as information disseminators. Still, contractualists stress the importance of non-monetised incentives such as reputation and accordingly promote the reputation reinforcement mechanism as the best way to influence Chinese preferences.

The differences between the three approaches do not stop there. They also deviate in their explanatory powers on the preference formation outcome. The strict

rationality assumption and the parsimony of the rationalist approach grant it stronger explanatory powers to predict causal relationships – whether these predictions are right or wrong is a different question. Yet, the rationalist approach oversimplifies reality; it is risky to assume that China’s economic diplomacy preference formation can be inferred from only a costs-and-benefits calculus and identified as *a priori*. Other variables including domestic political processes are expected to also contribute to the formation of preferences. The rationalist approach further makes the precarious assumption that the Chinese leaders enjoy complete knowledge of all alternative solutions and have a capacity to calculate the costs and benefits of the consequences for each option. This reality is unwarranted in practice. As well, rationalists presuppose a unity of views within the Chinese state. But given the multiplicity and fragmentation of the Chinese political processes, such presupposition is difficult to maintain. Cognitivists further criticise rationalism’s focus on the inter-subjective meaning structures, which bind actors together and projects a looser fit between the structural constraints, interests, and choices. As Haas (1983: 57) points out, there is simply no “optimal” choice.

Although it is widely acknowledged that very few actual preference formation processes come close to this idea, the approach nevertheless remains widespread in the study of Chinese political economy. The main advantage of this approach lies in its ability to provide plausible hypotheses on the objectives and solutions that avail themselves to Chinese decision-makers in a situation where the nature of the China’s political system limits the researcher adequate access to the preference formation processes. It goes without saying that this approach seems particularly well adapted to approximate the decisions of a political system with a comparatively higher degree of autonomy from social pressures and in which its political leaders enjoy considerable power over their subordinates.

The strengths of rationalism are areas to which the cognitive theory lacks. Whilst the cognitive theory contributes valuable attention to the effects of socialisation variables, it offers comparatively vague assumptions, and yield hypotheses that are methodologically difficult to confirm. For instance, it is hard to empirically trace the process of internalising ideas and beliefs, and the actual influence of norms on actor behaviour is also challenging to measure. In particular, it is hard to determine if norms are used for mere public diplomacy rhetoric or that it actually constitutes a value of the national economic policy. As rationalists argue, engagement with discourse, unlike choice, is indeterminate of policy outcomes (Underdal, 1998: 23). As a result, it is difficult to realise whether a preference shift was the outcome of exposure to new information, or due to other exogenous constraints that arise from non-cooperation, or the result of other monetised or non-monetised incentives.

Moreover, the cognitive assumptions find it difficult to explain why (or when) certain discourse is successfully transplanted in Beijing while others result in failure. For example, why has the concept of low-carbon development spread but the prohibition of GHGs has not? This goes to show that cognitivism has a lack of thought for agency. This is in part because the cognitivists relies more upon structural forces than agency to explain preferences, even though ironically an obvious central tenet of this approach is the mutual interactions of structures and agents (Checkel, 1997; Wendt, 1987). Meanwhile, the causal mechanism for the spread of discourse can arguably suffer from passivity. Martha Finnemore (1996), for example, assumes that domestic institutions mimic accepted global practices without understanding the logic of those practices. At the end of the day, rationalists argue in a strategic problem context, decision-makers are more likely to be moved by perceived threats and/or opportunities arising from the environment and other consequential incentives rather than cognitive factors (Allison, 1971: 33).

Critiques of this nature reflect the rationalists' tendency to take for granted the fact that national preferences are nothing more than mirrors of the actors' interests (Halpern, 1989). As recent studies (i.e., Beland, 2005; Lieberman, 2002) that attribute greater roles to cognitive variables have shown, by manipulating strategic representations, political actors can create conditions propitious to the formation of coalitions that transcend cleavages due to conflicting material interests. It is through this process of strategic representation that actors come to shape their perceived interests with regard to a given issue. The social construction of problems and of the available solutions provide the raw materials that enables the concrete expression of political interests, what is desired, or are able to be desired. In turn, an analysis that places emphasis on the international discourse can reduce the researcher's "disposition effect" by refocusing the analysis on the actor-level intentions and preferences (Constantin, 2007). This is why the cognitive approach is a worthwhile one for this thesis to test.

Finally, the functional nature of the contractualist assumptions run the risk of all *post hoc* arguments, where institutions may be interpreted as having arisen because of the functions they must serve, when in fact, they appeared for adventitious reasons (Keohane, 1984: 81). As well, the reputation mechanism suffers from a similar methodological challenge as the cognitive approach. Being able to observe reputation-building behaviour means that such behaviour is probably undertaken with the likelihood that it will be observed. Certainly, there is no point engaging in it for reputational purposes unless it is observable to others. But if behaviour is designed to be observed, and both the observer and actor know this, then the observer should have doubts that it is indeed high-cost behaviour, or that MER agencies actually have an effect on those behaviours. This is even more so given the expectation that Beijing's reputation costs will vary across the "size and nature of the audience in which it places value" (Johnston, 1998: 559). What this implies is that the reputation mechanism may

only be effective if China perceives the costs of the alternative options on its reputation are high. With this said, the approach has an advantage in its generalisability capacity and applicability to the China context. Given how highly valued the government places reputation in its decision-making, it is worthwhile to test this approach in the present thesis.

Based on their similarities and differences, the three approaches make a fitting and complementary ensemble of theories to inform the framework for the *how* question of the MER agency influence on Chinese preference formation. All three schools of thought introduce mechanisms that affect China's *symbolic macrostructure*, and each framework helps inform and refine the *a priori* assumptions about the variables of influence.

2.3.5 *The situational factors*

It is important to recognise that regardless of how the MER agencies influence Chinese preferences, it is constrained in reality by the *institutional macrostructure* of the central government. The institutional macrostructure is the established systems through which policymakers must operate within, and include factors as the rules, norms, and protocols of political action, the mechanisms of the preference formation process, and the scope and degree of participation by the relevant policy actors (including the power factor). This assumption is spawned from the *structure-agency theory*. According to the theory, in the broadest terms, *agency* is the capacity of individuals to act independently and to make their own free choices, while *structure* is the recurrent pattern of arrangements which influence or limit the choices and opportunities available (Barker, 2005: 448, 664). Structures (i.e., Chinese decision-making system) and agents (i.e., Chinese decision-makers) possess different qualities. One characteristic of structure is anteriority (i.e., the pre-existing features of China's decision-making system). Second, structure

has endurance; and third, structure has the capacity to both propel and undermine (i.e., the existing allocation of decision-making powers that enable some policy actors and constrain others). Among the qualities of agency are self-consciousness, reflexivity and cognition (Joseph, 2008: 117). The features of structure and agency makes them mutually complementary, and the relationship is one of “pre-existent structures, possessing causal powers and properties...result[ing] in contingent yet explicable outcomes” (Carter and New, 2004: 5-6).

Accordingly, it is important to know at least three things when testing the influence of the MER agencies. First, what are the characteristic of the political and social structures in which the agencies of the Chinese government and the MERs are interacting at time t ? What are the pre-defined norms and the associated policy preferences of the Chinese decision-makers at the time of engagement with the MER agencies? Second, what are some of the characteristics of the Chinese decision-makers that engage with the MER agencies at time t ? How do these characteristics limit or enhance the influence of the MER agencies? Third, what is the context of which Chinese decision-makers interact with the MER agencies at time $t+1$? The net effect of the MER agencies’ influence is therefore a function of the characteristics of the context to which they interact with Chinese policy actors in an on-going and deeply integrated feedback relationship, and mediated by the multilateral systemic process.

These three areas coupled with considerations for the institutional macrostructure stems four *situational factors*: the policy *settings*, the policy *instruments*, the policy *goals*, and *national objectives* which specify the course of action intended to operationalise an abstract goal. To illustrate, the policy goal of an industrial trade program might be to enhance the diversification of industrial trade exports. The appropriate policy instrument for this purpose may include a subsidy set at a specific rate. The policy instrument selected would be determined by the political context at the

time. Finally, the national objective is the specific programmatic principles deployed to inject substance into the abstract policy goals. In the present context, such might be a plan to enhance national technological capacity from outsourcing by a certain percentage over a fixed period of time.

It is easy to imagine the relevance of the four situational factors. For instance, the systemic political context and bureaucratic interest pre-sets the setting to which the influence of the MER agencies will be either enhanced or inhibited. Factors could include Beijing's policy frameworks and systems, political dynamics and power relations among/across levels of the Chinese government, and contention among the recognised interests and the resulting levels of trust and impact on working relationships. Such is the criteria of *settings*. As well, policy settings highlights how different sources of power are allocated within China's economic policymaking community, and how they are mobilised by different groups in a struggle for decision-making control (Zhao, 1996: 25-26). Policy setting determines which kind of influence mechanisms can be effective in generating preference change. Such is the *instrument*. The level of impact of the *instruments* rest upon the objectives of the policy problem at hand (i.e., is it of interest to the decision-makers? Are the initiatives costly? Or beneficial? Does it have political relevance?). Such is the *policy goals*. Finally, the success of the MER agencies' impact is contingent on its compatibility with the national objectives (i.e., national interest), of which in China's case, is national development.

2.4 A Framework for Negotiation Approach

In this study, it is assumed that China's policy preference formation is only one of the two fundamental dimensions of China's economic diplomacy that can be affected by the MER agencies. The second dimension is China's negotiation approach. To study this dimension, a separate framework is established primarily with a focus on the decision-

making that takes place during the negotiation process and of which shapes China's negotiation approach. Although important, this dimension has seldom been examined by the current literature, which makes building an analytical framework challenging. With this said, based on the assumptions of rationalism, cognitivism, and contractualism, the MER agencies are likely to shape China's negotiation approaches in three capacities: as a mediator through shuttle diplomacy proximity talks, a facilitator of informal negotiation practices, and an instigator of side-payment bargaining. Rationalists, cognitivists, and contractualists commonly believe the three mechanisms are mediatory by nature, and this quality has the potential to influence decision-making.

Where they differ is in the kind of cognition that mediatory measures can alter as well as in the steps MER agencies need to take to successfully assert influence on China's negotiation approaches. Rationalists hold that actors shape their negotiation approaches and envision the desired outcome based on the available policy options and the expected outcomes produced by those available options. Whilst preferences for the desired outcome is assumed to be fixed, the decision-makers' prior expectations are not. Rather, their uncertainties about the accuracy of their expectations cause them to renew it as new information is accessed (Walsh, 2005: 5). Influence mechanisms of a mediatory nature, from this perspective, are most effective when MER agencies have superior private information about some characteristics of the foreign parties or the utility associated with each available negotiation approach that may be important to the Chinese decision-makers.

The cognitive theory focuses on how social interactions could alter the decision-makers' identities, and as such, it makes it an easy starting point for analysing mediatory mechanisms. They argue that the negotiation process itself is a process of learning, where new ideas are adopted and beliefs formed (Underdal, 1998: 21-22). Since economic negotiations typically depend on cognitive factors such as scientific

knowledge, ideas, and a process of social learning (Stein, 1993), the knowledge of policymakers will endure an evolutionary process that is open to the influence of international discourse. Gradually, it transpires into new ideas and beliefs, and eventually modify negotiation approaches. Drawing on the Habermasian theory of communicative action, cognitivists hold that influence stems out of honest communications between the agencies of the Chinese government and the MERs. Such interactions do not entail the use of material power resources to impose their views on the Chinese decision-makers, and as a result, can generate more convincing arguments. This view contrasts with rationalism, which forbids the possibility of mediation to change the preferences of the decision-makers for the desired negotiation outcome; how they are defined in the context of the preferred outcome; and the definitions of what is *right* (Finnemore 2003, 154; Risse 2000, 20).

Finally, contractualists believe mediatory mechanisms are nothing more and nothing less than an effort to change the costs-and-benefits calculus of the Chinese decision-makers. Advocates believe these efforts often attach both positive and negative incentive structures to secure a cooperative negotiation approach. Contractualists argue against cognitivism by suggesting that mediatory influences do not change the basic beliefs of decision-makers, especially about what kind of game is being played. With all said, all three approaches share the view that mediatory mechanisms does have influence, and to this extent, let us now turn our attention to each of the three mechanisms respectively.

2.4.1 Shuttle diplomacy proximity talks

The term *shuttle diplomacy* came about from an American anecdote of diplomacy. Following the Yom Kippur War of 1973, then-US Secretary of State, Henry Kissinger, attempted to broker peace in the Middle East by “shuttling” back-and-forth between

nations in the region and with numerous leaders to produce cease-fires and peace agreements. Although the term shuttle diplomacy is often broadly used to describe situations where negotiators from one party (be they from a nation-state or a MER) travel across borders to meet with their negotiating counterparts, the private meetings with national leaders are called *proximity talks* (Hoffman, 2011: 273). The WTO Managing-Director, Pascal Lamy, has held proximity talks with Chinese leaders during his shuttle diplomacy trips to Beijing over the course of his time in this capacity.¹⁵ Former WTO Managing-Director, Mike Moore, also went on tours to China to promote the DDA (Jawara and Kwa, 2004: 198). Numerous COP Presidents (i.e., the Mexican Presidency) have conducted shuttle diplomacy before its annual meetings (i.e., COP16) to encourage Beijing to adopt a cooperative negotiation approach. Members of the IMF have also travelled to Beijing to gather insights about China's perspective on economic issues such as its currency, how China wishes to contribute to the global economy, and how it thinks the future world economy should be managed.¹⁶

The micro-process of proximity talks is persuasion, which involves changing the perspectives and attitudes of the decision-makers regarding the causality and effects of non-material pressures (Johnston, 2008: 25-26; Walsh, 2005: 3). Proximity talks have two approaches to persuasion: the *central route* and the *periphery route*. The central route is where the MER agencies weigh evidences and puzzles through counter-attitudinal arguments, and draw conclusions that are usually different from what the Chinese government had begun with. This form of mediatory persuasion is a process involving high-intensity cognition, reflection and argumentation about the content of new information (Bar-Tal and Saxe, 1990: 122). In the climate change negotiations on mitigation, the UNFCCC Secretariat and the Inter-governmental Panel on Climate Change (IPCC) have communicated counter-attitudinal arguments to Beijing, such as

¹⁵ Interview with a senior advisor to the WTO, Beijing, 22 November 2012.

¹⁶ Interview with an expert from the Chinese Academy of Social Sciences, Beijing, 8 November 2012.

the suggestion that mitigation measures improve energy efficiency, and can therefore be considered as a “no-regret” policy option because of its consistency with China’s national development goals. Pascal Lamy has executed similar strategies of persuasion when he argued that accession into the WTO’s government procurement agreement (GPA) would enhance China’s public procurement rule-making and contribute to better governance over the private regulations of procurement activities.

The peripheral route constitutes the second persuasion approach. The peripheral route is where the MER agencies communicate on the basis of an institutionalised relationship. The conversations are therefore more personalised, private, and casual. The Chinese decision-makers will first look for clues regarding the nature of the relationship and make judgements accordingly about the legitimacy of the counter-attitudinal arguments they make. Like other countries, China often finds proximity talks with in-groups to be more effective than with out-groups. And talks with sources that are *liked* are accepted more than sources that are *disliked*. The determining factor of liking is based on familiarity and level of exposure to that source. In addition, given the complex and fragmented nature of China’s bureaucratic system, it is often necessary to not just be liked and familiarised by a few relevant agencies. Rather, it is necessary for a MER agency to be liked by all the relevant agencies in order to enjoy stronger influences. Otherwise, it will not be able to surpass the pre-existing beliefs held by those that do not trust the MER agency doing the talking. In all, the thesis finds this mechanism of influence to be a plausible one for testing the influence of the MER agencies on China’s negotiation approaches.

2.4.2 *Informal negotiation practices*

The INPs are customary practices and usages that can take the form of informal plenary meetings under the chairmanship of a subsidiary body of the MER. Alternatively it can

also be discussions in a private room between parties, in a corridor between two or more individuals of any party, or in the form of roundtables where member-states are divided up in smaller groups. Generally, negotiations in an open, formal plenary with all delegates tend to be cumbersome at best of times, but become unmanageable when too many issues complicate the negotiation agenda. INPs streamline the negotiation process by allowing texts to be discussed by smaller, more specialised groups of negotiators, who then present their work to the wider body of states in the plenary for final decision-making.¹⁷ It is not uncommon for the Director-General (and sometimes the Chair of the General Council or one of the other Councils or committees) to be party to these informal consultations in order to help steer the discussions. For example, the “services signalling conference” called by Pascal Lamy in the capacity of the Trade Negotiation Committee (TNC) Chairman, in July 2008, discussed service negotiations and exchanged potential offers and requests on a “without prejudice” basis (Footer, 2011: 230). During the 2011 COP17 meeting, the South African COP President called a roundtable (or the “huddle”), which included representative from China, the US, EU, and India, to discuss a final resolution on the mitigation issues as part of the broader “Durban Package.” From personal observations in the negotiation room, the South African COP President, Maite Nkoana-Mashabane, Chair of the roundtable, had placed much pressure on China, India, and the US to accept the middle-range proposal forwarded by the EU. Interviewed observers further indicated that the deputy Director-Generals of the WTO have a high tendency to exercise corridor discussions with Chinese delegates to promote their own visions of an agreement and steer INPs towards

¹⁷ Depending on the stage of negotiation and the specific topic, informal groups may be known as contact groups, drafting groups, working groups, informal consultations, or other terms. The common characteristic of these settings is that they are conducted in English only, and often exclude non-governmental organisations.

that end.¹⁸ The UNFCCC's Secretary-General, Christiana Figueres, is also regularly sighted having corridor conversations with Chinese decision-makers.

The most opportune time for MER agencies to exercise INPs is when Chinese negotiators encounter negotiation dilemmas with another Party. At this stage, the MER agencies use INPs for consensus-building (Blackhurst and Hartridge, 2004: 708). The objective of the informal (and sometimes private) face-to-face interactions is to convince Chinese decision-makers to take cooperative actions. The outcome could see effective influence on China's negotiation approach. Additionally, INPs are effective for establishing trust and reducing uncertainty.¹⁹ As well, it can raise awareness. In the climate change negotiations on the clean development mechanism (CDM), the COP Presidencies in the earlier years of negotiations purportedly reiterated discussions on the Kyoto Protocol Mechanisms – which were then unfamiliar concepts to the Chinese delegation – in small group discussions. The repetition of these concepts in informal consultation meetings caught the attention of Chinese decision-makers, and prompted Beijing to look into the issue more seriously.

According to past experiences where individuals were put together in small informal face-to-face situations, there tends to be a substantial increase in the levels of cooperation.²⁰ Among the experiments is an analysis by David Sally (1995) which showed that face-to-face communication, on average, increases the rate of cooperation by more than 45 per cent. The results also indicate that there are no alternative variables which enjoy an effect similar to that of the face-to-face exercises. For instance, in a series of public-good experiments by Jane Sell and Rick Wilson (1991; 1992), Elena Rocco and Massimo Warglien (1995), and Rob Moir (1995), they found much less cooperation in signalled promises to cooperate made through computer channels

¹⁸ Interview with a policy advisor to the Ministry of Commerce, Beijing, 4 September 2012.

¹⁹ Interview with a senior advisor to the Ministry of Commerce, Beijing, 22 November 2012.

²⁰ See E. Ostrom et al. (1994) for extensive citations to studies showing a positive effect of the capacity to communicate.

compared to the face-to-face method using the same research design. Accordingly, it is plausible that the INPs are an effective medium for the MER agencies to influence Chinese negotiation approaches.

2.4.3 *Side-payment bargaining*

Between the rationalist, cognitive, and contractualist approaches, the notion of *incentive* features prevalently. As such, it is argued especially by the rationalists that the most attractive incentives for China – a developing country – are usually material ones since they are concerned about their capacity to adapt to the impacts of the global economy (Rowlands, 1995; Sprinz and Vaahtoranta, 1994). The ability to adapt to international standards are often closely related to how much economic resources a country has, and if this capacity is low, then the country becomes more vulnerable to the impact of the economic problem. That is why resource assistance could be an effective policy incentive.

It is imaginable that preferences can be changed by the possibility of receiving economic and technical assistances in exchange for taking on commitments. MERs can argue that any policy change for taking commitment is actually promoting China's economic development. Such was the argument made by the WTO Negotiation Committee during China's long accession negotiations. They discussed the kind of assistance China could benefit from as a result of holding a WTO membership. But in return, China is also required to make a deeper set of reform commitments. As well, numerous COPs Presidencies have emphasised a similar point to the Chinese government in the discussions about carbon emission mitigation measures. In fact, a key reason China sought membership in MERs since the 1980s was for the economic and technical benefits. In this way, it is arguable that China's interest in cooperation can be triggered by the possibility of furthering its economic goals, which can be attained

through economic side-payments. That is why it is imaginable that by acting as instigators of side-payment, MER agencies could potentially pull significant weight in the outcome of China's negotiation approach.

2.4.4 The social instigators

Between the three mechanisms of influence, the underlying impact is rooted from the fact that MER agencies, as the intermediary of economic negotiations, possess diverse motives for choosing a certain form of behaviour or set of values and recommendations towards a policy they are attempting to affect. Paradoxically, the fact that the MER agencies possess goals and objectives of which they attempt to further through mediatory mechanisms has been a neglected aspect of research. It tends to assume that while the member-states possess goals and objectives that underlie the behaviour they undertake – the incompatibility of which forms the basis of disagreements and negotiation impasse – any MER is wholly or, at worst, largely motivated by a desire to bring about a settlement (Mitchell, 1988: 29-30). To this point, it is crucial to note that the goals and objectives of the MER agencies should not be taken for granted and are a proper subject for academic analysis. Furthermore, the underlying motives from which a MER initiatives arise and which are sustained²¹ are likely to have a marked influence on the way that the MER agents conducts the process, on the manner in which China reacts to the MERs' activities and on the eventual outcome particularly in terms of the form any final settlement might take.

The strengths of the three mechanisms lie in their ability to enhance the innate drivers of Chinese preference formation: expectation, trust, and personal reputation. According to the research interviews, a fundamental reason for China's poor

²¹ There is no implication here that MERs' aims and objectives can be viewed as constants. The objectives of all Parties, be it a MER or a nation-state, are dynamic. The fact that goals and preference orderings alter over time is one reason for cases in which unacceptable outcomes at one point in time become acceptable later.

cooperative behaviour is Beijing's low expectations that other negotiating parties will reciprocate if China did take on commitments. This finding is supported by past experiments on negotiation behaviours; the expectations of mutual commitment from one another at the negotiation table often determines negotiation outcome. This was evident at the 2011 DDA negotiations in Geneva, where numerous negotiators indicated that they do not even intend to work hard towards an agreement since they did not expect other delegations to be interested in any form of an agreement. As one senior member of the WTO Secretariat suggested, there's not a big political will to push through an agreement by most member-states; no expectations to be pragmatic.²² Likewise, Chinese negotiators for climate change have indicated their expectation for a lack of progress in the negotiations on a post-2020 framework at COP18 even before the negotiations began. But this finding is not surprising given that China has had a long history of holding low expectations for multilateral economic negotiations, and this explains its persistent negotiating style of holding-back – it simply does not believe or expect other negotiating parties to actually reciprocate any cooperative gestures. This was the case when China's COP15 pledge was received by a silent audience.

Poor expectations are often the result of asymmetrical information or a problem of "adverse selection" (Hoffman, 2011: 279). In multilateral economic negotiations, the adverse selection problem presents itself when the negotiating parties do not know that they have a range of possible agreements. Negotiation theory shows that parties often hide their bottom-line positions because of the fear that their candour will be exploited by other negotiating parties who are not willing to be transparent on an equal level especially with regards to their underlying interests. The classic example, as illustrated by Elinor Ostrom (1998) is when a person with an over-abundance of oranges (but who prefers apples) proposes a trade of some of the oranges with someone who has an over-

²²Interview with a senior member of the WTO Secretariat, London, 2 February 2012; Interview with a financial advisor from EXIM Bank, Beijing, 20 November 2012.

abundance of apples (but who prefers oranges). The latter agrees to a trade but feigns a lack of interest in oranges so as to secure more advantageous trading terms (such as two oranges for each apple). In this situation, MER agencies embody the capacity to affect decision-makers' expectations by altering the extent to which they expect their present actions to be affected by the behaviour of others on future issues through signalling, for instance. With this said, the reverse is also true; the pre-existing expectation of decision-makers can also condition the extent of influence MER agencies can inflict on China's negotiation approach.

Second to expectation, though no less important, is *trust*. It is often the case that a root cause of uncertainty is trust.²³ This problem was admitted by a senior member of the WTO Secretariat: "You don't feel trust among negotiators in the WTO...or in the climate change negotiations" not just toward other countries but also towards the multilateral institutions, in its agenda, and intentions.²⁴ And one Chinese policy advisor to the Ministry of Commerce (MOFCOM) observed, when there is distrust from individual negotiators, they can reject a proposal simply based on personal grudge.²⁵ In general, China's lack of trust towards the multilateral system is a major concern.²⁶ In the CDM negotiations, a key problem in the negotiation process was China's distrust in the underlying intention and motive behind the initiative, especially with regards to where the benefits will flow to. It was only after the Global Environmental Facility (GEF) and other UN agencies had demonstrated to the Chinese government, through pilot simulations, how the benefits come about that trust was rejuvenated. In the DDA negotiations on trade in services, Beijing has a lack of trust in the capacity of the WTO's regulatory framework to manage and govern deeper liberalisation of world services between nations, and with enough authority.

²³ Trust is the "expectation of one person about the actions of others that affects the first person's choice, when an action must be taken before the actions of others are known" (Dasgupta, 1997: 5).

²⁴ Interview with a senior member of the WTO Secretariat, London, 2 February 2012.

²⁵ Interview with a policy advisor to the Ministry of Commerce, Beijing, 25 October 2012.

²⁶ Interview with an expert from Peking University, Beijing, 23 November 2012.

In the GPA, the Chinese government has struggled to trust the WTO's protocol and governance on government procurement, arguing it is vague and ambiguous in many aspects of the proposed framework. Clearly, trust, or the lack thereof, is a significant hindrance to the multilateral process. For the Chinese government, as for any government, trust is seen as the *bedrock* of effective negotiations, and the presence of trust is indispensable to reaching an agreement. This is supported by the theoretical presupposition that in the context of a social dilemma, trust affects whether an individual is willing to initiate cooperation in the expectation that it will be reciprocated (Ostrom, 1998: 12). Hence, one central variable which has hindered China from taking a cooperative approach to the negotiations and an undermining factor of MER influence is distrust over whether its negotiating counterparts will actually comply with agreements, and whether MERs are capable themselves as process managers.

Finally, external influence and cooperation is not possible without the underlying element of personal reputation. Chinese decision-makers and negotiators have a strong culture of saving face. And after an international negotiation, Chinese decision-makers do not want their constituents to think that they "caved" in some manner to foreign demands. This is even the case in situations where the stakes are relatively modest; China does not want to be the one that "blinked" as this is a sign of weakness. At the multilateral, having a strong personal reputation is equally important. When Chinese negotiators gather with other delegates at the negotiation table, the social dynamic is similar to that of a high school classroom. There are clear social cliques or distinct groups of friends. No one wants to be the odd one out or be seen as obsolete. The weaker negotiators admire representatives of larger nations, and no one wants to be seen as difficult and non-cooperative. In this emotional and mentally vulnerable state of mind, Chinese negotiators and decision-makers, have a relatively high desire to acquire and/or maintain a respectable reputation amongst its peers at the negotiation table. This

is the most opportune time for MER agencies to exert influence on Chinese decision-makers and take advantage of the reputation card as soft leverage. As one Chinese delegate to COP17 acknowledged:

When a Chinese negotiator is in an informal, they are most prone to the logics of other parties and the Chair. The repeated encounter to new ideas makes it mentally accepting because of the social pressure and dynamic. As people, we all want to be respected and feel that we fit-in. At the same time, the environment often makes Chinese negotiator more sympathetic to the Secretariat's text.²⁷

The logic is thereby simple: if a Chinese negotiator is positively received as having a reputation that is trustworthy, then they are more likely to be accepting of the external discourse. However, if their reputation is negatively perceived, the MER influence is more likely to be undermined.

2.5 Primary and Secondary Hypotheses

The present study posits two hypotheses, in light of the preceding frameworks, to be tested in the remainder of this thesis. The core intended argument to be tested is: *MER agencies influence Chinese economic diplomacy preference formation through varying direct and indirect capacities and during different stages of decision-making. However, the level of actualised influence is contingent on a range of situational factors and social instigators.*

Informed by the *a priori* assumptions of the first framework, the *primary* hypothesis addresses the primary research question: *how* MER agencies influence Chinese economic diplomacy preference formation. This hypothesis is mainly concerned with the preference formation stage of decision-making. The hypothesis holds that:

²⁷ Personal Interview.

H1: The agencies of multilateral economic regimes can influence Chinese economic diplomacy preference formation through three primary mechanisms: costs-and-benefits calculus, information dissemination, and reputation reinforcement.

An underlying assumption for the primary hypothesis is that the level of actual influence the MER agencies have through the three mechanisms is contingent on four situational factors: national objective, policy goals, policy settings, and policy instruments.

The *secondary* hypothesis is informed by the assumptions of the second framework. It addresses the supplementary impact of MER agencies on the negotiation dimension of Chinese economic diplomacy. The hypothesis is therefore concerned with the decision-making during the negotiation processes. As such, it holds that:

H2: The agencies of multilateral economic regimes can shape China's negotiation approach and ultimate outcome through three capacities: as a mediator through shuttle diplomacy proximity talks, as a facilitator of informal negotiation practices, and as an instigator of side-payment bargaining.

An underlying for the secondary hypothesis is that the actual influence of the three roles, which are also their advantage as well as contingencies, rest on a core set of drivers for China's negotiation approach, referred to in this study as the social instigators. They are expectation, trust, and personal reputation. The three social instigators are cumulatively necessary criteria for maximising the MER agencies' impact.

2.6 Concluding Remarks

This chapter has introduced an inclusionary and integrative framework for the analysis of the influence of MER agencies on Chinese economic diplomacy. The framework was informed by the theoretical assumptions of three approaches: rationalism, cognitivism, and contractualism. According to these three approaches, two sub-frameworks were derived, one for analysing the influence of the MER agencies on Chinese preference formation, and the other for studying how MER agencies can shape China's negotiation approach. The reason for having two separate sub-frameworks is because economic diplomacy is, in essence, concerned with these two dimensions. Thus, the first framework argues that three mechanisms have the potential to affect preference formation: costs-and-benefits calculus, information dissemination, and reputation reinforcement. These mechanisms are assumed to primarily inflict influence at the domestic, preference-shaping and policy-drafting stages of decision-making. The reality of their actual influence is contingent on the situational factors. Based on this framework, the primary hypothesis was derived.

In order to fully encapsulate the different dimensions of economic diplomacy, a second framework was established to analyse the role(s) of MER agencies in shaping China's negotiation approach. Based on the rationalist, cognitive, and contractualist approaches, three roles were identified: a mediator through shuttle diplomacy proximity talks, a facilitator of informal negotiation practices, and an instigator of side-payment bargaining. The social instigators can propel or constrain the influence of MER agencies through the respective roles. According to the assumptions of the second framework, the secondary hypothesis was crafted. On the whole, this Chapter has established the case for a new look at how MER agencies matter in determining the nature of Chinese economic diplomacy.

A PAINTING OF THE DYNAMIC DECISION-MAKING PROCESS

3.1 Introduction

A study on Chinese economic diplomacy preference formation cannot begin without first understanding the intrinsic nature of the decision-making structure within the central government. In modern Chinese political history, the brutal and scarring century of humiliation – which featured the Opium War of 1840, the collapse of the imperial system in 1911, the subsequent decades of war against Japan, an intermittent conflict between the Nationalist Party (国民党) and the Communist Party of China (CPC, 中国共产党), followed by the establishment of the People’s Republic of China (PRC, 中华人民共和国) in 1949 led by the CPC (Collins and Cottey, 2012: 5-6; Clegg, 2009: 50) constitutes a revolutionary period of great significance. The entrenchment of the communist regime not only re-established an independent and functioning Chinese state, but also inaugurated a new political, economic, and social order with features that have defined Chinese politics for the last six decades.

From the macroscopic perspective, China’s state structure is a centralised one that involves a single, cohesive decision-making body unencumbered by the need to achieve agreement from other decision-making bodies.²⁸ Yet, Chinese politics and processes have also evolved since its establishment, especially after the death of Mao Zedong – the foundational leader of the communist revolution – in 1976. The collective authority that characterises the Chinese government today at the microscopic view of

²⁸On issues that touches the “hard politics” territory, China’s decision-making is still a top-down approach; if a Ministry disagrees with the suggestions made by senior leaders, the leaders will find ways to make them agree (i.e., through compensation). But the same-level ranking agencies will need coordination. Interview with an expert from China University of Foreign Affairs, Beijing, 25 October 2012.

interagency relations within the economic bureaucracy reveals that China's decision-making structure is, in reality, somewhat decentralised. There are multiple decision-points, and no single actor can act independently. State actions require the overcoming of potential domestic veto points, which are not limited to formalised institutional arrangements; and decision-making actors may even include enterprises whose active support is essential to policy success. Therefore, the centralisation characteristic of Chinese decision-making – particularly concerning economic issues – is not a fixed and absolute one.

Whilst not challenging the fundamental principle of the one-party communist rule, China has begun to experience a significant liberalisation of the state governance since the late-1970s. One important aspect of the liberalisation was a policy to re-engage with multilateral economic regimes (MERs). China's growing involvement with and dependence on the world economic system heads the list of reasons for its deepened involvement in various MERs. The MERs have, in turn, provided numerous material benefits in contribution to China's development; and active participation in these structures insure China an important role in the decisions that affect the world economy on which its development depends (Sutter, 2008: 112-113).

In the previous chapters, it was assumed that MERs ultimately affects Chinese preferences in economic diplomacy through the engagement processes. This chapter delve into this assumption and illustrates how China's decision-making structure and processes have evolved. As the MER-Beijing relationship deepens, how does it affect Chinese decision-making and the operational framework? Has there been any institutional adaption? Have the domestic "rules of the policy game" changed in order to mediate MER forces? The purpose of this chapter is to introduce the relevant policy actors in Chinese economic diplomacy decision-making; and explore some implications of the dynamic China-MER relationship on the decision-making structure in Beijing.

Doing so will critically develop an accurate depiction of the domestic scene and lays the foundation for subsequent analyses.

The next section provides a brief overview of China's political power structure and the actors relevant to economic decision-making will be drawn. Section three examines the evolution of China's economic decision-making processes over the course of three periods: the exclusionist, engagement, adaptation, and modernisation eras. The fourth section considers the implications of MER-Beijing engagements on China's decision-making, and section five provides some concluding remarks.

3.2 The Chinese Political Structure

At the Plenary Session of the First Chinese People's Political Consultative Conference, the Common Programme – which established the country's political system – was adopted. According to the Common Programme, the core governance structure of the Chinese political system is as follows: at the apex of the regime is the Political Bureau (or Politburo) of the CPC, which is crystallised in the form of a leadership core (领导核心) that can be either a single person (i.e., Mao Zedong) or a group (i.e., as during and after the Deng era). The Politburo oversees the governing regime of the PRC which consists of three major vertical systems (系统): the CPC, the government, and the military. The three major systems operate on five levels: centre (中央); province (省) (for the party and the government); prefecture (地); county (县); and township (乡). In order to effectively control the operations of the political system, this structure is further divided into six major functional sectors (系统 or 口)²⁹ – a management system known as *guikouguanli* (归口管理) (Lu, 2001: 39-40). Each sector is supervised by a member of the Politburo Standing Committee, and the direct sectoral supervision is

²⁹ The six sectors are military affairs; legal affairs; administrative affairs, which is responsible for industrial and agricultural production, finance and commerce, foreign affairs, and so on; propaganda; United Front; and mass organisation affairs.

conducted through an institutionalised body such as a committee or a non-standing organ such as a leading small group (LSG; 领导小组). The LSGs (consisting of the principals from various government agencies) coordinate between the state bureaucracy and the party leadership and has the important task of facilitating consensus-building and coordinate decision-making among key political stakeholders.

According to the Constitution of the PRC, the National People's Congress (NPC, 中国共产党全国代表大会) is formally the highest organ of state power (Article 57 of the 1982 PRC Constitution). Among its wide ranging functions and authority, the NPC has powers to examine and approve the plan for national economic and social development, and examine and approve the State budget (Bo, 2013: 18). Next to the NPC is the State Council (*de facto* cabinet), the executive organ of state administration. According to Article 89(1) of the Constitution, the State Council can “adopt administrative measures, enacts Administrative Rules and Regulations, and issue decisions and orders.” Led by the Premier, the State Council directs 27 ministries/commissions.

Compared with the NPC, the State Council plays a more important role in economic decision-making for two reasons. First, a majority of economic policies come out of the State Council in the form of State Council administrative rules or departmental regulations. Second, the 1984 NPC Standing Committee resolution requires the NPC working groups to collaborate with the State Council in the research and drafting of legislation for the implementation of economic policies. This implies that a majority (80 per cent) of policies adopted by the NPC are proposed by the State Council in the first place. To be sure, the NPC does play a policy role – its Standing Committee, which convenes in full every two months, is required to deliberate a draft policy in full session at least three times before a vote for release. But this only happens after a consensus has been reached within the State Council and a final draft has been

passed to the NPC's Standing Committee Legislative Affairs Commission. Therefore, policies are typically drafted within the State Council and officially approved by the NPC (*table 3.1*).

Table 3.1 *Policy Type and Associated Policy Actors*

Policy Type	Level Issued	Approval Authority
Law (法律)	Drafted by Ministry or Commission/Coordinated by State Council Legislative Affairs Office/Passed to NPC	National People's Congress
State Council Regulation (行政法规)	Drafted by Ministry or Commission/Coordinated by State Council Legislative Affairs Office	State Council Executive Committee

Working closely in parallel with the State Council is the Party Politburo, headed by the General-Secretary of the CPC. The Politburo is the principal administrative mechanism of the CPC and its Standing Committee is the most powerful body in practice (Collins and Cottey, 2012: 41). The Politburo in general consists of members resident in provinces and cities other than Beijing, and is a relatively large institution. Due to its size, the Politburo has often found it too cumbersome to make policy decisions that demand immediate attention. So in accordance with the Party Constitution adopted at the 12th Party Congress, *de facto* decision-making power rests with the Politburo's Standing Committee.³⁰ The Standing Committee has traditionally appointed nine of the most powerful CPC leaders to occupy, *ex officio*, China's principal real or formal power loci (Lu, 2001: 39-60), but membership was reduced to seven at the recent 18th Party Congress (Xinhua News, 15 November 2012).³¹ The

³⁰ The most important policy decisions, such as major shifts in policy orientation, are generally still subject to deliberation by the full Politburo, although most Politburo members are only marginally involved in the actual deliberation of policies. The members of the Standing Committee include the General Secretary of the CPC, the Chairman of the Central Military Commission, the Premier of the State Council, the State President, the Chairman of the Standing Committee of the National People's Congress, the Chairman of the Chinese People's Political Consultative Conference, the General Secretary, the Director of the Central Advisory Commission, and the First Secretary of the Central Disciplinary Commission.

³¹ The current members (in order) are: Xi Jinping, Li Keqiang, Zhang Dejiang, Yu Zhengsheng, Liu Yunshan, Wang Qishan, and Zhang Gaoli.

Standing Committee meets weekly to endorse a wide range of decisions, and one Committee member, in particular, takes charge of the foreign affairs sector (外事口). This person would also act as the head of the Central Committee's Foreign Affairs Work Leading Small Group (FAWLSG; 中国中央外事工作领导小组). Though the Politburo Standing Committee wields substantial decision-making power, it does not deny the relevance of the preeminent leader of the PRC. Both Jiang Zemin and Hu Jintao have exerted an imminent role in economic diplomacy decision-making on the basis of the "three-in-one" (三比一) principle. The formula seeks to better coordinate policy by permitting the government's "Number One" to be appointed commander-in-chief on the one hand, and as president, to be received abroad with the protocol reserved for heads of state,³² on the other (Cabestan, 2009: 69). However, owing to the opacity of the CPC-led political system, the preeminent leader's powers are much harder to delineate compared to the President of the United States (US), for instance.

3.2.1 Bureaucratic actors

Mapping the constellation of bureaucratic agencies in economic diplomacy decision-making is a challenging task for two reasons. First, the governance of economic diplomacy in the PRC is often blurred with general diplomacy and foreign economic policy, which makes it difficult to distinguish a specific selection of agencies solely responsible for economic diplomacy. Second, every economic issue is interrelated to a series of different issue-areas which implies the need to coordinate with a range of different domestic agencies although these may vary between different economic issues. This makes it challenging to identify just one set of actors. But for the purpose of this study, let us explore the prevalent (rather than absolute list of) actors relevant to the case studies – climate change and international trade – of this thesis.

³² The role of the leader was further pronounced in March 2004 in an amendment to Article 81 of the state constitution that declared, the "President conducts state affairs" (国家主席进行国事).

Before we do so, however, it is useful to briefly explain the structure inside a typical Chinese ministry/commission.³³ According to Article 90 of the Constitution, the ministries/commissions under the State Council can “issue orders, directives, and regulations within the jurisdiction of their respective departments.” These are generally referred to as “department regulations” (部门规章). Structurally, each ministry/commission consist of a division of labour among the Vice Ministers and Assistant Ministers, with each taking charge of a number of regional and functional departments (司) or bureaux (局) in an arrangement similar to the practice of sectoral control by the Politburo Standing Committee. Each department or bureau has one chief officer in charge of the overall work of the department and also the work of one or two divisions (处). He is assisted by two deputy chiefs, each of whom takes charge of a number of divisions. Further down the chain of command, a division chief is assisted by two deputy chiefs, with each in charge of a particular aspect of the division’s responsibility.

In a number of bureaucracies there is another layer of power structure defined by sections (科).³⁴ According to the internal regulations, department officials have the power to oversee the day-to-day operations that fall under their respective jurisdictions under established rules. The proposed action is often referred to the responsible ministerial leader for ratification. In case of matters that have no rules or precedents to follow, it is usually up to the ministerial leadership (and above) to make the final call (Lu, 2001: 55-57). Since the ministerial officials’ futures rest on the level of their professional effectiveness as administrators, government agencies are generally very protective of their ministerial interests and objectives. With this said ministers are still answerable to the Politburo and the State Council, and are required to regularly discuss

³³ Although Commissions generally hold slightly more authority in decision-making than ministries, this thesis will classify the two as both ministerial-level agencies.

³⁴ The exact number of vice ministers, assistant ministers, deputy directors of departments, and deputy division chiefs varies by bureaucracy.

with the Secretaries of the ministerial Party Committees before they carry out policy deliberation. Depending on the nature of the policy in question, the minister will usually direct the relevant departments and oversee implementation.

3.2.1.1 Climate change policy actors

Political debates on climate change began in the 1980s, and initially led by the China Meteorological Administration (CMA), although it was still subjected to the State Council (Ye, Ma and Zhang, 2007: 9). The CMA's expertise shortage soon promoted the National Environmental Protection Administration (NEPA, renamed the Ministry of Environmental Protection or MEP in 2008) to the *lead* agency status in climate change decision-making. The NEPA/MEP was primarily responsible for environmental decision-making and the implementation of regulations. Additionally, it took charge of the overall coordination, supervision and management of key environmental issues.

By the mid-1990s, the Department of Treaty and Law under the Ministry of Foreign Affairs (MFA; 中华人民共和国外交部) was designated the responsibility to supervise works related to the international climate change organisations and agreements; and to ensure that China's political and economic interests were served at multilateral negotiations. The MFA is an executive agency responsible for day-to-day economic diplomacy decision-making. As well, it plays a decisive role in the *tactical* aspect of the process. That is, when *strategic* policy decisions are made by the central leadership, it often consist of no more than a vague concept, basic policy orientation, broad policy guideline, or long-term policy goal – just the “bones” of policy. So it is generally up to the MFA to make *tactical* policy choices and work out detailed plans for the realisation of the leadership's policy goals, and add the “flesh and blood” to China's international economic policy. Acting as the primary spokespersons of China, the MFA's input in decision-making (knowledge, assessments, and professional

experience) should not be underestimated. However, the Ministry is only one of a diverse array of bureaucracies influencing economic diplomacy preference. Major foreign policy decisions are made at a higher level, in power loci such as the Central Finance and Economics Leading Small Group (CFELSG; 中国财经领导小组). And yet, as a provider of processed information to central decision-makers, the MFA can significantly shape policy outcome. And among the Chinese bureaucracies, the central leadership regards the MFA as a more reliable provider of information than other sources (Lu, 2001: 50-52).³⁵ For these reasons, the MFA's inputs often play a significant role in shaping the central leadership's perceptions; and the MFA's policy recommendations usually prevail over other bureaucratic agencies in the battle for the leadership's attention.

When the senior leaders began to recognise the effects of climate change on China's energy security, economic development, and quality of life, various institutional arrangements were made to address climate change. One such arrangement was the establishment of the National Coordination Committee on Climate Change (NCCCC) in 1998. The NCCCC comprises of 15 government agencies, chaired by the former State Development Planning Commission (SDPC, reformed into the National Development and Reform Commission or NDRC in 2003) and represented the highest climate change decision-making body in Beijing.³⁶ It facilitates the formulation of China's preferences and multilateral climate change negotiation positions.

By 2003, the NDRC (国家发展和改革委员会)³⁷ took over all climate change policy coordination responsibilities, including undertakings on the coordination of energy-

³⁵ Much of the information provided by the MFA is processed as opposed to the raw material generated by the Xinhua News Agency. And the MFA's diplomatic missions abroad frequently send cables directly to the central leaders. The MFA's internal publications also provide a constant flow of up-to-date, concise, readable information.

³⁶ The NCCCC was the successor of the Climate Change Coordination Leading Small Group (CCCLSG) established in 1990.

³⁷ The NDRC is a macroeconomic management agency under the State Council, charged to study and formulate policies for economic and social development, maintain the balance of economic development, and to guide restructuring of China's economic system.

saving and emissions reduction policies. Moreover, the NDRC was charged to lead the Chinese delegation to the Conference of Parties (COPs) negotiations and ensures that China fulfils its obligations under the UNFCCC. The move indicates a shift in the relative value that the CPC attaches to the climate change issue as well as a transformed governmental conceptualisation of the issue from a purely scientific issue to a predominantly developmental one (Bang, Heggelund and Vevatne, 2005). The move also reflected the clear need to coordinate climate change policy with energy decisions.

In 2007, the State Council created a working group on responses to climate change and the reduction of gas emissions, the National Working Group for Addressing Climate Change and Energy Savings (国家应对气候变化和捷能剑派工作小组), and it is headed by the Premier (formerly this was Wen Jiabao; today it is Li Keqiang). The Office of this working group was launched within the NDRC (NDRC, 2007). The MFA had also established its own LSG in charge of international works on climate change, headed by its Minister, Yang Jiechi (Le, 2007). However, its scope of action is narrower and its coordination power relatively weak. To be sure, the LSG is not, by definition, a decision-making organ. However, its preferences are likely to influence the final outcome. The ratification of these decisions by the central leadership is sometimes simply a formality while at other times decisions are made by the central leadership in accordance to the suggestions of the LSG with minor modifications. Since decisions at this level often involve cross-ministerial jurisdiction or interest, the LSGs therefore play a pivotal role in the decision-making processes.

The Ministry of Finance (MOF) plays a crucial role as an operational focal point for the Global Environmental Facility (GEF) projects in China. The MOF's Department of International Cooperation acts as a window agency through which much of the international funding for climate change projects from development banks, such as the World Bank and the Asian Development Bank, are transferred. Other periphery actors

include the Ministry of Agriculture (MOA), the Ministry of Science and Technology (MOST), the Ministry of Water Resources, the Ministry of Land and Natural Resources, and the State Forestry Administration.

Beyond government agencies, the epistemic communities play a crucial advocacy role in climate change decision-making. Such institutions include the Chinese Academy of Sciences, the National Climate Center, and Chinese Academy of Social Sciences (CASS), among others. Academic institutions make similar contributions to climate change research in China. Among the institutions include Tsinghua University, Peking University, and Nanjing University. Meanwhile, many professional associations within China have concerned their work relating to climate change issues. Among the associations is the China Association for Science and Technology, the Chinese Society of Forestry, and the Ecological Society of China. The epistemic communities actively organise occasions where they can promote the exchange of ideas and findings on climate change issues. Additionally, multilateral organisations have, in recent years, further established local committees in China, and have made positive contributions to China's climate change efforts (Ye, Ma and Zhang, 2007: 9). Among these include the International Geo-Biosphere Program (IGBP), the World Climate Research Program (WCRP), and the Earth System Science Partnership (ESSP).

3.2.1.2 International trade policy actors

The organisational structure that governs China's international trade decision-making is a complex matrix which requires extensive bargaining and coordination. Once the Politburo's Standing Committee has established the basic strategic decisions,³⁸ the bulk of the policy decisions rest within the State Council structure that consist of a nucleus core – where most of the official decision-making authorities are concentrated – and a set of orbiting agencies (Pearson, 2001: 346). At the apex of the nucleus are the

³⁸ Interview with an expert from the Chinese Academy of Social Sciences, Beijing, 8 November 2012.

President and the Premier. Deng Xiaoping sanctioned the decision to seek membership in the General Agreement on Trade and Tariffs (GATT) in the mid-1980s. Jiang Zemin and Hu Jintao have since kept that commitment. Often the President defers to the opinion of the Premier as to what constitute an acceptable package, and the Premier would in turn receive inputs from interested parties, such as reports from the Ministry of Commerce (MOFCOM; 商务部), the World Trade Organization Leading Small Group (WTOLSG), the FAWLSG, and the CFELSG.³⁹ Chaired by the Premier, the CFELSG coordinates activities within MOFCOM and the MFA; when necessary, resolve frictions between these two ministries (Ding, 2008); and supervises the activities of the China Investment Corporation (CIC) – an agency that oversees China’s US\$200 billion sovereign wealth fund (Weisman, 2008). The LSGs sanction most of the formal negotiation positions to the WTO.

Since China commenced serious negotiations to join the WTO, the MOFCOM (successor of the Ministry of Foreign Trade and Economic Cooperation [MOFTEC, 对外贸易经济合作部]) has become an integral part of the multilateral trade negotiations decision-making process. It is an executive agency under the State Council, primarily responsible for formulating Chinese policies on foreign trade, export and import regulations, foreign direct investments, consumer protection, market competition and negotiating bilateral and multilateral trade agreements. The MOFCOM claims the largest number of WTO-related economic and legal experts among its ranks; and it supervises economic missions abroad including foreign aid programs. In addition, it plays an important role in identifying potential sources of access to energy products and other raw materials, as well as new market and investment opportunities for Chinese companies (in particular, but not exclusively, state companies). Since decisions on China’s foreign trade and economic relations are considered less sensitive politically

³⁹Interview with a policy advisor to the WTO Division of the MOFCOM, Shanghai, 25 April 2012.

than other foreign policy issues, the MOFCOM often has a higher degree of policy authority than the MFA, though many issues within its purview are run through the CFELSG (Lu, 2001: 52). Despite the MOFCOM's large role in the WTO affairs, its authority is limited due to the distinctively divided responsibilities among different ministries. For example, the People's Bank of China (PBOC) has the primary responsibility to negotiate on finance (i.e., currency convertibility, banking, and securities); the Ministry of Information Industries (MOID) take the lead in telecommunications negotiations; the MOF on accounting and insurance services; the MOA on market access for agricultural products; and the Ministry of Internal Trade on distribution. Moreover, the MOFCOM does not actually have an official capacity to authorise package deals negotiated at the multilateral level; instead, they must report back to the LSGs and the State Council for the final approval. For these reasons, the MOFCOM's direct authority on negotiations becomes watered-down.

The MOFCOM's WTO Division is responsible for the day-to-day WTO affairs. Although the WTO division is formally under the International Trade and Economic Affairs Department of the MOFCOM, it reports directly to the Vice Minister due to the importance of its work. It works under the guidance of senior officials, determines the implications of their assigned tasks, accumulate and assimilate policy reports and analyses crafted by research institutes, participate in negotiations, and report back to their authorities on the negotiation outcomes. Additionally, the WTO division coordinates China's negotiation positions with relevant and interested bureaus and industries (i.e., respond to external interests on any aspect of the negotiations and integrate it into the overall position). Any interagency disputes that cannot be resolved between the divisions are then referred to the minister of MOFCOM for coordination, usually through a process of bargaining.

Two additional economic agencies under the State Council that matter in economic decision-making include the MOF and the PBOC. The MOF is charged with managing the state budget, financial and tax policies, and hard currency reserves, among other duties. It also plays a primarily macro-level role in the reform of the financial management systems of state enterprises and other public institutions, by monitoring the local budgetary and construction fund spending, for instance. Meanwhile, the PBOC is China's central bank and a core agency for the making of monetary policies. Among its duties are monetary policy research, monetary policy formulation and implementation, and target-setting (Liew, 2004: 28). As well, it maintains payment and settlement systems; supervises financial institutions; and oversees the State Administration of Foreign Exchange (SAFE).

An agency that works closely with the MOF and the SAFE is the State Administration of Taxation (SAT). Among its responsibilities include formulating and administering China's tax regime, which includes tax incentives for investors. Meanwhile, the China securities Regulatory Commission (CSRC) and the China Banking Regulatory Commission (CBRC) work hand-in-hand with the PBOC. The former regulates bonds, stocks, and mutual fund markets; while the latter oversees the banking system of China. Both the MOF and the PBOC participate in the policy processes for international trade and financial negotiations, not just as a domestic interest player but also represents their interest abroad as representatives of the Chinese delegation.

Beyond the core structure are peripheral actors that can, at times, impose influence on policy outcome. These actors include the economic commissions and cross-functional bureaus of the central government. They are responsible for ensuring China's overall economic interests are integrated in both the negotiations and in the coordination meetings. Other actors include the local governments and industries, which

grew more active in the negotiations in recent years. Overall, China's international trade decision-making power remains concentrated with the elite few, but the decision-making process is also a revolving and dynamic; and the constellation of organisations involved vary, depending on the issue of concern.

3.3 The Evolution of China's Economic Diplomacy Decision-making

Since the establishment of the PRC, Beijing has had an evolving relationship with the MERs. The first stage is the *exclusionist* era (1949-1971), of which China was largely isolated from the MERs, in part because of its own decisions and in part because of the decisions of others. The second stage is the *transition* era (1972-2002), which was a period of rapid entry into the MERs albeit often in a relatively modest role. Since 2003, China has transitioned to the *proactive* era, which constitutes the third stage. Not only has it become a more active international political and economic actor, it has also begun to question some of the structures and norms of the MERs that it has joined.

Numerous studies have often been fascinated with questions of whether Beijing's active and sceptical orientation poses a fundamental challenge to the international economic order (i.e., Harding, 2011; Clegg, 2009; Sutter, 2008); and whether China can be accommodated through relatively modest and evolutionary changes in the structure and norms of the international economic system (i.e., Guo 2013; Chan, Lee and Chan, 2012; Schlichting, 2008). Yet, few scholars have looked at the nexus of China's political reforms and its evolving relationship with MERs. In contrast to the prevalent literature that assumes a static decision-making process in China (i.e., Lai, 2010; Lu, 2001; Lieberthal and Oksenberg, 1988) this section illustrates a dynamic decision-making process shaped by its deepening integration to the MERs. This effect is noted in the concept of "institutional adaptation" which refers to the "long-term substitution of existing practices and structures with new ones" not just in

response to the demanding forces of MERs, but also as a proactive attempt to mediate those forces and maximise the ability of the state to manoeuvre effectively in the remaining or residual policy space (Zhao, 1996: 25). As a means of illustrating the dynamism of decision-making, the aforementioned three eras are explored in the sections below.

3.3.1 The exclusion period: 1949-1971

Immediately after the establishment of the new Chinese government, Beijing attempted at re-establishing its international recognition and legitimation in the international community by making efforts to regain its seat in the UN. At the time, China's attitude towards multilateral regimes was generally positive. But this quest proved elusive, largely because of the US refused to recognise the PRC, causing China to become increasingly critical of the multilateral order.⁴⁰ In turn, the PRC adopted a unilateralist diplomatic strategy and an isolationist attitude towards all western-led multilateral regimes, viewing them as imperialist mechanisms designed to undermine national sovereignty and hamper the development of international socialism (Lanteigne, 2005: 145). At the same time, China refused to join the MERs established by the Soviet Union. Beijing did, of course, enter a bilateral military alliance with the Soviet Union in 1950, and accepted Soviet aid and advice on central planning in the mid-1950s. But Beijing refused to join the Council for Mutual Economic Assistance (CMEA) (Harding, 2011: 26). Instead, the Chinese leaders preferred to conduct its ties with the Third World on a bilateral basis, only to attenuate most of these relationships during the Cultural Revolution (1966-1976). During this period, China's foreign policy primarily focused on national security issues. Foreign trade and economic aid were but

⁴⁰ The US recognised the Republic of China (ROC) led by the Nationalist Party in Taiwan as the official government of China, and hence supported the ROC's bid for a seat in the UN instead of the PRC. For Mao Zedong, the PRC could not join the UN or other institutions with a ROC presence, as doing so would imply the recognition of two Chinas.

instruments for the realisation of China's international political and security objectives. Hence, the concept of economic diplomacy was largely absent from its political agenda.

As a result, decision-making was considered as a sensitive area of decision-making, and always officially claimed "there is no trivial matter in foreign affairs" (外事无小事). Hitherto, Beijing's general diplomacy decision-making process under Mao was a classic socialist model. The state operated in a hierarchical system characterised by a one-person domination (Mao Zedong) over a single vertical command system (Zhang, 1996: 80-81). Major decision-making was determined by Mao Zedong, with a limited degree of top leadership involved in some key decision-making. Premier Zhou Enlai and a few top leaders were mainly implementers of his ideological visions in foreign policy strategies and policies (Barnett, 1985: 7). The rest of the political institutions and government agencies participated in a demand system of decision-making.

3.3.2 The transition period: 1972-2002

In the 1970s, two developments triggered a renewed interest in Beijing to gravitate toward multilateralism. The first was the 1971 decision by the UN General Assembly to pass Resolution 1758 that legitimately restored the PRC's rights in the institution. In particular, the US realised that China's communist regime was not a passing phenomenon and the prospect of the Nationalist government of Taiwan to recover the mainland were becoming increasingly remote. And given its large population, its economic resources, and strategic location, China would most likely become a major power in Asia. For these reasons, the US concluded that continuing to isolate China from the international system would be a mistake (Harding, 2011: 27). Consequently, Washington supported the restoration of the PRC's seat within the UN. This development significantly influenced Beijing to enter other MERs thereafter, although it

also kept its involvement at a relatively modest level, by initially joining only a small number of UN agencies (Gill, 2010).⁴¹ A reason for such prudence was in keeping with the Maoist suspicion that the MERs were dominated by foreign powers pursuing selfish interests at odds with China's. The other reason was the lack of experience and expertise within the MFA and the overall Chinese government apparatus after the chaos of the Cultural Revolution (Sutter, 2008: 114). With these said, Beijing also believed that joining the international economic order could provide China with concrete economic benefits to which the country desperately needed.⁴² The members of the international financial and trading systems appeared eager to make direct investments in China and to buy Chinese exports if they were inexpensive and well made. Chinese leaders recognised that encouraging incoming foreign investment – tentatively at first, and then increasingly enthusiastically – could provide not only the capital and technology, but also the designs, brands, and marketing channels, all of which could greatly enhance China's export potential (Harding, 2011: 28).

In addition, China found that it would benefit from support from the international financial institutions it had once scorned, including the International Monetary Fund (IMF) and, even more so, the World Bank. This support was not primarily financial, even though China had later accepted loans from the World Bank.⁴³ Instead, what was most useful to China were the technical advice in the design of its policies for economic reform and modernisation plans, which Beijing has studied carefully and usually implemented effectively. Having put aside the Maoist practices, Chinese officials gained more experience in the MERs and the better perceived benefits

⁴¹ The multilateral groups China did join involved little actual cost to its sovereignty and ability to avoid constraints or costly commitments, while the symbolic benefits of membership (prestige, recognition, standing out as a leader for developing world interests, and having a voice in world affairs) were enhanced.

⁴² Following the Cultural Revolution, China's economy was in complete shambles. Industrial production decreased by 14 per cent and agricultural production essentially ceased (Second China 2009).

⁴³ Combined with loans and assistance from the Asian Development Bank, which China joined in the mid-1980s, China became the largest international recipient of foreign assistance in the 1980s and much of the 1990s.

of integration implied that Beijing's previous approach of limited involvement eventually gave way to much greater participation in MERs during the 1980s and 1990s.

This brings us to the second development. By the late-1970s, the growing international economic interdependence coupled with China's desperate need for hard capital – in order to pull itself out of the economic despair – stipulated the Chinese leadership – lead by Deng Xiaoping – to place economic issues in the foreign policy business. Deng subsided Mao's zero-sum thinking and adopted a gradualist approach to joining the Western economic system – a method he refers to as “crossing a river by feeling the stones” (Lanteigne, 2005: 60-61).⁴⁴ In 1978 during the third plenary session of the 11th Central Committee of the CPC, the government decided to shift its foreign policy focus from national security to economic modernisation. Rhetoric such as “keeping in line with the international track” (与国际接轨), “behaving according to international norms” (按照国际管理办事), and “engaging in the international society” (参与国际社会) became part of the popular discourse within the political apparatus. Deng Xiaoping famously said, “The colour of the cat does not matter, as long as the mice are caught.”

As opening-up gathered further momentum in the 1980s and 1990s, and as Beijing sought to shift its national strategy from system-transformation to system-reformation, it became evident that “politics in command” gave way to the idea that politics should serve the economy. In 1980, Beijing restored membership in the Bretton Woods institutions (Kim, 1999: 46-47). Soon it became the World Bank's largest country borrower, and worked closely with the IMF in technical learning and advice on its economic development. Since then, China's MER memberships nearly doubled between 1984 and 1996 (from 29 to 51) (Sutter, 2008: 114, 117). By this time, the

⁴⁴ For instance, in 1979, Beijing reversed its opposition to receiving overseas development assistance (ODA), before it engaged with the IMF and World Bank in the early-1980s. The result was a steady influx of capital.

Chinese government appeared to truly have accepted multilateralism as a platform for promoting its strengths as an attractive economic opportunity (Pearson, 2006).

Towards the late-1990s, Beijing recognised its economic and diplomatic success placed it in a more prominent position to operate more actively within world affairs. Equally important was Beijing's growing concern with the perceived American unilateralism and "hegemony." Promoting international multilateralism was therefore perceived as a useful fall-back position for guarding against the US unilateralism. As well, it helped China build international coalitions in favour of a more "democratic" world economic order that would not be dominated by US leadership (Carlson, 2006).

However, having been largely isolated from the MERs for years, China was ill-equipped to handle interactions with them (Jacobson and Oksenberg, 1990). To address domestic inadequacies, Beijing strengthened ministerial staff training, and set-up a UN Small Group in the Bank of China.⁴⁵ This group helped analyse the costs-and-benefits of membership in the UN financial agencies. To ensure effective participation in the MERs, Beijing implemented major administrative reforms from the individual to collective decision-making. Deng realised that this form of decentralisation was a necessity as the country's integration with MERs increased the complexity of its foreign relations, which meant that retaining the same high level of concentration in decision-making power as Mao did became impossible.⁴⁶ These sentiments were expressed in a speech by Deng entitled "On the Reform of the System of Party and State Leadership," addressed to the enlarged meeting of the Political Bureau of the Central Committee of the Party on 18 August 1980 (Zhou, 2012: 27).⁴⁷ As a result, the preponderant role of

⁴⁵ Interview with an expert from Peking University, Beijing, 21 September 2011.

⁴⁶ Zhang (1996: 81) also points out that a domestic stimulant to the administrative reforms was in consideration of the lessons from the Cultural Revolution and the constant domestic instabilities (which led to the 1989 Tiananmen incident) created an unprecedented challenge to the CCP regime's legitimacy and decentralisation was seen as a necessity.

⁴⁷ On 31 July 1986, then Vice Premier, Wan Li, pointed out in his speech entitled "Democratic and Scientific Decision-making Is an Important Topic of Political Reform," that the basic objective of reform of the decision-making system was to realise democratic and scientific decision-making. Recalled by an interviewee during a personal interview.

the paramount leader was undermined in order to advance the power of the nuclear circle in economic diplomacy decision-making (Lampton, 2001). There is no longer a chairman of the CPC Central Committee, just a Secretary-General, who is responsible for convening the meetings of the Politburo and its Standing Committee and presiding over the work of the Secretariat (Zhou, 2012: 30).⁴⁸

Subsiding Mao's one-person domination, Deng retreated from active involvement in policy decisions on key economic issues such as the normalisation of economic relations with the US, and allowed Zhao Ziyang (third Premier) and Hu Yaobang (Party General Secretary), for instance, to make key economic decisions. This change gave birth to new power centres at par with the paramount leader (Zhao, 1996: 83-84). These power centres are not institutionalised, but based on personal prestige and connections; and the power centres often had conflicting policy opinions. For instance, Chen Yun (senior revolutionary leader) famously clashed with Deng over China's economic development policy directions. While Deng favoured rapid growth at the expense of stability, Chen perceived stability as the paramount goal (稳定压倒一切) over growth (Dittmer and Wu, 1994: 493).

By the turn of the third generation of leadership, economic affairs became so prominent that Deng and his colleagues felt it was necessary to promote technocratic bureaucrats such as Jiang Zemin, Li Peng, and Zhu Rongji, all of which manifested to the centre of political power in the 1990s. Because these technocrats individually lacked absolute authority, collective decision-making replaced earlier vertical authoritarianism. As Jiang explained in his political report to the 16th Party Congress in 2002, attention has been paid to the horizontal division of decision-making power whereby [it] has been rationally divided, legalised and institutionalised according to the different functions of the ruling party and state organs (Zhou, 2012: 29).

⁴⁸ It is prescribed that the Secretariat does not have a decision-making function, but is just an administrative office of the Politburo and its Standing Committee.

In order to manage the dismantling of the planned economy, and the complex issues negotiated under the MERs, the leaders felt the need to reform its administrative structure and operations in order to serve their fast-developing economy as well as the needs of its MER memberships. The restructuring in 1982 aimed to reduce the unusually large numbers of ministries/commissions under the State Council, which had soared to 100 in 1981. These were reduced to 61.⁴⁹ In addition, State Councillors and State Council Executive Meetings were created to aid the work of the Premier (head of the State Council). Elder officials were replaced with younger cadres that had the right political and professional credentials (Lee, 1991; Whyte, 1989). The 1993 restructuring reduced the number of employees of agencies under the State Council by 20 per cent and that of the local government (administration) by 25 per cent (Lai, 2013: 49).

To improve its professionalism in decision-making so as to measure up to the level of professionalism in the MERs, Beijing established a supra-ministerial coordination body to replace existing agencies, especially the SDPC. As a leading agency in the planning of China's economic and industrial developments during the planned economy era, the SDPC was effective in aggregating interests and coordinate decision-making because the lacklustre formal market regulation provided it adequate autonomy to plan and project authority, and it had specialised sections that would directly interact with its counterpart (对口) sector.⁵⁰ After MER membership, the need to treat the market in a liberal manner implied that indirect economic levers of economic policies have replaced the old administrative tools of central planning as the standard instrument of short-term macroeconomic management (Liew, 2004: 35). As a result, the continuing use of the SDPC would be problematic for two reasons. First, the SDPC had a predisposition for central planning and therefore had vested interests in the

⁴⁹ The number of agencies under the State Council went back up to 72 in 1988, although restructuring in that year reduced it down to 68, and those related to economic reform being the focus of merger and reduction.

⁵⁰ For example, the SDPC's finance bureau controlled the banks; and its bureau for rural and agricultural policies discussed and approved every stage of the rural reform (Hamrin and Zhao, 1995: xxxviii).

perpetuation of the status quo. This essentially implies the SDPC's inability to act with impartiality.⁵¹ Second, a move to market regulation *via* legislation (as required by the MER protocols) meant that a body with legal expertise was better suited to act in a coordination capacity (Becker, 2006: 148-149). Other organs such as the Central and State Council LSGs were also found inappropriate to play a coordination role due to partisan interests, inadequate professional staff, and their overloaded responsibilities.

One solution was to convert the CFELSG into the supreme decision-making organ following a process of decentralisation in 1993 (Liew, 2004: 25). The leaders expanded the role of the various departments (办公室) under the CFELSG to perform tasks including coordinating various subgroups, supervise the CFELSG's research office (研究室), and commission external research projects. In addition, it assists the CFELSG and the Standing Committee of the Politburo in their policy deliberation and supervision by producing reports and position papers. Given the nature of its work, the Director of the departments is therefore highly influential in decision-making. Arguably at times their influence can surpass the Politburo members of the non-standing committee as they work directly under the top leadership. For example, when the departments decided to devalue the RMB in 1994, it was taken straight to the Politburo's Standing Committee before informing their decisions to the other members of the State Council. The remaining members of the Politburo were unaware of this decision until it was announced by the State Council (Liew, 2004: 28).

The multiplying numbers of policy concerns within the MERs also prompted China to urgently expand the roles and capacities of its ministries/commissions. In 1998, when China was preparing to push for WTO entry, the government was restructured to better regulate the emerging market economy. Several new ministries

⁵¹ The problem was so severe that calls within the State Council were made to resurrect the old State Council Office for Restructuring the Economic System (SCORES) (国务院经济体制改革办公室) so that more independent body can conduct reform planning.

were created to manage increasingly important aspects or sectors of the economy. These include the Ministry of Human Resources and Social Security, the Ministry of Land and Resources, the Ministry of Industry and Information Technology, and the National Drug Administration. A number of ministries that oversaw state-owned enterprises (SOEs) and heavy industry were abolished, reducing the institutional leverage of the SOEs. Instead, the former State Economic and Trade Commission (SETC) was empowered to supervise SOEs and assumed a new and prominent role concerning macro-economic management. Other prominent regulatory commissions were the China Securities Regulatory Commission was formed in 1992 for overseeing securities, and the China Insurance Regulatory Commission was set-up in late-1998 to supervise the insurance industry. The number of departments under the State Council shrank significantly from 40 to 29 (Lai, 2013: 49-50).

In January 2000, the State Council Legislative Affairs Office (SCLAO) held a meeting to discuss the rule of law revisions necessitated by MER membership. The meeting was reportedly attended by the heads of the legal departments of all relevant ministries/commissions. During the meeting, the departments were instructed to clean-up their own rules and regulations in order to comply with the MER rules (Jin and Zhang, 2001). On 19 September 2001, the CPC Party Central Committee General Office and the State Council General Office announced that various ministries and commissions had sorted out more than 2,200 laws, rules and regulations, two-thirds of which were in the foreign economic and trade system. Approximately 116 items needed to be revise, 573 needed to be abolished, and 26 new items needed to be drawn up (Becker, 2006: 159).

Procedurally, this era saw increasing numbers of government agencies marshal differentiated information in support of their preferences and interests that are often in conflict with other agencies. This era generally had government agencies encouraged to

be more self-supporting and thus strengthened the capacity among and within the government bureaucracy to work vigorously in protection of their interests throughout the decision-making processes. At the same time, there was a general decline in the heavy inclination for ideological instruments, and the trend towards decentralisation in personnel management enabled many government agencies to become policy entrepreneurs. Collectively, these systemic and structural changes reduced the extent to which government agencies respond to the orders from higher levels as they have done so in the past (Lieberthal, 1992: 8-9). Hence, there were numerous reporting lines throughout the system, functional as well as territorial organs with resultant problems of governance. One territorial level organisation contains within it several bureaucratic ranks. A unit cannot issue binding orders to another unit at the same bureaucratic rank, not even if it is at a higher territorial level. Each territorial unit still has considerable power to control the unit one level down; therefore, bureaucrats at every level spend volumes of time negotiating for more flexibility (Yu, 2008: 33).

At each level of the organisational hierarchy, government representatives make decisions by a rule of consensus. If they all agree, the decision is automatically ratified by the higher hierarchy. If the bureaucrats cannot reach consensus, then the decision is referred to the senior officials, and if they fail to reach an agreement, then either nothing happens or the CPC intervenes with a solution (Shirk, 1992: 68). Due to the “selfish departmentalism” nature of the bureaucratic agencies, each with an intention to promote their own interests, the consequences of this system is, first, the speed of the decision-making process is generally slow; and the consensus-building process tends to be protracted. Second, it is relatively difficult to identify when a decision has actually been made (Lampton, 1992: 57-58).

Under these contexts, the process of decision-making transitioned from vertical authoritarianism to a collective decisions-making system. The first stage is the framing

of opinions by the relevant heads of divisions. He/she discuss their opinions with the division chiefs for an agreement. Selected others or the whole division may join the discussion if necessary. A draft proposal is worked out at this level before the issue goes to the department directors. The pooling of wisdom guarantees that in most cases the suggestions of the division are accepted. The directors of the department then sign the document with some technical amendments or alterations and hand it over to the minister or vice minister. If the issue is of a routine or less important nature and within the ministerial competence, then the proposal can be ratified directly and enter the implementation stage so long as other Ministers turn on their green lights. Otherwise, it travels to the top leadership for a final decision.⁵² At any given level from the department up, the co-signature of at least two leading persons in charge is required for most cases before the issue advances further. When a significant difference of opinion occurs, the matter is handed back down with the views of the higher body for reconsideration. On such occasions or on critical and urgent issues, a top leader or a minister may directly consult his subordinates or call a meeting of relevant persons in the hierarchy (Yang 1995, 95-96).

When an issue falls into the jurisdiction of more than one department in a ministry or ministries, the primary department/ministry that is responsible for the case is obliged to initiate interdepartmental or inter-ministerial consultations and take up the drafting of the proposal. The process also starts at the division level and goes up step by step basically following the same procedure as described above. Counterpart consultations are conducted among the corresponding divisions or departments when

⁵² Depending on their importance, major decisions concerning national development normally goes through to the Politburo's Standing Committee, the Central Working Conference or the plenary session of the Central Committee, and/or the Party Congress. Decisions on major issues falling within the responsibilities of the State Council must be discussed by plenary meetings or executive meetings of the State Council; work rules, procedural rules, and a democratic life meeting system have been established in the Politburo and its Standing Committee to institutionalise collective decision-making; and a system has been established of soliciting opinions concerning major policy decisions, that is, before any major decision is collectively made, intra-party democracy must first be given full play, in-depth investigations and research must be undertaken, and the opinions of all localities, departments and democratic parties must be listened to (Zhou, 2012: 30-31).

necessary. The document must be co-signed by all the departments or ministries involved before it is delivered to the proper authority for final ruling. Disagreement by any party indicates inadequate consultation among the participants, and renegotiation is required until a consensus is reached.

3.3.3 The proactive period: 2003 – Present

Since 2003, new signals indicate a new round of political transformations towards more sophisticated, constructive and confident approaches in economic affairs. It embraced the constellation of MERs, their rules and norms, as a means to promote its national interest. China has insisted on being treated as a shareholder, and not just as a stakeholder – in other words, as an actor that has the right to participate in the making of decisions, not just one that is affected by their outcomes. For instance, China has sought a greater share of the capital – and thus a greater share of the votes – in both the IMF and the World Bank.⁵³ China is also beginning to question some of the norms that underlie the existing MERs, as can be seen by their activities in the WTO. China has further proposed the formation of new MERs to fill in the gaps within the existing institutional structure, and use them to either replace or complement regimes which are not performing well. For instance, China played a major role in creating the Shanghai Cooperation Organisation (SCO) and its more cautious endorsement of the East Asian Summit (or ASEAN+6) reflect the widespread disappointment with the accomplishments of APEC. By organising the Boao Forum, China endeavoured to create an Asian equivalent of the World Economic Forum in Davos. In 2011, a Chinese citizen became a deputy managing director of the IMF. Likewise, in June 2008, Justin

⁵³ China's voting rights in the IMF have increased over the decades, from 2.58 per cent in 1980 (the ninth largest among single member states) to 2.95 per cent in 2001 and 3.82 per cent in 2011 (the sixth largest). In contrast, the voting power of China within the World Bank seems to have declined. In 1988 China's voting power was 3.19 per cent in the World Bank, with a share of US\$3000 million, and 2.01 per cent in the International Development Association (IDA) (Jacobson and Oksenberg, 1990: 65-66; 74-80). By 2011, its voting power in the World Bank was reduced to 2.72 per cent and in the IDA it grew very slightly to 2.05 per cent.

Yifu Lin, a Chinese national, became the World Bank's chief economist. These developments reflect China's rising influence within these MERs.

Beijing's proactive approach to the MERs has led the leaderships' new appreciation of the notion of economic diplomacy as an important instrument for dealing with international economic affairs. As like previous years, Chinese leaders argued that a proactive approach to multilateral economic negotiations is not possible without an efficient and professional administrative system. Therefore, a series of restructuring took place in 2003, after China entered the WTO. The government was reformed in order to serve a highly internationalised and marketised economy. The SDPC was renamed the NDRC, and the SETC was reorganised into the MOFCOM. In light of significant new issues, the National Drug Administration was restructured into the National Food and Drug Administration, and additionally the National Administration of Work Safety was set-up. In order to supervise the performance of SOEs and state banks, the State Asset Supervision and Administration Commission (SASAC) and the China Banking Regulatory Commission, respectively, were established (Zou, 2008: 153-162). Finally, the National Electricity Regulatory Commission was formed in 2003 to oversee the electricity sector (Lai, 2013: 50). In general, economic diplomacy decision-making became less personalised and more institutionalised. In particular, Hu Jintao has paid greater attention to formal institutions in decision-making, laid a greater emphasis on proactive and pragmatic diplomacy, and compared with his predecessors he collaborates more closely with Premier Wen Jiabao in administering foreign economic affairs. Because Wen relies on the State Council and especially the MFA, his close working relationship with Hu has also elevated the relevant bureaucratic agencies with a greater role in external economic affairs than before (Lai, 2010: 37, 154).

But the bureaucratic influence does not stop at the MFA threshold. In this political era, central decision-makers are much more susceptible to bureaucratic influence, particularly by ministerial perspectives, than previous leaders. Although the Politburo Standing Committee remains the most important general body in economic diplomacy decision-making, the MFA and the MOFCOM now also have the capacity to execute economic policies. Meanwhile, top functional agencies like the CFELSG and the FAWLSG continue to specialise in managing the day-to-day affairs, and drafting proposals for foreign economic policies. Like the previous era, competing inter-ministerial interests are still apparent within these apparatus, which makes bargaining equally important in the inter-agency coordinating processes.

In general, the top leaders deal with the key policies and oversee the wider and larger political future (i.e., the maintenance of social stability) and leave the ministries to set the policies of foreign economic affairs due to a lack of time and expertise.⁵⁴ This implies that ministerial-level actors now enjoy increased authority to execute policy decisions and day-to-day affairs. Similarly, while China have divided economic decision-making authority among its sprawling CPC apparatus and government bureaucracies, interest group politics, idiosyncratic preferences of individual top leaders, factional considerations, provincial governments' lobbying, think tank advocacy, and business actors' lobbying of their interests in the early-stages of decision-making,⁵⁵ all contribute to the functioning of preference formation. Of course, the central body retains the utmost decision-making power,⁵⁶ and the key agencies, technocratic expertise and coordination mechanisms (i.e., regular top-level meetings) manage the process (Pei, 2011).

⁵⁴ Interview with a member from the Department of Treaty and Law of the Ministry of Commerce, Beijing, 23 November 2012.

⁵⁵ In fact, the government often invite large business organisations for consultation. Important to note that this only applies to the larger and often state-owned enterprises rather than smaller private ones.

⁵⁶ If an issue can be considered by the top leaders, then it has a much better chance of being addressed than issues that are not of the interest of the leaders.

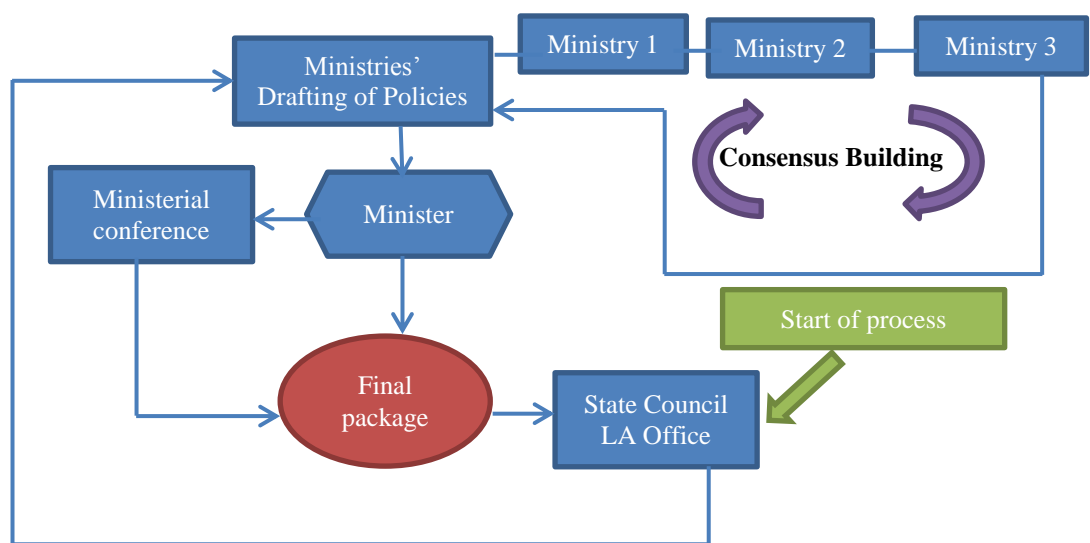
In terms of process, the decision-making of multilateral economic policies today are as follows. After the SCLAO has compiled the legislative plans (立法工作安排), a State Council Secretary-General Conference is convened⁵⁷ whereby it reviews the draft plans, and make amendments where necessary. A review of recent legislative plans indicates that MER commitments and timelines dominate the PRC's economic legislative agenda. Upon the approval of the plans, the relevant ministries/commissions are designated assignments, marking the beginning of the policy design process. Policy drafting occurs internally, and if the policy involves more than one ministry/commission, a joint drafting team may be set-up to begin the process of research and writing. The ministry/commission in charge of coordinating the process typically invites experts in to give advice at this point. Thereafter, select ministries/commissions bargain between themselves in an effort to reach a policy consensus. It is at this point that the policy pathologies have an opportunity to wreak havoc with the policy process. Absent a strong policy coordination body, policies can easily get bogged down in endless rounds of negotiations, abandoned altogether in the face of bureaucratic refusals to come to a consensus, or pushed up to a higher level for possible resolution in an "escalation of coordination." As a result of the demands of MERs, there exist today a much more extensive process of consultation and bargaining aimed at not only crafting a domestic consensus in a timely manner, but also reconciling domestic interests to the greatest extent possible with international pressures and commitments.

Once the policy has been drafted and an agreement has been reached among the ministries and commissions, one of several things can happen depending on the type of policy being created. If the policy is routine in nature and falls logically under an existing NPC law or State Council regulation, then after drafting the departmental

⁵⁷ The attendees at the State Council Secretary General Conference are the Secretary General of the State Council General Office, his Vice Secretary Generals, and the Director and Vice Directors of the SCLAO.

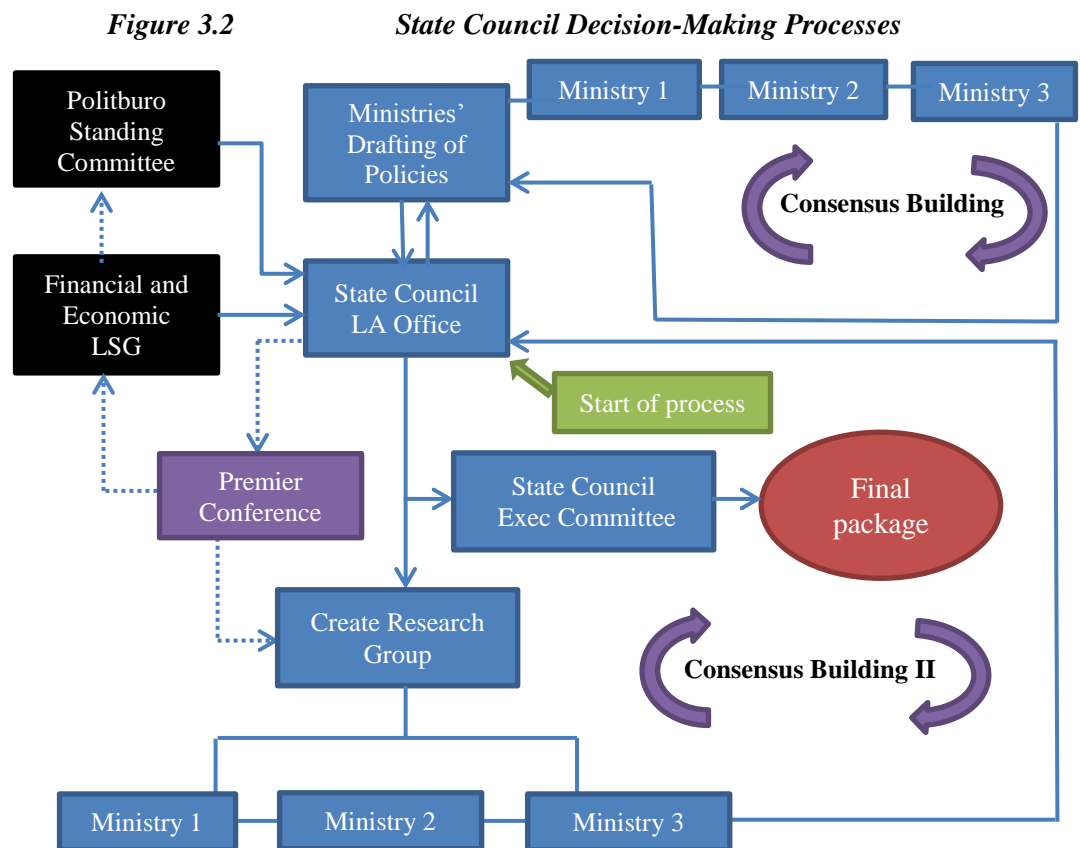
regulation internally, the ministry/commission will pass the policy independently, and no higher approval is needed. If, however, the SCLAO finds the policy to be of contradiction with existing international agreements under certain MER, the policy will be returned to the ministry/commission for amendment. This latter process is critical as it ensures of China's ability to comply with the terms of its international agreements and maintain credibility (figure 3.1).

Figure 3.1 *Departmental Decision-Making Processes*



The process is a bit more complex if the issue affects more than one ministry/commission. Generally speaking, most economic policies today affect more than one ministry/commission. For example, the MOFCOM, which has the office that handles WTO issues, is often a second party on many policies, as is the State Tax Administration. In cases such as this, the initiating ministry drafts the departmental regulation internally, as discussed above, and it is then circulated for comments and consideration to the other relevant ministries or bodies. Alternatively, a joint drafting committee might be formed to facilitate the coordination process. If consensus is hard to reach or if the matter is more important, then it is raised to the Director-Generals (司长) of the ministries. If no consensus can be reached at the Director-General level, the

matter is raised to the Vice-Minister. In most cases, problems are fixed at this level. However, in cases where consensus cannot be reached, then the SCLAO will be asked to coordinate consensus. Once a consensus is reached, the departmental policy will be circulated to each minister for signature (figure 3.2).



On the whole, China's present day economic diplomacy decision-making has evolved from vertical authoritarianism to one characterised by both "macro-authoritarianism" and "micro-democracy" (Pei, 2011). At the macro-level, China is a one-party state in which the CPC enjoys an unchallenged political monopoly. At the micro-level, agencies, officials, bureaucracies, and interest groups (i.e., SOEs and local governments) vigorously compete for power and influence to defend their policy turfs and interests tenaciously.⁵⁸

⁵⁸Based on a conversation with a government official in Beijing, 15 September 2011.

3.4 Changes and Implications

Modern Chinese decision-making for economic diplomacy has evolved from “vertical” to “horizontal” authoritarianism, thanks largely to the growing perplexities of the negotiating issues involved. Yet, it must be made clear that this trend towards pluralisation and decentralisation is by no means a connotation that the top leadership is suffering from an erosion of decision-making powers. The core nucleus group of leaders remain utterly important in Chinese policy. What has changed is the *process*.

China’s decision-making system reform is a gradual process; and it demonstrated that in order to adapt to its role inside MERs, it has to change its own processes. In turn, the following transformations occurred. First, to manage the wide-ranging and technical issues covered by the MERs, there has been a domestic shift from power-based decision-making to professionalised and specialised⁵⁹ processes. The most important feature of traditional decision-making is that it is power-based. But since Deng’s open-up policy, decision-making has evolved from the old impulsive style based on experience and personal judgement to more professionalised and specialised approaches. Tools, analytical methods, and procedures have since been introduced into the policy process, with intellectual, technical and methodological support. Therefore, decision-making is no longer the undertaking by a monopoly of leaders. Experts, academics, and policy advisory bodies have become an integral part of the decision-making rational and evaluation processes. More broadly, this change has also transcended Chinese decision-making from non-institutionalised to institutionalised processes. During the exclusionist era, China’s decision-making system was far from complete and robust, and one of its outstanding problems was low institutionalisation. Since China opened up to the international system, its decision-making has focused on system strengthening and institution-building. As a result, the institutionalisation of decision-making has significantly improved.

⁵⁹ By scientific, it implies decisions made on a rational choice basis.

The second change, and closely related to the first, is the shift from individual to collective decision-making. As multilateral negotiation agendas tend to be cross-cutting in policy issues, it diversified interests within the Chinese government, and expanded the actors' relevance to the policy processes. As a result, there was a gradual transition, in post-Mao China, from a "strong man" system to an elitist structure in which any key decision-making is still made by the top leadership, but collectively by a small group of top leaders at the CPC Politburo Standing Committee, aided by bureaucratic institutions and agencies, by means of providing top leaders information, intelligence, policy consultation, analysis, and recommendation.

To be sure, the decision-making structure and processes remains characterised by a centralised, elitist, and closed-door model, which is defined, constrained, or determined by the party-state political system, as long as such a system remains fundamentally unchanged (Guo, 2013: 280). But as Lucian Pye (1966: 47) rightly points out, the differentiation of highly centralised decision-making structures is an important indicator of political development because it causes "specialised functions of various political roles in the system to increase." The positive implication is that it increases the stability and predictability of China's foreign economic policy. On the whole, as one senior policy advisor to the MOFCOM said, "China's decision-making structure has significantly evolved as it tries to converge with the international economic system, ideologies, norms, and standards."⁶⁰

The third regards the impact MERs have on the redistribution of bureaucratic power and authority in China's foreign economic decision-making processes. This was evidently seen within the State Council in terms of the transformation of the ministerial-level agencies such as the MFA, the MOF, and the MOFCOM. As bureaucratic players, they were elevated significantly in power and authority in the decision-making and legislative contexts. The CFELSG is another case in point whereby entrance into the

⁶⁰ Interview with a senior policy advisor to the Ministry of Commerce, Beijing, 22 November 2012.

MERs and the broader multilateral economic system took centrality, and in order to serve China's economic interests the CFELSG became an important locus for the making of China's foreign economic policies. But was bureaucratic power and authority really redistributed? After all, the empowerment of these actors does not in and of itself imply a redistribution of bureaucratic power and authority.⁶¹ One apparent factor of change is the context – membership in MERs and negotiating international economic agreements imply that legislation became much more important in a relatively short period of time. For example, in the energy sector, between 1978 and 1995, only one piece of legislation was passed. By contrast, between 1996 and 2005, three major pieces of legislation were promulgated. As a result, this puts bureaucratic agencies like the SCLAO in a more central position with regard to economic policy. But if the SCLAO's power increased simply because legislation became more important (i.e., it became more relevant as an organisation), this would not necessarily constitute an institutional adaptation engineered by the leadership in order to enhance policy coordination and thus respond more effectively to the challenges of internationalisation. It is therefore important to note that context was not the only thing that changed. The SCLAO became more powerful and had more authority due to proactive actions by the CPC *prior to* significant shifts in the policy environment. By empowering the SCLAO through upgrades in bureaucratic rank, bestowing additional resources and personnel on the office, and taking away the ability of the ministries/commissions to rely on internal documents (i.e., through acts as the Administrative Permissions Law), it put the SCLAO firmly in the driver's seat with regard to legislative issues.

From the preceding discussion, one more conclusion can be drawn with regards to the institutional adaptation effect spawn out of participation in multilateral economic processes: in an implicit way, the MERs in essence have established themselves as

⁶¹ In order to make such claims, there needs to be a corresponding loss of power or authority in other government bodies.

interested parties to China's decision-making process. Their interests and agendas are indirectly integrated and seriously discussed in Beijing, and their requirements, in turn, have the capacity to reconfigure national processes. This constitutes the MERs as an integrative policy actor with an active participation in China's decision-making process. Significantly, this implies that China's economic diplomacy decision-making in the 21st century is not necessarily a stand-alone internal process. Although, on the surface, China's preference formation is determined by its national interests and domestic factors, a deeper examination of the inner undergoing reveal a different story. The MERs play critical behind-the-scenes roles that indirectly shape Chinese economic diplomacy. As such, China's economic diplomacy is today arguably shaped by a *collective* system involving domestic and international agencies.

3.5 Conclusion

This chapter began with the intention of grasping a deeper understanding about China's domestic economic diplomacy decision-making processes. By examining four periods of political development in China, the chapter revealed a relationship between China's integration with MERs and an evolving internal decision-making process. When the Chinese government had limited interaction with the MERs during the exclusionist period, the diplomatic decision-making was characterised by the revolutionary, charismatic "strong man" system. As Deng thawed the country's thick closure to the outside world, and explored avenues of international participation during the transition period, he recognised a parallel need for the government to instigate institutionalised and decentralised forms of decision-making. With the growing complexity of China's foreign economic relations by the time of the adaptation period, the Chinese government facilitated this trend with a party-state technocratic elitist system of "collective decision" at the top of the political structure. When economic diplomacy

became integral to China's national interest, the government of the proactive period adjusted the decision-making to further formal institutionalisation and pluralisation.

Overall, this short analysis demonstrated an important evolution in the decision-making processes of the Chinese government did take place over the course of the three periods. Whilst retaining traditional patterns, the number of decision-making loci in economic diplomacy has continued to increase by adding bureaucracies within economic agencies. A recurring theme of this trend mentioned in the preceding analysis is that such dissemination of decision-making centres has required increase coordination between decision-makers, policy officers, and experts. Like other countries, the Chinese government today relies on multiple and complex organisations to make and carry out economic diplomacy policy. Under Hu Jintao, China's global rise and growing involvement in world affairs have necessitated effective coordination of various facets of the country's international discourse and activity. This need has been partly addressed by the growing role and numbers of specialised LSGs. But much remains to be done, for much of the inter-ministerial coordination at present are rather fragmented and incoherent. True, bureaucratic tensions are inevitable and the effectiveness of any government system rests in its ability to put together coordination mechanisms capable of resolving such conflicts of interests. With these said, there are also certain major fault lines that remains to be bridged. At the moment, there are no new initiatives altering the traditional inefficiencies in this regard. As a result, centralisation of decision-making continues to be – at least on paper and in political principles – the CPC's rote answer to the need for better coordination.

Furthermore, as a response to the requirements of MER participation, domestic changes occurred which helped to overcome some of the pathologies associated with management by exception and fragmented authority. This institutional adaption – the redistribute of bureaucratic authority – have resulted in the emergence of a new area of

policy activity in the deeply interwoven Beijing-MER environment where draft policies are examined and evaluated in a broader context to ensure that all bureaucratic interests are considered, international agreements are balanced with domestic policy imperatives, and policy externalities are fully understood. Although consensus-building between ministries and commissions over *initial* policy drafts still occurs, the outputs from that process are now subject to a second round of revision and bargaining that incorporates information and inputs from additional policy actors, including those who are well-versed in international law. This has resulted in heightened policy coordination functions and enabled the State Council to maximise remaining or residual policy space. It is also significant in so far as the institutional adaptations needed to create this new area of policy activity have resulted in a diminishing ability of ministries and commissions to thwart reforms through control of policy relevant information and refusal to come to a consensus.

PART TWO

Accounting for Influence and Its Variances

A DECRYPTION OF THE CHINA-UNFCCC RELATIONSHIP

4.1 Introduction

The primary research enquiry of the present thesis is to examine the mechanisms to which the agencies of multilateral economic regimes (MERs) can influence China's economic diplomacy preference formation. To this end, a primary hypothesis was derived, and it holds that: *MER agencies assert influence on China's economic diplomacy preference formation through three primary mechanisms: the costs-and-benefits calculus, information dissemination, and reputation reinforcement.* This chapter constitutes the first of the two case study analyses that test the validity of the primary hypothesis, with an examination of China's participation in the global climate change debate. The purpose of this exercise is to investigate a possible correlation between China's deepened engagements with the UNFCCC agencies and its national preferences changes.

When Deng Xiaoping transformed China's⁶² inward-looking agrarian economy the country's Gross Domestic Product (GDP) accounted for less than one per cent of the world's total (USDA, 2011). Today, China's rapid development, heavy reliance on carbon-intensive coal, and the widespread application of inefficient technologies in its industrial sector have qualified it as the world's largest carbon dioxide (CO₂) emitting country (IEA, 2011: 8-9).⁶³ This status has made China an important participant in the

⁶² The reference to China includes Hong Kong.

⁶³ In 1990, Chinese CO₂ emissions increased by almost 40 per cent at approximately 680 million tons, due to strong economic growth; and in 2000, China contributed 15 per cent of global greenhouse gas emissions (World Resources Institute, 2002). In 2004, the country consumed 1.97 billion tonnes of coal, an increase of about 90 per cent over 1990; in 2005 it consumed 2.2 billion (People's Daily, 5 March 2006). China's large reliance on fossil fuels further increased China's global share of CO₂ emissions to approximately 20 per cent in 2006 (IEA, 2008). Between 2008 and 2009, China had a five per cent increase in its CO₂ emissions and by late-2009, China had surpassed Japan as the world's largest

multilateral climate change negotiations. As the United Nations Framework Convention on Climate Change (UNFCCC) Secretariat-General, Christiana Figueres, said during the 17th Conference of Parties (COP17) China Pavilion Launch Ceremony, “When I look back at what has been happening in the negotiations over the last week, it has been like a sail boat sailing through a tough rough sea but the wind is blowing in the right direction. China will act as a great boost to the move ahead of the negotiations.”⁶⁴

Since its inaugural participation in the multilateral climate change negotiations, China’s national preferences have indicated both continuities and changes. What have remained constant are the fundamental principles⁶⁵ that were set in stone in the lead-up to the ratification of the UNFCCC regime. China has, since then, consistently maintained with its core principles in the climate change negotiations. What has changed is the newfound flexibility and pragmatism in China’s policy preferences on the substance of negotiations, particularly concerning the Clean Development Mechanism (CDM or the mechanism) and international mitigation commitments (or mitigation). To what extent, and in what way(s), could the UNFCCC agencies have triggered changes in China’s policy preferences? The purpose of this chapter is to address these questions, and it takes the CDM and mitigation negotiations as focal points of analysis. The case-pair offers the opportunity to understand whether and how China’s interaction with the UNFCCC actors can alter national preference.

The analysis is based on interviews with 36 Chinese government officials, policy officers, negotiators, and advisors with first-hand engagement in climate change

automobile producer, exceeded the United States as the world’s largest market for car sales, and its increasing economic prosperity has brought increasing consumer expectations that are unlikely to be curbed in the foreseeable future (Zhu, 2010: 38). This combination of factors has made China the world’s biggest emitter of CO₂ in 2010 (IEA, 2011: 8-9).

⁶⁴ Personal observation.

⁶⁵ This involves four key themes. First, like other developing countries, China is a victim country of the adverse effects of climate change. Second, China has consistently advocated the principle of “common but differentiated responsibilities” between the countries of different economic developments, and in accordance to the respective historical per capita emissions made. Third, developed countries should take on the responsibilities of technology transfers and financial provisions as measures of contributing to the global climate change challenge. Their responsibilities are justified by the current and historical emissions. Lastly, the priority for China is national development and poverty eradication. For more information, see Ida Bjorkum (2005).

policymaking; 12 members from various Chinese enterprises involved in climate change projects; 12 delegates from non-Chinese national parties; 16 representatives of the UNFCCC Secretariat, the United Nations Development Programme (UNDP), the United Nations Environmental Programme (UNEP), the Organisation for Economic Cooperation and Development (OECD), the World Bank, and other non-governmental organisations. Finally, 21 experts and academics within the field of Chinese climate change politics were interviewed (mainly from China, the United Kingdom [UK], and the United States [US]). Personal observations at the Durban COP17 negotiation and the relevant secondary sources are used as supplementary information. The next section provides a background on China's participation at the CDM and mitigation negotiations, respectively. Section three applies the hypothesised mechanisms of influence for policy preference formation with the empirical findings. The last section provides some concluding analyses.

4.2 The Case Studies

In spite of its comparatively late interest in climate change issues, Beijing did take the issues seriously from the outset, and this is reflected in the fact that China was one of the first national signatories of the UNFCCC regime, and by its active promotion of the Kyoto Protocol. Thus far, China's participation in the COPs climate change negotiations under the UNFCCC suggests two particularly interesting transformations of policy preferences over time: the CDM and the mitigation of emissions. Both case studies offer the opportunity to understand whether and how China's interaction with the UNFCCC may cause a shift in policy preference in Beijing. Beyond merely adding one more voice to the choir, these case studies can help identify which hypothesised variables within the Beijing-UNFCCC interactions, if any, are relatively significant in shaping Chinese policy. To this purpose, let us now turn to each case study respectively.

4.2.1 The clean development mechanism

The CDM was proposed at COP3 in Kyoto (1998) for meeting two objectives: (i) assist non-Annex I Parties⁶⁶ in achieving sustainable development whilst contributing to climate change mitigation efforts; and (ii) assist Annex I Parties in compliance with their quantified emission limitation and reduction commitments (greenhouse gas [GHG] emission caps) by investing in the certified emissions reductions (CERs) generated from the CDM projects in non-Annex I countries (Carbon Trust, 2009: 14.; Grubb, 2003: 159). When the formal negotiations began, China did not know how to react to the CDM because of technical uncertainties. The China Meteorological Administration's (CMA) lack of knowledge and experience in the area meant they were unable to identify the implications of the initiative on China; or calculate its costs-and-benefits.⁶⁷ The National Environmental Protection Agency (NEPA, reformed into the Ministry of Environmental Protection or MEP in 2008) and the State Science and Technology Commission (SSTC, reformed into the Ministry of Science and Technology or MOST) contributed reports but with deviant arguments, some crediting the CDM proposal while others against it. The inconclusive research efforts channelled mixed messages to the political elites, and caused many scientific and political uncertainties about the initiative. As a result, China's position at COP3 was a cautious one, where the government reiterated that CO₂ emissions should be unilaterally resolved rather than shared by all member-states. The key concern for China was realising the beneficiaries of the mechanism, to which they concluded it would be those that already trade carbon or those with an established climate change science and technology sector. Countries, like China, without a sophisticated technological structure and financial capacity would

⁶⁶ Annex I Parties are those countries listed in Annex I of the treaty and are primarily industrialised countries. Non-Annex I Parties are developing countries.

⁶⁷ Interview with a Chinese official from the Ministry of Foreign Affairs, Beijing, 15 September 2011.

be left in a disadvantaged position.⁶⁸ Hence, Beijing feared that the initiative was a political scheme (政治阴谋)⁶⁹ designed to help Annex I countries escape their climate change commitments; and submitted a request to the Chair to erase it from the negotiation agenda.⁷⁰ To resolve contentions on the CDM proposal, the Committee of the Whole under the COP facilitated an informal contact group sessions chaired by Brazil in November 1998, and it involved the US and members of the “G77 plus China” (Group of Seventy-Seven Plus China). The meeting apparently established the initial building blocks for a consensus (Cole 2012, 44).

Internally, after the establishment of the National Climate Change Coordination Committee (NCCCC), new window-agencies emerged to deal with UNFCCC-related affairs. The communications between Beijing and the UNFCCC agencies rose starkly in the form of informal dialogue, information exchanges, and project collaboration.⁷¹ One example is the 1999 research collaboration between UNFCCC experts, the MOST, and NEPA on a report illustrating the cross-border transmittable effect of CO₂ emissions, and the tangible benefits (i.e., access to clean energy technologies) of the CDM as an effective emissions reduction initiative (Economy, 2001: 246-248). This activity was suggested to have shaped a general view within the MOST and the NEPA, that China was “missing out on significant opportunities by not agreeing to any sort of cooperation” on the CDM initiative, and that a “more proactive policy was needed to

⁶⁸ Interview with an official from the Chinese Ministry of Foreign Affairs, Beijing, 15 September 2011; Interview with a researcher from Tsinghua University, Durban, 7 December 2011.

⁶⁹ Some Chinese sceptics even called the mechanism a tool of Western “environmental imperialism” (Liu, 1997).

⁷⁰ This position was also in line with the government’s wish to align itself with the interest and positions of other non-Annex I Parties. Interview with an official from the Chinese Ministry of Foreign Affairs, Beijing, 15 September 2011.

⁷¹ An obvious example is the MOF, which frequently interacts with the GEF – the financial mechanism of the UNFCCC – and regularly coordinates on policies concerning international financial support for various environmental preservation programmes as well as technology transfers. The GEF will distribute information to the MOF, for instance, which will then be passed on to other ministries for policy drafting purposes. Later, the MOF will coordinate the different preferences or interests among different bureaucracies for consensus-building. Once this has been reached, it will be fed back to the. Interview with an expert from the Chinese Academy of Social Sciences, Beijing, 8 November 2012.

gain access to new technologies from abroad.”⁷² But these suggestions were not realised in China’s COP4 and COP5 negotiation positions, although China refrained from flagging any objections to the negotiations on the CDM initiative (Zhang, 2003: 69). In the last hours of the COP5, the UNFCCC Secretariat acknowledged that China’s cautious attitude was caused by the government’s unfamiliarity with the initiative.⁷³ To address this problem, the Global Environmental Facility (GEF) was asked to invest in pilot CDM simulations across China.⁷⁴ In 2001, China received US\$173 million in GEF grants – 17 per cent of the GEF’s climate change reserves – for seven CDM pilot simulations in the Gansu Province (Yu, 2008: 84). In the same year, the GEF and the UNDP jointly allocated US\$50.7 million to pilot CDM simulations in China. In 2002, the GEF committed US\$840 million to assist the Chinese government in building a CDM market. Most of the simulations were carried out jointly with various government ministries, such as the simulation on renewable power energy with the Ministry of Power. Efforts were also made to attract participation from state- and private-enterprises, which then led to the development of CER-trading consultancy firms.⁷⁵ For instance, the Centre for Socio-Eco-Nomic Development based in Geneva was assigned by the UNFCCC carried out a simulation exercise “Can we make a CDM deal?” in China to deepen the understanding of CDM deal making among government officials, and industries to assist them in attracting foreign investment (Yiu, Niederberger and Saner, 2002). Throughout the simulations, the GEF widely distributed technical assistance in the form of information and training on best practices.⁷⁶

⁷²Interview with a Ministry of Science and Technology official, Brussels, 8 November 2011.

⁷³Interview with UNFCCC official, Vienna, 3 July 2011.

⁷⁴Another objective was to contribute to the country’s capacity-building in commercialised renewable energy sector and remove barriers to the dissemination of alternative energy technologies

⁷⁵Interview with a professor from Beijing University, Beijing, 17 September 2011.

⁷⁶ Between late-2001 and 2006, other donor agencies and countries have also carried out capacity-building exercises, each with a different focus-area. For example, the UNDP supported projects on the capacity-building of industries and three specific CDM pilot simulations on renewable energy, energy efficiency, and coal bed methane. The World Bank participated in the methodological aspect of the CDM capacity-building projects, and the Asian Development Bank participated in smaller-scale energy-related CDM projects. The Canadian International Development Agency financed operational model assignments

The outcome was increased awareness and interest in the CDM particularly from the industrial actors. They were attracted to the mechanism's potential to improve energy efficiency, increase access to new technologies, international funding, and technical expertise that can be gained.⁷⁷ Industrial actors also realised that the CDM has the potential to create a new market sector that will generate new business opportunities and jobs without hampering China's economic development.⁷⁸ Similarly, local authorities – from the provincial level to the county and community stratum – that had little interests or awareness for the CDM initiative in the past, showed new interests in the potential material benefits spawned from CDM projects (Ye, Ma and Zhang, 2007: 9). So together with the industrial actors and the domestic scientific community, they expressed their dissatisfaction with the MFA's hard stance on the CDM at the COPs, arguing that China is missing out on important prospects in technological advancements and business opportunities.⁷⁹ Having seen actual benefits spawn out of the CDM projects through the simulations and also due to the industrial pressures, the State Development Planning Commission (SDPC, reformed into the National Development and Reform Commission or NDRC in 2003) asked the NCCCC to conduct new studies on the impact of the mechanism, its market, and China's potential as a competitor on a global scale.⁸⁰

In late-2001, a joint study on Clean Energy Ministerial (CEM) was launched by a partnership between the NCCCC, the World Bank, Germany and Switzerland (published in 2004). The study projected that China had the potential to take around 50 per cent of the global CDM market (World Bank 2006). This finding sent an encouraging signal to the Chinese policymakers and after numerous inter-ministerial

as well as other projects that studied urban transportation and renewable energy. For more details on these projects. Interview with an expert and coordinator from ESP China, 1 September 2011.

⁷⁷ Interview with a researcher from Tsinghua University, Durban, 7 December 2011.

⁷⁸ The government believed this was in particular handy in order for it to place focus on other policy areas and concerns. Interview with an expert from the Chinese Academy of Social Sciences, Durban, 3 December 2011.

⁷⁹ Interview with Professor from Beijing University, Beijing, 17 September 2011.

⁸⁰ Interview with a researcher from Tsinghua University, Durban, 7 December 2011.

coordination and consultations with the UNFCCC technical staffs, the NDRC – designated authority to approve the CDM initiative – reached a consensus to adopting the mechanism on the ground that it would serve China’s domestic and international development objectives. For instance, domestically, the mechanism would improve energy efficiency, combat pollution, grant new accesses to international funding and technologies, and an economic opportunity to establish new sectors. The outputs include job creation and the dissemination of technical know-how – all of which support China’s development.⁸¹ Additionally, the CDM – being a market-driven mechanism – serves the government’s interest to reform its economy into a market-driven system, whilst planting the green and low carbon concepts in the market practices and within Chinese firms.⁸² Internationally, the CDM negotiations were in a deadlock. Developed countries especially from Europe found it challenging to integrate the CDM concept within its domestic mitigation structures.⁸³ By comparison, China, as a country still developing in this area, was more suited to test the waters. Doing so not only addressed the difficulties faced by the West but would also contribute to China’s international image-building as a cooperative player.⁸⁴

During COP6, the Chinese delegation spoke about the CDM in favourable terms and called it a “win-win” initiative with likely benefits for the developed and developing countries alike (Yu, 2008: 58). The Chinese delegation actively participated in the debates about the guiding rules and procedures for the implementation of the CDM initiative. The main concern now was how it can ensure that developing countries are void of binding commitments (Harris and Yu, 2005: 53). The Chinese delegation argued that any adoption of the CDM should not have any binding obligations attached

⁸¹Interview with a researcher from Renmin University, Durban, 6 December 2011; Interview with a professor from the University of Nottingham, 10 November 2011.

⁸²Interview with an official from the China Clean Development Mechanism Fund under the Ministry of Finance, at the COP 17 Durban Conference, 7 December 2011.

⁸³ Another key reason is that the investors in Europe did not want to make CDM investments because of the immature legal structure at the UNFCCC, the vaguely defined benefits for their investments, and the other risks involved.

⁸⁴Interview with an official from the Chinese Ministry of Foreign Affairs, Beijing, 15 September 2011.

to the developing countries. In addition, the CDM initiative (including the nuclear energy projects) should cover all technologies, with the exception of sink activities (Tangen, Heggelund and Buen, 2001: 242).⁸⁵ During COP7 in Marrakech, additional issues also arose from the negotiations which concerned China, one of which was the political risk attached to the unratified Kyoto Protocol, and the US's opt-out of the framework compounded this concern. Second, China voiced concerns over the technical risks faced by the developing countries due to its limited access to the necessary professional resources to undertake the complicated CDM procedures and the UNFCCC also lacked any form of capacity-building measures to help tackle the technical bottlenecks in terms of baseline identification, monitoring plan development, and validation and verification conduction, for instance. Third, as CDM projects have high transaction costs resulting from charges on registration, validation, monitoring, and verification, it brings with it financial risks which could cause the margins to shrink to the extent that the deal simply becomes less attractive to the industries. Fourth, the Chinese delegation pointed to the limited details provided in the proposal concerning CER price – China feared selling their CERs at too low a price.⁸⁶ Finally, China wanted the participation in CDM projects to be voluntary.

In response, the COP7 presiding staffs (i) pushed for greater funding from the Annex I group and the UN Funds for developing countries; (ii) signalled the possibilities for technical assistance and training opportunities to enhance developing countries' professional competence in CDM dealings; (iii) assured the inclusion of Chinese representatives in the CDM governance;⁸⁷ and (iv) achieved consensus on the voluntary basis of CDM participation. In exchange, China was required to submit to

⁸⁵China argues in opposition to the inclusion of sinks on the grounds that it is difficult to ensure the consequential reductions from sink projects have permanent endurance. Arguably, this position sufficed from a desire from Beijing to maximise their proportion of the world's CDM projects (Tangen, Heggelund and Buen, 2001: 242).

⁸⁶ Interview with an official from the China Clean Development Mechanism Fund under the Ministry of Finance, at the COP 17 Durban Conference, 7 December 2011; Interview with a researcher from Renmin University, Durban, 6 December 2011.

⁸⁷ For example, Maosheng Duan of China serves as Chair of the CDM Executive Board at present.

international monitoring, validation, and verification systems – something the MFA strongly resisted in the past. According to one Chinese negotiator, in order to gain China’s acceptance of this condition, the COP7 President reinforced numerous times the significance of China’s compliance in this regard to its international reputation as a cooperative and responsible player.⁸⁸ China eventually agreed to this condition and confirmed its commitment by establishing the CDM Monitoring and Management Centre (监督管理中心), which reports directly to the UNFCCC regarding its CDM performance.⁸⁹ Other establishments include the China CDM Fund under the MOF, CDM monitoring and research departments under the MOST and the MEP,⁹⁰ and new institutional structures and streamlined transparent CDM procedures to facilitate the implementation of CDM projects. In early-2002, China called for an accelerated launch of the CDMs, and in August that year, the government formally accepted the mechanism (Zhang, 2003: 69). In all, China’s policy preferences on the CDM evolved from absolute resistance to eventual adoption.

4.2.2 *Mitigation*

The concept of *mitigation* in the present context refers to the action of reducing the intensity of radiative force (i.e., GHGs) for reducing the likely impacts of climate change (Molina et al, 2009: 616-621).⁹¹ From the outset, the Chinese government viewed climate change as the outcome of the industrial economies’ high consumption patterns and luxurious lifestyles. For this reason, developed countries should take on the

⁸⁸ Interview with an official from the China Clean Development Mechanism Fund under the Ministry of Finance, at the COP 17 Durban Conference, 7 December 2011

⁸⁹ The Centre, under the guidance of the Climate Change Office in the NDRC, mainly operates at the project level and is not involved in policymaking. Interview with an official from the China CDM Fund under the Ministry of Finance, in COP 17 Durban Conference, 7 December 2011.

⁹⁰ Interview with a professor from Beijing University, Beijing, 17 September 2011.

⁹¹ Mitigation is distinguished from adaptation to global warming, which involves acting to tolerate the effects of global warming. Examples include using fossil fuels more efficiently for industrial processes or electricity generation, switching to renewable energy (solar energy or wind power), improve building insulation, and expand forests and other “sinks” to remove greater amounts of CO₂ from the atmosphere. For more, see UNFCCC (2007).

responsibility of mitigation first. As a developing country, China believed it should only monitor as opposed to participate in the mission to tackle climate change.⁹² China was strongly opposed to any international-binding mitigation commitments for developing countries as it was regarded as a threat to China's economic development. At the time, many domestic government institutions such as the CMA relied on outdated methodologies (i.e., paleoclimatology), which often yielded conservative findings on the impact of climate change. Other institutions such as the Energy Research Institute (ERI) under the SDPC/NDRC, the NEPA/MEP and the SSTC/MOST had no tradition of climate research. As a result, serious differences in approach and understanding towards climate change and mitigation emerged between China and other countries. In response, the GEF initiated a research programme in 1992, entitled "GHG emissions strategy study," with US\$2 million technical assistance. The goal was to raise awareness in China concerning mitigation. However, Beijing's response was less-than-enthusiastic (Yu 2008, 90). The UNFCCC Secretariat then partnered with the World Bank, the Asian Development Bank (ADB), the UNEP, and the UNDP to provide monitoring equipment for GHG emissions in China, share computer modelling techniques with officials from the NEPA/MEP and the SSTC/MOST, and provided technological assistance in developing response measures.

Interviews with members of these agencies suggested that the NEPA/MEP and SSTC/MOST derived more proactive policy recommendations on mitigation than other ministries/commissions. One SSTC/MOST policymaker recalled that his basic knowledge on mitigation came almost entirely from his involvement in activities with experts from the international agencies; and he noticed radical reorientation of policy preferences in his colleagues and himself.⁹³ As domestic agencies increased in their understanding about mitigation in the late-1990s, a divergence in opinions began to

⁹²Interview with a professor from the University of Nottingham, 10 November 2011.

⁹³Interview with policy officer from the Ministry of Foreign Affairs, Beijing, 7 June 2011.

manifest among government ministries concerning the degree to which China ought to contribute to the international mitigation efforts. At one end of the spectrum, officials from the NEPA/MEP and the SSTC/MOST stressed that China had a responsibility to participate in international mitigation because it was a major contributor to climate change – the country was the third largest emitter in the world at the time. At the other end of the debate, members of the SDPC/NDRC and the MFA were less enthusiastic and argued that economic development and sovereignty concerns necessitate a limited Chinese response. The internal contention quickly earned China an international reputation as one of the most recalcitrant participant in the mitigation negotiations by consistently advocating the weakest reporting obligations without any concrete measures or timetables for reducing GHG emissions. In 1996, the Chinese Academy of Science (CAS) hosted a major conference on climate change and its effects on China. The resulting 560-page report, *Studies on Climate Change and Its Effects*, included a number of articles that point to the potential wreckage and devastation emissions can cause. But instead of advocating mitigation, the report recommended adaptation⁹⁴ as the best way of addressing climate change. This recommendation reinforced support for the conservative position that China should refuse international binding commitments on emissions reduction.

By the 2000s, China began experiencing the impacts of climate change through year-on-year natural disasters which have disrupted the lives of 200-400 million people annually; and an economic loss of more than 200 billion RMB per annum (Ma, 2006). In the summer of 2011 alone, a series of floods in central and southern China affected 36 million people, destroyed 432,000 hectares of crops – reducing vegetable output by 20 per cent from a year earlier – and caused an economic loss of US\$6.5 billion (News One, 2011; Press TV, 2011; Yap, 2011). The high frequency of extreme weather events

⁹⁴ Adaptation means that China will take steps to adapt to the impacts of climate change as they occur. Mitigation means that China would take measures to prevent or slow climate change.

stipulated a growing recognition among senior officials that climate change is a major threat to the wellbeing of the Chinese people (Christoff, 2010: 646). In response, the NDRC conducted a series of pilot projects in partnership with the GEF and the UNDP to test the abatement costs of mitigation.⁹⁵ One example is the “Energy Conservation and GHG Emissions Reduction in Chinese Township and Village Enterprises (TVEs)-Phase II” (2000-2007) project. The GEF and the UNDP jointly contributed US\$7,992,000 to this project, which attempted to (i) reduce GHG emissions in the TVEs sector by increasing the utilisation of energy efficient technologies and products in the brick, cement, metal casting and coking sectors; (ii) build technical capacity for energy efficiency and product quality improvement in TVEs; (iii) create access to commercial financing; and (iv) expand the application of best practices for local and national regulatory reform.

All objectives were achieved by 2007 with positive outcomes. It revealed that a green and low-carbon economy does not hinder but enhance economic development.⁹⁶ Unfortunately, these results were criticised by the government’s conservative economic advisors who continued to push development needs over mitigation. They emphasised that with per capita income in urban China only at US\$1,702 per annum (as of 2005),⁹⁷ and over 135 million people still under the poverty line, mitigation actions could hamper efforts to fulfil the social and industrial needs of the Chinese people (Economist Intelligence Unit, 6 July 2006; World Bank, 23 May 2006).⁹⁸ The two-sided debate eventually prompted the decision-makers to maintain economic growth and implement a domestic environmental regulatory response to the threat of climate change under the framework of its development objectives.

⁹⁵ Interview with an official from the NDRC, Durban, 5 December 2011

⁹⁶ Interview with an official from the NDRC, Durban, 4 December 2011.

⁹⁷ The per capita income in rural areas is below US\$78 per annum.

⁹⁸ Rather than advocating mitigation commitments, Chinese economists have promoted the Asia-Pacific Partnership on Clean Development and Climate (AP6) as an alternative solution to carbon capture and storage, and energy cooperation. AP6 was launched on 12 January 2006.

In 2007, the release of the Intergovernmental Panel on Climate Change's (IPCC) fourth assessment report was widely distributed within Beijing, not least because 28 of its own experts participated in the authoring of the report.⁹⁹ Numerous Chinese negotiators claimed that this report played an important part in raising the leaders' awareness about the implications of GHG emissions on the country's development and a recognition that mitigation was as much a moral responsibility as it is a scientific and economic one. At the same time, Beijing felt intense pressures from the COP Presidencies and other countries to realise that committing to mitigation was the responsible thing to do given that China was about to overtake the US as the world's largest emitting country. All the while, the international media hammered heavier scrutiny over China's quietism on tackling climate change, portraying it as a negligent player.¹⁰⁰

In the context of its growing international limelight and scrutiny, China attended COP12 in 2007 with new pragmatism; and submitted its first *National Climate Change Programme and Communication* to the UNFCCC. The Chinese delegation diminished their resistance to engaging in dialogue concerning mitigation, which was a drastic contrast to the Kyoto negotiations in 1997 where China indicated a disinterest in mitigation discussions until it had achieved "medium-level" development, measured usually by a per capita income of US\$5,000 indicator (Pan, 2005). Arguments as such seem to have diminished and seldom heard in the negotiations today.¹⁰¹ The government also invited Chinese experts that participated in the authoring of the IPCC fourth assessment report to join the Chinese delegation at the subsequent COPs. According to

⁹⁹ The participants claim that the team of participants became more supportive of the idea that mitigation was a necessity for addressing global climate change than other non-participant colleagues. This view was expressed in numerous publications such as the two-volume study, *Climate and Environment Changes in China*, edited by the CMA's Director, Qin Dahe, among others; interview with an expert from Beijing University, 17 September 2011.

¹⁰⁰This is based on personal observations.

¹⁰¹Ibid.

one delegate, their expertise was frequently applied during negotiations.¹⁰² These experts stressed that CO₂ emissions are a risk to all countries including China and acknowledged that a cut in emissions is essential for safeguarding China's environment (Zhu, 2010: 38). It should be no coincidence that during the Bali negotiations in 2007, the Chinese stance on mitigation negotiations no longer rules out the possibility for China to play a more active role in the global climate protection efforts which would include mitigation commitments.¹⁰³ This is a step forward even though the parties did not reach an agreement on the quantitative figures (Oberhelman and Sternfeld, 2009: 141).

China's growing active participation can also be seen through its submission of two proposals for a post-2012 global climate agreement at the 2008 COP14 negotiations in Poznan. One was the *Cumulative per capita emissions convergence proposal*, where China demanded an ultimate "equity" – the merge of the cumulative per capita emissions by 2100. Additionally, the proposal suggests that by 2050, the global total GHG emissions should be reduced by 25 per cent compared to the 1990 levels, or halved if Annex I countries' emissions turn negative by 2040 (Hallding, Han and Olsson, 2009: 97). The other proposal was the *Carbon Budget Proposal (CBP)* drafted by the Chinese Academy of Social Sciences (CASS). The CBP proposed an overall framework to half the international emissions by 2050, also referred to as the "450 ppm/2°C target." The proposal allows China's emissions to peak by 2030, with 45 per cent higher emissions compared to the 2005 level. As well, it proposes reducing emissions to 55 per cent below the 2005 level by 2050 (Pan and Chen, 2008). In comparison to the American plan (i.e., down to 1990 levels by 2020 and 80 per cent

¹⁰² The Chinese delegation consisted of 34 delegates to COP 12 in Nairobi (6-17 November 2006). From agencies and institutions engaged in climate change research in China, there were 16 delegates: three each from the CMA and the ERI, one from CAS, one from the Centre for Policy Studies (SEPA), two from the Chinese Academy of Agricultural Sciences, one from the Chinese Academy of Forestry, two from the Chinese Academy of Agricultural Sciences, one from Renmin University, and two from Tsinghua University.

¹⁰³ China did also emphasize that such efforts should be nationally appropriate and subject to the country's respective capacities and specific national circumstances (Hallding, Han and Olsson, 2009: 89).

below 1990 levels by 2050, which would equate to around 15 per cent below 2005 levels by 2020, and about 85 per cent below those levels by 2050) (Stern, 2009), the CBP sets-up more ambitious targets for China. Beijing's shift along the proactivity scale was further indicated by its COP15 pledge in Copenhagen (2009) to cut domestic emissions by 40-45 per cent per unit of GDP by 2020.¹⁰⁴ To materialise this pledge, China's 12th Five Year Plan (2011-2015) set domestic targets to reduce GDP per unit of energy use by 16 per cent, and reduce GDP per unit of CO₂ emission by 17 per cent (NDRC, MOST and MOA, 2011: 5).

During the COP15, China also actively pushed members of the "G77 plus China" to focus on making concrete arrangements for mitigation. As Hu Jintao's brief statement to the UN Climate Summit in September 2009 emphasises, "Fulfilling our respective responsibilities should be at the core of our efforts."¹⁰⁵ In 2011, during the final hours of the COP17 negotiations in Durban, the Chinese delegation expressed their support to a legally-binding treaty for the post-2020 period. The 2020 earmark was particularly emphasised because its pilot projects for mitigation will require at least a decade to manifest results, which equates to the year 2020. The government would ideally want to wait until then to make a decision on the next step. As for its agreement for the 2015 deadline to negotiate a new framework, this was largely based on the date of publication for the fifth assessment report of the IPCC on the scientific review of the climate change effects and works to measure the effectiveness of emission pledges by individual countries.¹⁰⁶ Although further details can only manifest in the coming COPs, this position is an indication that China might soon be ready to set a timetable and limit for its emissions at the international level. On the whole, climate change and mitigation especially was a sensitive topic some years ago, but today, it is a widely talked and

¹⁰⁴ Chinese Premier Wen Jiabao forwarded the letter to UN Secretary-General Ban-Ki Moon on January 30, 2010, reconfirming Beijing's announcement on November 17, 2009, about its pledge to cut emissions.

¹⁰⁵ Personal observation.

¹⁰⁶ Interview with researcher from Renmin Universtiy, Durban, 6 December 2011.

researched area in China.¹⁰⁷ In all, China's policy preferences on mitigation have shifted from a state of resistance to increased flexibility.

4.3 UNFCCC and the Mechanisms of Influence

Having explained the case study backgrounds, let us now apply the empirical findings to the hypothesised mechanisms of influence: costs-and-benefits calculus, information dissemination, and reputation reinforcement.

4.3.1 Costs-and-benefits calculus

In the early years of negotiations, Beijing generally held the view that measures for tackling climate change were incompatible with growth generation and quantified binding GHG commitments will cause unfavourable macroeconomic ramifications on China's national development (Tangen, Heggelund and Buen, 2001: 243). The calculus manifested from the following considerations: (i) China's rapidly developing economy embody largely energy-intensive sectors that are sensitive to energy consumption cuts; (ii) the available energy-efficient technologies are considered as backward and the prospect of quick improvements even with technological and financial transfers is not perceived as probable; and (iii) China's coal-dominated energy structure generally complicates efforts in CO₂ reductions without further reductions in its energy supply (Ye, Ma and Zhang, 2007: 9). For these reasons, curbing emissions was perceived as a political threat, with costs outweighing the benefits. The Chinese negotiators therefore refused to commit to climate change measures. To reverse Beijing's pessimism, the UNFCCC agencies, together with the UNDP, and the IPCC presented reports containing their calculations of the costs-and-benefits of the climate change measures on China's development. In general, they argued that there is an overall consistency between climate change action and sustainable development. In most cases, they emphasised, a

¹⁰⁷Interview with a member from the China Beijing Equity Exchange, Durban, 8 December 2011.

drop in CO₂ emissions can actually improve energy efficiency and conservation. In addition, it raises living standards (i.e., through air quality improvements and pollution level controls), and climate change action can lead to new industrial development opportunities in the low-carbon technology sector, and create new jobs. The costs of non-commitment, however, include devastating impacts on crucial aspects contingent to development including the climate-sensitive sectors in agriculture and China's already scarce water resources (IPCC, 2001; 2007; UNDP, 2009/2010; Stern, 2006).

The research interviews indicate that these calculations were generally received positively and triggered the Chinese decision-makers to re-evaluate their national preferences. In particular, China's vulnerability to climate change and the direct implications for long-term economic growth and social stability entered the political debate. Public concerns and awareness of China's vulnerability against climate change came to a new height when its first *National Assessment Report on Climate Change* was released in 2006, commissioned by the MOST, the CMA, and the Chinese Academy of Sciences (CAS). The report was informed by a number of UNFCCC research initiatives and it provided an overview of the potentially devastating consequences of a temperature rise on China's agriculture, eco system, water resources, coastal zones, and social and economic stability (Zhang and Zheng, 2007: 4). Rationalists argue that calculations with high expected damage costs often drive proactivity because national interests are threatened. This effect played out when the implications of vulnerability to climate change was recognised as harmful to China's national objectives.

The recognition of China's vulnerability in light of climate change was found to have been one trigger for new policy preferences. In the past, China's preference was to deflect emission reduction obligations, and their case was strong given that Chinese assertions were not dependent on emission reductions by other countries. It could thus achieve its goal in the absence of any deal. The altered balance in China's cost

assessment changed this situation, and China now has a stake in other countries' emission reductions. In theory, China in this kind of a bargaining game means that the achievement of its own interests is partly in the hands of others, and this implies that it will have to be prepared to give in order to gain. Its hesitance to commit fully to this altered balance became apparent during the Copenhagen negotiations in 2009.

With this said a comparative examination of the two case studies showed that whilst both modalities exhibited preference changes, the extent of the change and the speed of change differ; the CDM case had much deeper and faster preference transformations than mitigation. What explains this variance? The interviews suggest that the decision-makers' *perception of political threat* resulting from (non-)action is a key contingency of the UNFCCC agencies' influence.¹⁰⁸ In general, Chinese decision-makers accept that climate change consequences are profound.¹⁰⁹ But they also perceive the threats stemmed out of the abatement costs on China's short-term development goals to be even more devastating than the threats of not tackling climate change. For example, the consequence of not fulfilling the short-term economic objectives of growth and poverty reduction for the purpose of addressing the long-term threats of climate change could put the political legitimacy of the Communist Party of China (CPC) in peril. By comparison, the CDM initiative is perceived to be attached with lower threats as it does not undermines but enhances China's short-term priorities, as well as contributes to their long-term objectives. In this sense, it is arguable that costs-and-benefits calculated by the UNFCCC agencies that forwards low (political) threats to the Chinese government are more likely to generate greater influence than otherwise.

¹⁰⁸Interview with a member of the UNFCCC Secretariat, Durban, 1 December 2011; interview with an expert from the ESP China Ltd., Beijing, 1 September 2011; interview with an official from the China CDM Fund under the Ministry of Finance, Beijing, 17 February 2012; Interview with an official from the Chinese Ministry of Foreign Affairs in COP 17 Durban Conference, 9 December 2011; interview with a researcher from Tianda Institute, Durban, 1 December 2011.

¹⁰⁹The former executive vice-Chairman of the NCCCC, Liu Jiang (2005) has, for instance, acknowledged China's vulnerabilities to the negative impacts of climate change, and that "[China] will continue to exert profound influence on the ecological environment and its social economic system."

Even so, one should be careful when determining the true nature of the influence and to ensure that a policy preference shift is not just tactical play. For instance, the Chinese delegation has regularly referred to the IPCC's reference of China as one of the most vulnerable countries against the consequences of climate change to promote itself as a victim of global warming and that the industrialised nations should therefore make the first move in tackling the global problem. As Zhang Zhihong (2003: 79) contends, "Claiming that it [China] is a victim legitimises demands for compensation and validates purported concerns over the climate change issue." If increased Chinese rhetoric on vulnerability is mere tactical play, then it is not necessarily an indication that the UNFCCC agencies' costs-and-benefits persuasion actually impacts Chinese decision-making. One can certainly rebut this by pointing to an increase in the emphasises from Beijing's on its need for adaptation activities, for example, in response to fears over the high damage costs, as suggested by the IPCC, as an indication of effective UNFCCC influence. Yet, these emphasises were also often linked to international funding and technologies. For instance, Beijing stressed in its *Initial National Communication* (2004: 18), "China is relatively sensitive and vulnerable to climate change in the fields such as agriculture, natural ecology and forestry, water resources, sea level and coastal belts, desertification and natural disasters. Technical support and funds are therefore needed for mitigating or adapting to the aforementioned areas." This would certainly indicate that a shift in policy preference could be the outcome of more than just a simple costs-and-benefit calculus.

4.3.2 *Information dissemination*

According to the empirical findings of this research, 69 per cent of interviewees believe that China's prudent national preferences in the pre-COP7 years were the outcome of unfamiliarity. One Chinese negotiator said, "Unlike the large quantities of available

information today, Chinese decision-makers in the 1990s lacked resources and competent experts on climate change science.”¹¹⁰ Although scientific research started in the late-1980s, large-scale policy-related research programs did not launch for another 10 years. The government had therefore a capacity-impairment at the time in climate change preference formation – otherwise interpreted by foreign delegations as an act of “passivity.”¹¹¹ Following the establishment of window-agencies, it was common for the UNFCCC agencies and Chinese policymakers to exchange dialogue, ideas, and information during the policy research stage of decision-making.¹¹² Approximately 92 per cent of interviewees believe that, over time, the high frequency of interaction between policymakers and the UNFCCC agencies reoriented the former’s policy preferences towards climate change issues.

An internal study by the National Development and Reform Commission (NDRC) likewise found that policymakers with less interaction with external actors generally had a lower level of understanding and interest toward climate change issues, whereas those with greater interest and capacity had comparatively more engagement with outside actors.¹¹³ Interviewees further indicated that the way the IPCC framed issues in the early stages of the expert review very much shaped China’s policy options in the longer-term.¹¹⁴ An obvious example of this is the IPCC’s identification of the environmental issues as a global problem and the coinage of the “global climate” concept. Thus, the UNFCCC agencies have a particularly effective role in issue-framing, which also leads to awareness-raising. These findings are in line with the cognitivist assumptions that the transmission of ideas can influence perception and

¹¹⁰ Interview with an officer from the Department of Climate Change, NDRC, Beijing, 22 September 2011; a policymaker from the Chinese Ministry of Foreign Affairs, in London, 1 July 2011.

¹¹¹ Interview with a policymaker from the Chinese Ministry of Foreign Affairs, in London, 1 July 2011.

¹¹² Interview with official from the Ministry of Science and Technology to the EU in Brussels, 8 November 2011; interview with a professor from the University of Nottingham, 10 November 2011.

¹¹³ Interview with policy officer from NDRC, Beijing, 27 September 2011.

¹¹⁴ Interview with an official from the Chinese Ministry of Foreign Affairs, Beijing, 14 February 2012; Interview with an officer from the NDRC’s Department of Climate Change, Beijing, 22 September 2011.

issue-framing. Accordingly, it is expected that this mechanism of influence generates substantial impact on China's CDM and mitigation preference formation.

However, this expectation was not actualised in the CDM case study. In the early years of the negotiations, there was no evidence to suggest that information dissemination caused any preference shifts and the Chinese delegation remained quiet on the issue at COP4 and COP5. Interviews suggest external influence were hindered by the domestic power structure. Although the CMA was, in theory, the leading agency for policy coordination, the actual policy outcome was shaped by the interests of a few key agencies such as the SDPC and the MFA. Even though the China Meteorological Administration (CMA) led the scientific and research stages of policymaking, it gave way to the SDPC and the MFA when it came to the political discussions (Economy, 1997: 30). Since the CMA, MOST, and SEPA were window-agencies for the UNFCCC-related affairs, the international discourse disseminated to them would not have reached the more decisive policymakers. One decision-maker from the MOST recalled that on numerous occasions prior to COP4, they emphasised to officials from the SDPC/NDRC about the environmental benefits spawned from the CDM initiative. But because of their marginal influence, they had limited capacity to shape the final preferences. This is why in spite the new influx of UNFCCC information China maintained its cautious position throughout COPs 3-5.

Since the COP5, the UNFCCC agencies began disseminating CDM-related information to other ministries/commissions and the related industries in China. This occurred just as the GEF-sponsored CDM simulations took off. The study identified a higher degree of UNFCCC influence from this round of information dissemination activities and it was reflected from the general change in attitude amongst the ministerial and industrial actors, from resistance to gradual favouritism towards the CDM initiative. The awareness-raising impact was so successful that it even triggered

domestic industries to lobby the government to adopt the initiative. This was verified by numerous Chinese decision-makers, one of which claims during an interview that, “China’s attitude shift in the CDM was to a large extent driven by the forces of the domestic industries.” He further suggests the degree of influence information dissemination has over preference formation is dependent on the extent to which the Chinese industries support the discourse.¹¹⁵ Because Chinese industries wield the power to affect the country’s economic growth,¹¹⁶ support from these actors adds substantial political weight to the efforts of the UNFCCC agencies.

The mitigation case also paints a mixed picture. Even though information was frequently fed to Beijing – primarily through research efforts – the impact was relatively small. An example of this is the GEF’s 1992 research programme.¹¹⁷ Likewise, the NEPA/MEP and the UNEP together set-up a series of UN-sponsored projects including the Joint Centre for an Environmental Information Network intended to assess China’s environmental situations. The reaction from the key decision-makers was lukewarm (Yu, 2008: 90), and there were no policy preference changes identified at the subsequent COPs. The issue here is that most research efforts were scientific by nature, and there was little analysis on the potential benefits that could come out of mitigation efforts. This, coupled with China’s comparatively low per capita emission level at the time, failed to stir momentum among the decision-makers. Some officials even argue that such studies were inappropriate for the China context due to its “Eurocentric” issue-framing.¹¹⁸

Interestingly, however, whilst the case study illustrates a limited influence, many interviewed Chinese negotiators believe that information dissemination does play a role

¹¹⁵Interview with a Chinese delegate to COP 17 in Durban, 9 December 2011.

¹¹⁶Interview with an official from the Chinese mission to the EU, Brussels, 9 November 2011.

¹¹⁷Interview with an officer from the Department of Climate Change, the National Development and Reform Commission, Beijing, 22 September 2011; Interview with an expert from the ESP China Ltd., Beijing, 1 September 2011; and a policymaker from the Chinese Ministry of Foreign Affairs, in London, 1 July 2011.

¹¹⁸Interview with members of the UNDP in China, Beijing, 5 March 2012.

in framing and guiding Beijing's preference formation on mitigation. An obvious example is the shift in the Chinese decision-makers' framing of mitigation from a scientific problem to an economic concern that is of imperative to "sustainable development" – a European notion that the Chinese delegation rejected in 1992, accusing it as an attempt to impose "alien values" on China. Another indication would be the findings of the IPCC's fourth assessment report (2007) of which triggered a sense of urgency in China to address the side-effects of climate change. The report prompted China's first *National Climate Change Programme*, released in 2007, which includes detailed domestic commitments to reduce national emissions; the 2008 Climate Change White Paper; and its COP15 pledge to cut emissions by 40-45 per cent by 2020. An additional indication is the fact that Beijing will determine their bottom-line for a post-2020 mitigation framework once the IPCC's fifth assessment report is released in 2014.¹¹⁹ These indications all suggest that information dissemination does have an impact on China's mitigation policy preferences; the international community recognises China to place particular emphasis on knowledge-sharing.¹²⁰ But the extent to which the UNFCCC agencies can use information to influence preference formation, in this case, is limited only to the guidance on policy focus, as opposed to the actual policy outcome.

In the preceding analyses, it is clear to see that both cases exhibited mixed outcomes based on an information dissemination mechanism of influence. Information dissemination, though weak to begin with, did eventually play an impact on China's CDM preference formation in the later years. However, the picture is less bright for mitigation as information dissemination imposed only marginal influence. What

¹¹⁹ Another example is the UNFCCC-World Bank research cooperation with CASS on climate change and mitigation, with their final report submitted to the NDRC for consideration. Without suggesting that this report singlehandedly dictated the ultimate policy adoption on the CDMs, the leading author of the report from CASS did indicate that it played a major contribution to raising the NDRC's awareness about the benefits of the mechanism. Interview with an expert from CASS, Durban, 3 December 2011; interview with delegate to COP17, Durban, 9 December 2011.

¹²⁰ Interview with a member of the UNDP, Durban, 5 December 2011.

explains the variances? One contingency is the *nature of support* international discourse holds. As discussed above, it is not sufficient to merely hold the support of second-tier government agencies like the MOST and the MEP. Instead, support from the government's vital constituents, notably the industries, is of imperative in order to enhance the political weight of international discourse in Beijing. The logic behind this is that such support increases the government's political risk of non-action. The availability of industrial support for the CDM case, and the lacklustre of it in mitigation is a key explanation for the deviant UNFCCC impact materialised between the cases. The importance of industries lies in its wield on China's economic growth and the leadership's legitimacy.¹²¹ While the government used to push the industries forward, today, the industries are pushing the government. To be sure, industries, state-owned and private alike, do not formally participate in preference formation.¹²² But they do lobby their interests in Beijing, and in many cases, their interests are reflected on the policy agenda.¹²³ As one policy officer points out, "Information is a contribution to the shift in China's position, but it alone is an insufficient influence."¹²⁴ The acquisition of support from key constituents is fundamental.

The second contingency is the *cost to China's economic structure*. Over the years, China's economic structure has been largely characterised by emission-intensive sectors such as manufacturing, which constitutes 42 per cent of its GHG emissions (Rong, 2010: 4586). A meaningful response to climate change via mitigation would require a complete reorientation of China's energy structure and substantial investment in new energy-efficient technologies. The Chinese government acknowledges that a

¹²¹ Business actors play even greater influence at the local level. For instance, local governments are usually hungry for investment to boost its local GDP and business agreements are often established between the local government and private sector. This gives the industries an opportunity to give feedback and channel their interests through and enjoy increased influence. Interview with an expert from the Chinese Academy of Social Sciences, Durban, 3 December 2011; interview with a professor from Beijing University, Beijing, 17 September 2011.

¹²² Interview with an expert from ESP China Ltd., Beijing, 1 September 2011.

¹²³ Interview with an official from the Ministry of Science and Technology, Brussels, 8 November 2011.

¹²⁴ Interview with official from the Chinese Ministry of Foreign Affairs, Beijing, 15 September 2011; a similar sentiment was expressed by a member of EMCA, Durban, 7 December 2011.

replacement of coal with natural gas could cut emissions by two-thirds. But unlike countries such as Brazil, which gets 90 per cent of its energy from hydropower, China only have a limited amount of alternative energy sources apart from coal, and an over-reliance on imports is unrealistic and unsustainable in the long-run (Xu and Zhang, 18 February 2013). This means that moving to clean energy is a massive challenge and requires a rapid economic restructuring that could affect China's sustainable growth in the future as well as meeting other social objectives such as employment. It was a similar concern that is partially responsible for the US Senate's balking at the Kyoto agreement. When the economic cost is high, information dissemination is thus only useful as technical guidance (i.e., statistic surveys to measure certain aspects of mitigation)¹²⁵ and less of an influence on preference formation.

This situation, however, can be overlooked by decision-makers if the large abatement costs contribute to China's economic development. This was evident in the later years of the mitigation negotiations, whereby the government clearly recognised the challenges of remaining with the traditional economic model – based on high-volume consumption of energy and raw materials – to its national development (Zang, 2009: 209). The government also recognised that the long-term viability of China's economic success hinges on transforming its low-key manufacturing and export-led growth to a more balanced strategy¹²⁶ that is synonymous with a low-carbon economy (Beijing Review, 10 December 2012). The “change of China's economic development pattern” (转变经济发展方式) stood at the very top of China's political agenda, and as such, lowered the previously high economic costs of abatement. As highlighted by a report published in 2009 by the Task Force on China's Pathway towards a Low Carbon Economy, “Central to the vision of a low carbon economy is the recognition of its

¹²⁵Interview with a professor from the Shanghai Institute of International Studies, Shanghai, 22 August 2011.

¹²⁶The strategy entails the production of technologically advanced and globally competitive goods, the expansion of the service sector, and the development of domestic consumer markets.

potential economic, social and political benefits, rather than just the associated costs.” The reduced economic costs therefore is likely to be associated with an evidently increased seriousness among Chinese decision-makers in the dealing of international discourse towards the later years of mitigation policymaking as seen in the case study. The CDM case presents evidence which further support this finding. As China had not yet established a market infrastructure that would require altering after a CDM adoption, the economic costs associated with the mechanism was comparatively lower in all aspects, and increased the perceived feasibility of the system in China. Thus, a third contingency has to do with the level of compatibility between the international discourse and China’s policy interests.

As a further note, the UNFCCC agencies’ role as provider of operational advice can sometimes fall prey to concerns relating to the legitimacy or credibility of the output that are unrelated to the quality of the science as such. While broad membership subsidiary bodies lend well to legitimacy in providing the expert advice required for achieving a treaty’s governance goals, in practice they have often failed to deliver salient and timely advice to China. For example, China has complained that the Committee on Science and Technology (CST) is inefficient and ineffective in part because of its large size and composition (ENB, 2001). Even at the first meeting of the COP, participants to the United Nations Convention to Combat Desertification (UNCCD) process worried that the CST would be dominated by “politically-oriented members and never get down to “scientific business” (ENB, 1997), a problem they felt also existed in the UNFCCC and the Convention on Biological Diversity (CBD) subsidiary bodies. Indeed, the CST did not agree to any impact indicators until 2009 and it will take more time to develop the accompanying methodology and data collection strategy. Many believe, however, that in addition to its size, the politicisation and lack of necessary expertise within the CST is at least in part to blame.

4.3.3 *Reputation reinforcements*

Contractualists argue that reinforcing China's reputation through frequent assessments of its performance is an effective way of channelling influence to Beijing.¹²⁷ As a country that has aspired to be perceived by foreign actors as a country that abides by the rules and regulations of the UNFCCC, the way the COP Presidencies assess China's performances in the climate change negotiations matter much for a government that is keen to be portrayed as "responsible." As a matter of fact, China's initial decision to participate in the UNFCCC in the early-1990s was largely driven by a desire to present itself as a responsible player on the international stage. The global condemnation of the 1989 Tiananmen crackdown caused much concerns about international isolation and the related negative effects on China's export-oriented economy.

As a result, China, in comparison with other countries, can be easily influenced by the reputation card given its sensitivity to external criticism, and it would make much effort to prevent international censure (Johnston, 1998: 519). In the words of Yang Zhang and Yongnian Zheng (2008: 8), from the beginning, China's "wish to be seen as a respected member of the international community [has been] one important factor behind its climate change policymaking." Likewise, Deborah Seligsohn et al. (2009) and Karl Hallding, Guoyi Han and Marie Olsson (2009) observe that China's climate change policies meshes with concerns about its international reputation and an ambition to be perceived both domestically and internationally as a "responsible" nation-state. Such preferences are in line with China's traditional objective to redefine its position in global politics. The notion of China's emergence as a responsible big country and its stated ambition to develop its "comprehensive national power" were key sources of national strength (Zheng, 1998: 192-193).

In the context of the climate negotiations, members of the UNFCCC have, since COP1, actively circumscribed China's negotiation behaviours by measuring it against

¹²⁷Interview with a senior member of the UNFCCC Secretariat, Vienna, 2 July 2011.

the UNFCCC protocols; and by reinforcing its emerging economic status. The UNFCCC Secretary-General has pointed to China's rising income, in terms of purchasing power parity (PPP), and increased per capita emissions, which also inflates the government's actual responsibility to take-on mitigation commitments.¹²⁸ Numerous indications suggest that the outcome of such reinforcement prompted a shift in China's general outlook towards the need for mitigation. When the negotiations on the Kyoto Protocol proceeded in 1997, China made clear that it does not wish to discuss internationally-binding commitments on mitigation until its economy has reached a "medium-level" development. This kind of argument is seldom heard today even though it continues to reinforce its developing country status. The use of softer rhetoric is an indication of its effort to build a benign and cooperative international image. The second indication is China's objective to improve its international reputation as one of three core objectives going into the COP15 and COP16 negotiations (Conrad, 2012: 442). A part of this objective was the COP15 pledge to cut carbon-intensity by 40-45 per cent by 2025, and they displayed significant domestic mitigation efforts at the COP16 conference in Cancun.

However, this study also found, especially in the mitigation case, that a concern for reputation does not necessarily correlate to an influence over preferences. In addition to the lacklustre preference changes in the earlier rounds of negotiations, the 2006 COP in Nairobi had China take a step back by preoccupying itself with wording details and legal aspects of the negotiated text. When announcing its COP16 objective on international reputation, the Chinese delegation also implied that such objective would not be integrated into an internationally cooperative framework (Conrad, 2012: 454). So on the one hand, reputation reinforcement seems to be effective in reorienting China's policy preferences; on the other, this method of influence did not actually catalyse an agreement with Beijing.

¹²⁸Personal observation.

What this study also found was that intergovernmental politics can be an impediment to the UNFCCC agencies' influence through this mechanism. That is, the lack of leadership from the US, and the mild pressure coming from China's key trading partners, have helped keep the costs of non-commitment on China's reputation relatively low (Economy, 1997: 39). Therefore, China feels less need to succumb to the UNFCCC agencies' recommendations. Even though Beijing is concerned about their reputation, and especially whether it is seen as a major power, the intergovernmental politics have not pushed the costs of low-commitment on its reputation high enough to induce a change in national preference. As such, the UNFCCC agencies' reputation reinforcements were undermined. The united non-commitment position of the "G77 plus China" members also helps keep China's reputation costs low. This united front enables China to hide slightly away from the limelight at the multilateral fora. The finger-pointing exercises to America's inactive positions, together with the support of its position by the G77 members jointly undermine the impact of the reputation reinforcement mechanism.

As for the CDM case, there were little data to indicate a real correlation between reputation and the country's adoption of the CDM. With this said, interviewed negotiators from China did suggest that one of the considerations for its eventual adoption was that it would make China look good internationally to push the mechanism forward at a time when it was stuck in deadlock (around COP6 and COP7). Again, one cannot deny the change in China's negotiating rhetoric – from blunt resistance to benign and softer tones – as well as the domestic efforts addressing climate change. Did the reputation factor lead to these changes? One interviewee implied that China's reputation for consistently promoting a non-commitment approach is today being increasingly challenged after it was placed as the world's largest emitter.¹²⁹ One

¹²⁹Interview with an expert from the Shanghai Institute of International Studies, Shanghai, 26 August 2011.

key lesson learned from the COP15 is a need for China to improve its international “actorness”– which is to know how to conduct oneself more diplomatically and strategically. By speaking and behaving in a way that is conducive to perceptions of compliance and activism, the Chinese government believes that it could improve its international reputation without having to make real commitments. In the words of the minister of the MEP, China’s softer tone on the issue of mitigation was executed largely to prevent China from being taken as a scapegoat again and be blamed for the failures of future talks.

The Chinese government believes the UNFCCC is a useful space for achieving greater international “actorness” since it has a large global media exposure. The government has certainly become more aware and careful with public opinion and the international media, and it has learnt to use these mediums to its advantage. During the Tianjin mini-ministerial meeting before the COP16, China used a media blitz to promote its energy initiatives, took aim at developed countries for inadequate emission cuts, and showcased its model environmental technologies. According to Barbara Finnermore, China program director for the US-based Natural Resources Defense Council, “China is looking to rehabilitate its reputation” and the Tianjin conference was “an opportunity to not only show they’re responsible and proactive, but also to raise and frame the issues” (cited in Tran, 9 October 2010). Still, important to note that reputation reinforcement does not necessarily influence national preferences. It may only induce preference changes for the purpose of improving its diplomatic actorness. Meanwhile, the extent to which reputation reinforcement can actually be effective depends on the level of intergovernmental pressure and behaviours.

4.4 Concluding Remarks

In this chapter, the primary hypothesis on preference formation was tested against the empirical findings from the case study on China's involvement in the COP climate change negotiations under the UNFCCC. Three mechanisms of influence were applied, each with mixed outcomes. Like the assumption of rationalism, the UNFCCC agencies used its analyses on the costs and benefits to make a case that China's national development is likely to be threatened by the impacts of climate change. The CDM and mitigation cases showed that such intervention by the UNFCCC agencies had a certain influence on China's preference formation in the context of the case studies, but this influence was often at a tuck-or-war with considerations about the expected abatement costs, especially in the case of the mitigation negotiations, among the decision-makers. Moreover, Beijing has, to an extent, used its vulnerabilities to the consequences of climate change to its advantage by pushing-off commitments while pursuing international funding and resources essential for coping with the effects of climate change. In particular, the prospect of funding and technology, obtained through economic side-payments, can strengthen China's incentives to take action than a costs-and-benefits calculation. This is because the prospective future economic gains are considered to be more definite than the costs of future damages surrounded by the senses of uncertainty. Thus, prospective gains will be much more effective in shaping the decision-making processes even if the prospective losses are likely to be large.

The likelihood of acquiring foreign technologies and attract foreign investments is a key reason for China's altered preferences concerning the CDM initiative. China was originally sceptical of the idea, and the Chinese decision-makers particularly viewed it as a loophole purposely created by the developed countries to help them escape from their commitments in tackling climate change. China also feared that the CDM was part of a larger strategy to lure developing countries into making future

commitments. However, this policy preference changed when the government realised that the CDM is actually a much more realistic channel for technological transfers from abroad – an area which the developed countries have failed to deliberate in the past – as well as access further funding. What is more, adopting the CDM initiative contributes to China's reputation-building – it is a relatively low-cost kind of participation that brings high profile rewards. Thus, the anticipated tangible and intangible benefits spawned from adopting the CDM were primary driving forces for China's eventual ratification of the initiative. Yet, a similar conclusion cannot be made for the mitigation case, whereby the Chinese government had no desire for external technological or financial aids.

Certainly, the mitigation case showed that decision-makers did not submit to economic side-payments the way it eventually subjected itself to the UNFCCC's performance monitoring system in order to establish a respected international reputation. This can be seen in China's follow-up behaviour, which is reflected in its submission of the *Initial National Communication* in 2004. China's initial attitude towards reporting and monitoring was negative as it concerned the principle of sovereignty. But China later recognised that further prolongation of the process can inflate the reputation costs. Hence, Beijing completed their first *National Communications* to show that it does care about climate change. Its submission secured much positive attention. However, this is not a reflection of the significance of reputation reinforcement. True, reputation matters to Beijing, but its response comes mainly in the form of an improved international actorness as opposed to any preference change. Then there's information dissemination. It has inflicted a certain influence over China's decision-making in the CDM and mitigation cases, but like the other mechanisms, it has not caused immediate and unconditional transformations in China's preferences.

On the whole, the case study on the climate change negotiations finds that the primary hypothesis is *partially valid*. All three mechanisms were found to have partial and conditioned capacities to influence China's national preference on climate change issues. While the influence is not transformative, it is also not non-existent or ineffective; some impact was felt. For this reason, all three mechanisms have an *absorption*-level of influence. That is, the UNFCCC agencies are able to reorient China's policy preferences but only at the adaptation level.

This outcome further verifies the underlying assumption of the primary hypothesis, which is that *the level of UNFCCC influence is affected, and contingent on national objectives, policy goals, policy settings, and policy instruments*. With respect to national objectives, it was evident to see that the degree in which the UNFCCC agencies could influence Chinese preferences for the CDM and mitigation modalities through information dissemination was contingent on China's national objectives, especially with respect to economic development strategies and therefore the perceived economic costs associated with executing the discourse. The policy setting contingency is found in all mechanisms. For instance, the internal power structure undermined the channel of information dissemination for the CDM and mitigation issues. And setting is particularly important in determining the effectiveness of reputation reinforcement, as largely defined by the level of perceived international pressures on China to act responsibly and the recognised implications of a low-reputation on its future foreign economic relationships. Finally, policy instruments were found to be important in information dissemination, such as the integration of domestic constituents, like industries, to push for preference changes. Thus, Chinese preference formation in climate change diplomacy certainly provides ways for the UNFCCC agencies to exert influence but its success is contingent on the range of situational factors.

A DECRYPTION OF THE CHINA-WTO RELATIONSHIP

5.1 Introduction

In the first chapter of this thesis, it was suggested that the primary objective of this thesis is to explore how the agents of multilateral economic regimes (MERs) and the role(s) that they play, affect Chinese economic diplomacy preference formation. To this end, two case studies are deployed as the empirical tests for the primary hypothesis, which holds that *the agencies of multilateral economic regimes influence Chinese economic diplomacy preference formation through three primary mechanisms: the costs-and-benefits calculus, information dissemination, and reputation reinforcement.* In the previous chapter, the first case study on the United Nations Framework Convention on Climate Change (UNFCCC) was examined, with the purpose of investigating a possible correlation between China's deepened engagements with the UNFCCC agencies and its evolving policy preferences in the CDM and mitigation negotiations. The chapter found the primary hypothesis partially valid. The present chapter is intended to examine the second of the two case studies, with a focus on the World Trade Organization (WTO) and its Doha Development Agenda (DDA) negotiations on international trade. As such, the purpose of this chapter is similar to that of the previous; to investigate whether a correlation exist between a deepened China-WTO relationship at the agency-level and China's growing dynamisms in its national preference in trade issues.

China's accession into the WTO in 2001 was a milestone achievement for the multilateral trade regime. After 16 years of active lobbying, and faced with an ambitious set of concessions, added by the eight years of perpetual surveillance and monitoring of

its performance, China became the 143rd WTO member-state on 11 December 2001, during the same session of which the DDA was launched – the successor of the Uruguay Round Agreement. As a major global economic engine, China became a cornerstone to reaching a DDA agreement. In the words of the WTO’s Managing-Director, Pascal Lamy, “A multilateral trade system cannot exist without agreement from China.”¹³⁰

Throughout China’s participation in the DDA, there have been both continuities and changes in its policy preferences. What remained constant are the fundamental principles of China’s position on international trade laid out in its initial application to accede the WTO in 1986. At the same time, China’s policy preferences have also grown in flexibility and pragmatism in areas such as the government procurement agreement (GPA) and trade in services. To what extent are the WTO agencies accountable for the growing flexibility in these areas? How important were the WTO agencies in the change processes of China’s preferences, and in the broader international trade decision-making process? And in which capacity could it potentially influence preference formation? By examining the case-pair of the GPA and services trade, this chapter elucidates the extent the WTO agencies can assert an influence on China’s international trade diplomacy preference formation; and correspondingly, test the primary hypothesis.

The analysis for this chapter as well as for the next are based on interviews with 42 Chinese government officials, policy advisors that have had first-hand experience in forming trade policy, Chinese industrial actors, non-Chinese negotiators at the WTO, WTO representatives, and Chinese academic that work on international trade issues. Personal observations at the Eighth Ministerial Meeting in Geneva in December 2011 and the relevant secondary sources are used as supplementary information. The next section takes a historical look at China’s participation as well as the related evolving policy preferences in the GPA and services negotiations, respectively. Section three

¹³⁰ This quote is cited from Pascal Lamy’s opening speech for the 2011 Ministerial Meeting.

tests the validity of the hypothesis with the empirical findings of the case-pair. The last section offers some concluding remarks.

5.2 The Case Studies

From China's participation in the WTO's DDA negotiations, policy preference changes in two modalities can be identified: the GPA and the trade in services. Both cases provide the opportunity to understand whether and how China's interaction with the WTO agencies can influence preference formation.

5.2.1 *The government procurement agreement*

The Government Procurement Agreement (GPA) under the WTO came into force at the conclusion of the Uruguay Round.¹³¹ It provides an international legal framework for the liberalisation and “transparent” governance of public procurement markets (Anderson, 2008: 162), with coverage ranging from pencils and paper clips to computer systems, telecommunications equipment and consultation services.¹³² At present, the GPA is only a *plurilateral* agreement covering 42 WTO member-states. Although China had agreed to *start negotiations* to join the GPA as one of the terms of its WTO accession, it would take seven years before actual negotiations began. Immediately following China's WTO accession, Beijing's position was that the transparency in government procurement issue should be left to the national governments for appropriate action. Many Chinese leaders believed that the GPA was the West's first step is to push for a market access agenda. As one Chinese negotiator asked, “If this was not the case, why were they so keen on it? That this will only help the developing

¹³¹ Important to note is that the GPA is different from the Singapore issue of transparency in government procurement. While the independent GPA framework of the WTO is intended to liberalise government purchases, the Singapore issue of transparency under the DDA is to help reduce corruption and improve efficiency.

¹³² Typically, this accounts for between 10 and 15 per cent of GDP for developed countries and up to 20 per cent of GDP for some developing countries (Jawara and Kwa, 2004: 42).

countries by promoting good governance has raised suspicion amongst Chinese decision-makers about the actual motive behind the GPA framework.”¹³³ Although the Doha Declaration emphasised that the GPA negotiations should be limited only to transparency aspects and should not restrict the scope for countries to give preferences to domestic goods and suppliers, China remain suspicious.

Their distrust was not without reason. The GPA that came into force on 1 January 1996 goes beyond just transparency issues. According to the framework, it is mandatory for member-states to apply the principle of national treatment on goods and services, and suppliers of other parties to the GPA. In addition, member-states are required to abide by the most-favoured-nation (MFN) principle, which prohibits discrimination among goods, services, and suppliers of other parties. Thus adhering to this version of the GPA would become a costly affair for China, not least because making information on procurement widely available involves substantial costs. Moreover, transparency itself can have market access implications by making information available to foreign suppliers unless they are barred from the procurement bids (Evenett and Hoekman, 2004). Many interviewees argue that if the level of government procurement transparency has little to do with market access then the transparency issue has little implications on trade. Given that there is no implication on trade, why should an agreement of this nature be negotiated inside the WTO – an institution established to promote trade rather than good governance?¹³⁴ As a result, China had little interest to accede to the GPA. China’s reluctance to join the GPA was aided by the “Indicative Time-Frame for Accession Negotiations and Reporting on the Progress of Work” of the WTO Committee on Government Procurement, which watered-down the 18 months deadline to which China was required to accede to the

¹³³Interview with a Chinese negotiator to the WTO, Beijing, 11 November 2012.

¹³⁴Interview with an expert from the University of International Business and Economics, Beijing, 13 February 2012.

GPA framework following its WTO entry. Taking advantage of this ambiguous and “indicative” deadline, China did not take the GPA as an urgent matter.¹³⁵

At first, major economies like the United States (US) and the European Union (EU) did not care much about China’s slow progress in the GPA; rather they were more concerned about ensuring that China had implemented its broader WTO commitments.¹³⁶ Some years later, however, when the US and EU realised the value of government procurement for pursuing certain industrial policy objectives, they began questioning China about its accession pledge.¹³⁷ The US in particular called China to be more transparent in its government procurement processes.¹³⁸ Against a history of Sino-US political distrust, China responded, “If there’s no trust, why should there be transparency? The US should act as a reasonable leader in order to increase China’s trust before asking for transparency.”¹³⁹ China maintained that it was not ready to negotiate on the GPA accession; it did not see the GPA as in their interest (i.e., moving them away from their welfare status quo).¹⁴⁰ Additionally, China criticised the 1996 GPA framework (Art. XXIV: 7(b) and (c)) as outdated and insisted on regulatory revisions in order to provide an appropriate basis for negotiation. China feared that the old rules did not provide enough clarity on the type of entities and actions covered – an issue of great relevance to China’s complex governmental spending system.¹⁴¹ The understanding for a revised text was subsequently reached, and new principles were added to the old text to take into account of, among others, the existing government

¹³⁵ Interview with a policy advisor from the Chinese Academy of International Trade and Economic Cooperation under the MOFCOM, Beijing, 19 November 2012.

¹³⁶ Interview with a member of the Department of Treaty and Law, MOFCOM, Beijing, 23 November 2012.

¹³⁷ In its 2001 accession to the WTO, China stated their intention to “initiate negotiations for membership in the GPA by tabling an Appendix 1 offer as soon as possible.” *Report of the Working Party on the Accession of China*, WT/ACC/CHN/49, para. 341.

¹³⁸ Personal interview.

¹³⁹ Interview with an expert from Tsinghua University, Beijing, 22 November 2012.

¹⁴⁰ Interview with a member from the Department of Treaty and Law, MOFCOM, Beijing 23 November 2012.

¹⁴¹ Interview with a policy advisor to the WTO Division of MOFCOM, Shanghai, 2 March 2012.

procurement practices, and additional flexibility provisions for the tendering process (Anderson, 2008: 172-173).

In following, the US and EU continued to pressure China to begin negotiations; they argued that China wants international investments and yet it does not open its procurement market, which makes investors incline towards investing in their own countries than in China.¹⁴² However, Beijing had some concerns of its own. For starters, the mere fact that all of the existing members in the GPA were developed countries caused some hesitation in Beijing. Second, China was unclear about how it could benefit from joining the GPA, which leads to the third concern on effectiveness. The Ministry of Commerce (MOFCOM) voiced concerns about China's industrial capacity to compete against foreign firms, and that China cannot commit to current proposals without concessions.¹⁴³ The Ministry of Finance (MOF) countered the MOFCOM's hesitations by arguing that a GPA membership would contribute to the government's motive for industrial reforms, and this argument appealed to the elite decision-makers.¹⁴⁴ They further argued it was better to participate in the GPA rather than let others dictate the rules.¹⁴⁵ So in April 2006, then Vice-Premier, Wu Yi, announced China's agreement to commence the GPA accession negotiations by late-2007 (US Department of Commerce, February 2006).

However, the subsequent accession proposal drafting process was not an easy one for Beijing. With a young national procurement regime, established only in 2003,¹⁴⁶ the government was just learning about what it is, and how to operationalise it (i.e., how to regulate the procurement regime and operationalise it to general practices). Then there is Beijing's fragmented policymaking structure, which has the MOF as the

¹⁴² Interview with an expert from Fudan University, Shanghai, 25 April 2012.

¹⁴³ Interview with an expert from Peking University, Beijing, 23 September 2011.

¹⁴⁴ Interview with a policy advisor to the WTO Division of MOFCOM, Shanghai, 2 March 2012. Interview with an expert from Peking University, Beijing, 23 September 2011.

¹⁴⁵ Interview with an expert from the Shanghai Institute of Foreign Trade, Shanghai, 25 April 2012.

¹⁴⁶ In 2000, the State Development Planning Commission drafted and implemented the country's first piece of primary legislation on government procurement known as the *Tendering Law*; but a more comprehensive *Government Procurement Law* was later drafted and implemented in 2003 by the MOF.

“bookkeeper,” the National Development and Reform Commission (NDRC) as the “investor,” and the MOFCOM as the “trader.”¹⁴⁷ Rather than coordinate a coherent policy, these three agencies each built their own “fortress of regulation” on government procurement, and at times enacted conflicting rules for the tendering process, the approved procuring agencies, review procedures, and so on. As a result, not only are there a duplication of responsibilities and a waste of resources, but also produced inconsistencies and jeopardised the certainty in China’s evolving legal framework on government procurement. Even though the State Council has attempted to resolve these issues by establishing an inter-ministerial coordination organ¹⁴⁸ for governing government procurement activities in 2005 – under the “Interim Measure on Inter-Ministerial Coordination Mechanism on Tendering Proceedings” – the structure was still vague. For instance, while the NDRC is designated as the head agency for managing issues relating to government procurement, the MOF leads the GPA negotiations (Wang, 2010). As a result, China’s negotiating behaviours tend to be relatively ambiguous even in their application for GPA membership.¹⁴⁹

China submitted its first offer of accession together with its application in late-2007. Although the negotiating parties praised this as a good start, they were unsatisfied with the proposal, viewing it as a limited offering. First, the foreign negotiating parties felt that the initial coverage of entities were limited (i.e., only to the agencies of the central government) and excluded key sub-national bodies. Second, the proposed coverage of entities (including goods and services) were rather small, and it only included general products. Third, it had a much higher threshold compared to the average level of incumbent member-states. Finally, a number of derogations were made

¹⁴⁷ Interview with an expert from the Chinese Academy of Social Sciences, Beijing, 8 November 2012.

¹⁴⁸ According to Article 4 of the Interim Measure, the main duties of this coordination mechanism include: (1) analysing the status of tendering regulations and discussing possible solutions for regulating tendering activities involving multiple government organs; (2) resolve inter-agency conflicts regarding the administrative supervision of tendering; (3) exchange of information; (4) coordinate the promulgation of tendering regulations by different departments; (5) communicate the enforcement of tendering rules; and (6) joint survey and research (Wang 2010).

¹⁴⁹ Interview with an expert from UBIS, Beijing, 12 March 2012.

by China in the general notes. Some believed that China had deliberately delivered a poor proposal to lower the international expectations on China (Tu 2011; China Daily, 6 August 2010).

Important to note, the GPA framework also poses significant challenges for China's domestic procurement law. For instance, GPA Article XXIV: 5(a) requires that each Party shall ensure, no later than the date of entry into force of the agreement that the conformity of not only its "laws, regulations and administrative procedures" but also the "rules, procedures and practices" are applied by the covered entities with the GPA (cited in Wang 2010). This involves establishing the required procedural rules by the GPA, training purchases to use them, and monitoring their application. For a country with a weak government procurement framework, the costs of adaptation are high. Interviews indicate that the WTO in turn created new incentives for China to offer an improved proposal by driving up their economic gains. In particular, it was suggested that the WTO's presiding staffs facilitated negotiations with the developed countries for financial and technical assistance (for supporting domestic industries); and more foreign direct investments (FDIs) to China (i.e., manufacturing).¹⁵⁰

On 9 July 2010, Beijing submitted a revised offer, which contained only very modest improvements from the initial coverage, especially with regards to the central entity coverage. Here, Beijing agreed to raise the threshold over time, and made new offers on the services procurement. But these improvements were far lower than expected. During the 25-26 May 2011 meetings of the Government Procurement Committee in Geneva, the Chinese delegation met bilaterally with many GPA parties, including the US and EU countries. According to the Government Procurement Committee Chairman, Nicholas Niggli, "They had good discussions with [China], and it seems also that the bilateral cooperation – with people travelling to Beijing, for instance – has been extremely fruitful" (cited in Inside US-China Trade, 1 June 2011).

¹⁵⁰Interview with an expert from Peking University, Beijing, 23 September 2011.

A second revised offer from China was submitted in November 2011. In this offer, sub-central government entities in a number of the most economically advanced regions were included for the first time. Even so, numerous GPA member-states were still unhappy with the revisions, and countries such as the US, EU nations, Switzerland, Japan, Singapore, and South Korea, asked China to reduce the thresholds for increasing international competition in the bidding of its public procurement projects. Doing so would require China to scale-back exemptions and align its procurement legislation with the GPA framework. As part of the streamlining, the coverage of entities needs to be expanded to include local governments and state agencies, state-owned enterprises (SOEs) and public utilities (Beattie, 15 December 2012). Niggli has stressed that, “Five years into the process of China’s accession to the GPA, there is some distance to go before a meeting of minds is achieved” and “positions are still quite apart, although the process is moving in the right direction” (cited in Geneva Watch, 20 July 2012).

Following the conclusion of an updated GPA framework in December 2011 (Robinson and Kenny, 15 December 2011), China submitted a newly revised offer in late-2012 that took into account the suggestions made by GPA members. Even though the accession negotiations are on-going in the writing of this thesis, China’s revised offers for entry into the GPA framework demonstrate a dynamic shift in policy preference from 12 years ago; from a position of reluctance and deliberate stalling to not only an agreement to accede, but also perpetually expand its accession offer coverage.

5.2.2 Trade in services

The “General Agreement on Trade in Services” (GATS) was brought into the GATT during the Uruguay Round, and its negotiations have perpetuated under the DDA. The GATS embodies all measures that affect the range of sectors under the trade in

services.¹⁵¹ The WTO defines trade in services as “the supply of a service through one of four modes” (cited in Mattoo, 2002: 2-3). Mode 1 is *cross-border supply*. It is the trade in goods, and arises when a service crosses national borders (i.e., the purchase of software or insurance by a consumer from a supplier located abroad). Mode 2 is *consumption abroad*. It arises when the consumer travels to the geographic base of the service supplier (i.e., to purchase tourism, education, or health services). Mode 3 is *commercial presence*. It involves FDI (i.e., when a foreign bank or telecommunications firm establishes a subsidiary unit in another country). Mode 4 is the *movement of individuals*. It occurs when independent service providers or employees of a multinational firm temporarily moves to another country.

At the start, China aligned its position with the Recently Acceded Members (RAMs) – it has little appetite for new commitments as it faces great challenges implementing its ambitious commitments made during accession.¹⁵² In a communication with the Council for Trade in Services not long after China’s WTO accession, it implied that domestic small and medium-sized enterprises (SMEs) as well as infant industries “found it difficult to develop their business against fierce competition from big foreign competitors, especially as some of China’s services industries are still at [their] infancy” (Cited in TWN, 18/19 December 2002).¹⁵³ There were deep internal rejections to further liberalisation particularly from the SOEs as they feared a break-down of gains.¹⁵⁴ Also true was that services only accounted for approximately 30 percent of China’s gross domestic product (GDP) at the time, which

¹⁵¹ The only explicit sectoral exclusion from GATS is certain “hard” rights in the aviation sector.

¹⁵² China’s WTO accession commitments in services include: for most sectors, modes 1 and 2 are either fully open or unbound, and not subject to specific restrictions. Commitments on mode 4, specifically horizontally rather than sector by sector, are also standard: entry is guaranteed only for managers, executives and specialists – who must either be intra-corporate transferees or employed by foreign invested enterprises – and for services salespersons on exploratory business visits (Mattoo, 2002: 6-7).

¹⁵³ An example of this is a communication submitted to the Council for Trade in Services not long after China’s WTO accession. In the communication, China implied that its infancy services sectors such as the tertiary industry are much smaller in scale than the foreign counterparts and has generally found it challenging to compete against the larger competitors from abroad.

¹⁵⁴ Interview with a policy advisor of the China Academy of International Trade and Economic Cooperation under the MOFCOM, Beijing, 19 November 2012.

is much less than the 70 percent share of GDP in the US, EU, and Japan.¹⁵⁵ Meanwhile, the few Chinese service suppliers that have expanded abroad (i.e., the Bank of China in London) did not do so well, and failure stories de-motivates Chinese firms to venture to foreign markets.¹⁵⁶ For these reasons, Beijing did not have any incentive to respond actively in this regard, justifying its “quietism” as a reflection of a need to adapt to, and improve its knowledge on, the complicated services framework under discussion.¹⁵⁷ Of course, it can be expected that some of the protection is due to political and economic pressures from interest groups, but the government generally felt the necessity to protect its domestic suppliers from external competitions because of arguments relating to industrial infancy or the facilitation of “orderly exits.” Thus, China’s national preference at the DDA negotiations in 2001 was characterised as “big door open, small door shut;” that is, the Chinese delegation called negotiations on services to address the development gaps in services between the developed and developing countries with the latter entitled to flexibility as stipulated in the GATS.

The negotiation problems assumed a new sense of urgency in the wake of the backlash from the failed trade talks in Cancun (September 2003). At this meeting, China took advantage of the most favoured nations (MFN) and the national treatment obligations under the GATS, and this allowed exceptions to be listed. Beijing listed international maritime transport – for cargo sharing agreements with certain countries. It also permitted joint ventures (JVs) as well as the establishment of wholly-owned shipping subsidiaries on the basis of bilateral agreements. Beijing did not cease the existing subsidiaries in aviation, audio-visual and medical services. Other situations of discriminatory provisions include: the requirement of all legal representatives to reside in China for at least six months of each year; the large majority of doctors in JV

¹⁵⁵Interview with an expert from Fudan University, Shanghai, 24 April 2012.

¹⁵⁶ Interview with a policy advisor from the China Academy of International Trade and Economic Cooperation under the MOFCOM, Beijing, 19 November 2012.

¹⁵⁷Interview with a policy advisor from the WTO Division of MOFCOM, Shanghai, 2 March 2012.

hospitals need to be of Chinese origin; capital requirements for JV construction enterprises must be different from domestic enterprises; JV travel agencies are forbidden to supply its services to Chinese citizens travelling abroad; and foreign insurance companies are subject to a 20 percent cession with a Chinese Reinsurance company (though this was to be phased out in four years) (Mattoo, 2002). In the digital communications sector, government-sanctioned blocking of western news and entertainment websites was a routine occurrence; and in July 2004 Beijing announced the regulation and filtration of phone text messaging (Kahn, 2004: A3).¹⁵⁸ The developed countries were displeased with China's restrictions and pressured Beijing to take commitments to liberalisation. China's responded by reiterating the imbalanced gains from services trade liberalisation at the 2005 Hong Kong Ministerial meeting, and by arguing that developing countries should be granted the space for policy readjustments, especially the right to administer and standardise the services market.¹⁵⁹ With these said, China did begin to show new interest in Mode 4 services, and joined a host of developing countries in asking for reductions in the restrictions on the movement of people, especially those with lower skill-sets – an area where China have a comparative advantage (TWN, 3 July 2003). The Chinese government also showed new interest in Mode 1 services. Beijing believed that services in goods are much easier to manage and generally has a lower political risk attached due to the minimal ideological implications.¹⁶⁰

In the 2006 high-level meeting in Geneva, China returned to its traditional low-profile and leadership-avoiding national preferences. Although the official rhetoric for China's "quietism" was that it needs time to digest the new WTO obligations, critical observers argue that Beijing did not want to step on the toes of either the developed or

¹⁵⁸ This was seen as a response to the use of cell phones in 2003 to transmit news relating the SARS epidemic, revealing initial attempts by Beijing to suppress the health crisis, as well as cases involving state corruption and abuses of power.

¹⁵⁹ This was expressed in the national statement made by Chinese Minister of Commerce, Bo Xilai.

¹⁶⁰ Interview with an expert from Fudan University, Shanghai, 24 April 2012.

developing countries, and it wanted to avoid extra international pressure to further open its services markets through stronger WTO commitments.¹⁶¹ China also wanted to prevent itself from being labelled the troublemaker (Sally, 2011; Huang 2008, 26). Without denying the truth in these observations, the empirical interviews of this study identified a primary source of uncertainty at the time for the Chinese government – which explains its sudden quietism – is the impact of services trade liberalisation on regulatory freedom and the limitations to its autonomy to enforce appropriate regulatory policies. For Beijing, its experiences in the multilateral negotiations made it believe that the WTO system was generally ill-equipped in dealing with the regulatory standards dimension of services trade. This systemic weakness substantially reduced the scope for Beijing to make binding commitments to liberalise access to its services markets (Hoekman and Vines, 2007: 321-324).

Although unpopular to other countries, Beijing also felt the need to maintain restrictions on foreign ownership (especially in telecommunications and life insurance) because: (i) the limited foreign ownership will help balance the efficiency-enhancing and rent-appropriation elements of FDIs; (ii) by inducing foreign investors to form equity JVs, local firms can learn through collaboration; (iii) drastic cuts in surplus labour triggered by an immediate transfer of control can be prevented by gradual retractions in ownership; and (iv) a general political reluctance to accept foreign control of the essential domestic services sectors. These domestic sensitivities made Beijing reluctant to concede to stronger GATS commitments. In response to American criticism, China publicly accused the US of hypocrisy for heavily subsidising its own industries while requesting other countries to expose theirs' to fierce international competition. Additionally, Beijing highlighted the deep reforms already undertaken as

¹⁶¹ For instance, China is viewed by the developed countries as “the biggest beneficiary” of the multilateral system and the DDA, hence the US and EU heavily pressed China to bear more obligations beyond their capacity; while developing countries hope China to take a lead on their behalf against the developed countries.

part of the accession process, and further commitments in Mode 1 services were made since the DDA negotiations (Sally, 2011: 9; Beattie, 2011). Such strong policy preferences surprised the negotiation arena because of its notable contrast to the country's usual modest and low-profile national preferences.

Following a suspension of the talks after the July 2006 negotiation impasse, Pascal Lamy called an informal meeting held under the Trade Negotiations Committee (TNC) on the morning of 16 November 2006. The stated purpose was to discuss the situation on the DDA negotiations, including contentions in the services trade talks. The decision to call an informal TNC came after a Green Room meeting on 10 November 2006, to which Lamy invited some 20 influential Members, including China. The meeting allowed members to use the informal TNC to agitate for the resumption of the trade negotiations by discussing how to revive the talks after it broke-off from deadlock-breaking offers of tariff or subsidy cuts. Then during a Green Room meeting on 22 January 2007, Lamy agreed to a request by the services demandeurs (i.e., the US, EU, and Japan) to emphasise in Davos that services trade is a critical component of the overall market-access negotiations, of which a meaningful offer in services liberalisation could unlock possible concessions by major developed countries in the agriculture and industrial goods talks (Leal-Arcas 2007). Domestically, the impasse of the 2006 negotiations caused business groups in China to acknowledge the considerable costs that would be incurred by a failure to conclude a global trade pact (World Economic Forum, 12 February 2007). Business groups voiced concerns about the potential loss of considerable economic welfare gains and about the risk of weakening the safety net that the WTO provides against rising protectionist tendencies (European Business for Doha, 25 January 2007).

By this time, China's business service exports have rapidly expanded, growing at 15 per cent per annum from 1995-2005 (Hoekman, Mattoo and Sapir, 2007: 369).

Although the restrictions on foreign equity were pervasive, they were gradually phased out, with the exception of some elementary telecommunications and life insurance. And with the exception of retail distribution, explicit restrictions on a number of firms were gradually phased out (Hoekman, Mattoo and Sapir, 2007: 377-381). Arguments for changes in technologies and the reform of natural monopolies in the state-provision of major services sectors enabled more sectors of the services industries to be internationally contested through the mediums of international trade (i.e., mode 1 of the GATS) and FDI (mode 3). Policy reforms, including liberalisation and privatisation, have thus complemented technological changes in support of enlarging the trade in services. The outcome of this includes rapid growths in the international exchanges of business services that were historically non-tradable and further rapid expansion in services-related FDIs. China's policy pursuit for increased contestability of the services market can be explained by several reasons. For one, in order to ensure that capital is deployed where it has the best returns, it is of imperative to have an efficient and competitive financial sector. In the telecommunications services sector, its features as an immediate input, a conduit of information, and other digitisable products, lower-costs and higher-quality telecommunications can generate economy-wide benefits. The transport services sector likewise positively contributes to improving the efficiency of product distribution within and between nations. Other services sectors with a commercial nature (i.e., accounting and legal services) contribute to reducing the transaction costs associated with the operation of financial markets and the enforcement of contracts. In the retail and wholesale distribution services, it significantly influences the competitiveness of market players domestically and internationally, and improves the important producer-consumer relationship (Hoekman, Mattoo and Sapir, 2007: 370).

In the meantime, a World Bank report pushed China to open up its services sector to international trade and investment. Doing so would help introduce advanced

technology and expertise, promote reforms, increase competition and ultimately enhance the efficiency and competitiveness of China's service sector. It would also provide China with "leverage" in international trade negotiations to aggressively push for the opening of their partners' services markets (Reuters, 29 February 2012). In 2008, China positively expressed its extended interests in services trade. In reference to the "signalling conference" held during the July 2008 mini-ministerial meeting, Ambassador Sun Zhengyu reiterated in his statement:

"[I]n spite of our very extensive commitments in our services schedules, we are going to make new efforts, we are going to give *signals* to consider, *on condition that others will reciprocate*, some new sub-sectors, and some improved offers. Eventually the level of openness of our service markets will be roughly at the same level as some developed countries. So that *will* be our contribution."

In 2011, the Chinese government pledged to open roughly 110 subcategories¹⁶² out of 160, which will be the same as many developed countries. In addition, China is considering the liberalisation of model 4 services.¹⁶³ According to national statistics, services sectors (which range from transportation to retail and wholesale distribution and tourism and hospitality) accounted for 44.6 per cent of China's GDP in 2012. That is less than one point behind the growth of the traditional industries (45.3 per cent). The services sectors are rapidly developing and its growth may reflect the on-going government rebalancing of the development strategy from exports to consumption. Certainly, the rise of services contributes to such rebalancing efforts. For instance, services tend to be labour-intensive, which means that their expansion should encourage faster job creation, higher wages and more household spending (The Economist, 23 February 2013). These benefits have all stipulated the government to announce an

¹⁶² The main subcategories that are considered for liberalisation are services sectors that provide key inputs to traded-goods production, including accounting, finance, administrative, support, professional, scientific, technical services, computer programming, and waste management.

¹⁶³ This position was cited from an interview with Sun Zhenyu, the Chairman of China Society for World Trade Organization Studies, former Ambassador and Permanent Representative of China to the WTO from 2002 to 2010. The interview was conducted by China-US Focus on 6 January 2012. The interview is available from <http://www.chinausfocus.com/foreign-policy/a-successful-completion-of-the-doha-round-benefits-all/> [accessed 13 October 2012].

agenda to encourage the conclusion of a multilateral framework for the trade in services. So since 2001, China's policy preference on services trade has evolved from resistance to further liberalisation of its services sectors, and even more to newfound, though incremental, willingness to open-up previously closed areas.

5.3 WTO and the Mechanisms of Influence

This section takes the empirical findings from the background study of the case-pair to test the three hypothesised mechanisms of influence: the costs-and-benefits calculus, information dissemination, and reputation reinforcement.

5.3.1 Costs-and-benefits calculus

In the early years of the GPA negotiations, Beijing tended to outweigh the costs of accession over the benefits based on the belief that a GPA membership does not enlarge their overseas market access. For example, although exporters of homogenous goods may see some benefits, it is nevertheless likely to a fall in the purchases of differentiated products and a rise in the government's foreign sourcing of homogenous goods. Beijing was thus uninterested in acceding to the GPA framework. In response, the Committee on Government Procurement under the WTO drafted an analysis for China entailing the prospective benefits of GPA membership. One particular emphasis made was on corruption. They argued that China's existing government procurement system grants more discretion to procurement officials, and this cause expanded opportunities for corruption and bribery. One study argued that corrupt officials have the tendency to deliberately expand their expenditures on (especially the highly differentiated) projects including aviation and construction where there are few comparable reference prices within the market. Their econometric analyses further suggested that "officials with an interest in rent collection are likely to employ non-transparent procurement regimes to

expand government spending on those items where the opportunities for self-enrichment are greatest” (Evenett and Hoekman, 2004, 276). As a result, the SMEs will be dis-incentivised to go through the standard process of contract bidding and take the easy route of bribing officials in charge. The firms’ motivation to supply to the government’s needs and do the jobs well is also reduced.

The consequence of entry joining the GPA, on the other hand, includes a shift in the government’s demand for more homogenous goods and less differentiated ones. At the same time, it would raise the number of firms willing to bid for contracts as opposed to resort to bribery. Such changes will improve price efficiency. As well, there will be a drop in the demand for imported differentiated goods, which implies that increasing transparency need not necessarily raise foreign market access in total. Overall, the GPA can contribute to reforming China’s domestic procurement regime and improve its justice and equity.¹⁶⁴ The ultimate objective of these estimations was to raise government and industrial awareness on how China can benefit from a GPA membership.¹⁶⁵

The services case similarly illustrates Beijing’s long-held conviction that the costs attached to further liberalisation commitments outweighed the benefits. The regulatory concerns have been a key impediment to the Chinese decision-makers from taking cooperative action. For example, the Chinese delegation frequently points to the intangible nature of services, which makes it hard for buyers of services to investigate or test their quality prior to purchase. The extent of asymmetric information often creates a necessity to regulate services in order to protect the consumers, on the one hand, and remedy market failures due to imperfect competition and incomplete

¹⁶⁴ Interview with a senior member of the WTO Division of MOFCOM, Beijing, 22 November 2012.

¹⁶⁵ Interview with a member of a Chinese hydro-component manufacturing company, Shanghai, 19 May 2012.

information.¹⁶⁶ To reframe the Chinese decision-makers' pessimism in this regard, the WTO's Council for Trade in Services held¹⁶⁷ informal discussions with members of the Chinese delegation and reasoned that since most services are, itself, inputs for the production of other services and goods, introducing competition through an expansion of market access opening to foreign service providers will actually reduce the "cartel effect"¹⁶⁸ and attenuate the "cost inefficiency effect."¹⁶⁹ FDI is a case in point. It is a key medium for foreign providers to import their services into the domestic market, generate competitive pressures, and in so doing, induce internal and allocative efficiency. The existing services FDI in China have already demonstrated that it is a valuable source of new knowledge, and contributes to the Chinese economy's production and export of advanced and superior products. As the barriers of trade drops for producer services, imports (including through FDI) will increase, and the costs of imported services will decline. Even if such situation displaces some domestic firms, the improved quality of services as well as the expanded variety of available services will nonetheless spawn positive public externalities for service providers due to a rise in the total factor productivity (TFP) (Markusen, Rutherford and Tarr, 2005). WTO experts further argue that increased competition in service sectors through international liberalisation can boost growth.¹⁷⁰ For example, analyses on the effects of trade and investment openness for the financial and telecommunications sectors found that fully liberalised countries grew, on average, one percentage-point faster than other countries (Mattoo, Rathindran and Subramanian, 2006), increases productivity in the

¹⁶⁶ Interview with a member of the Department of Treaty and Law of the MOFCOM, Beijing, 15 November 2012.

¹⁶⁷ Interview with a former member of the Department of Legal Studies, MOFCOM, Beijing, 22 November 2012.

¹⁶⁸ The cartel effect is "the mark-up price over marginal cost that incumbents are able to charge owing to policies that restrict entry" (Hoekman, Mattoo and Sapir, 2007).

¹⁶⁹ The cost inefficiency effect is "an environment where there is limited competition the marginal costs of incumbents is likely to be higher than if entry was open" (Hoekman, Mattoo and Sapir, 2007).

¹⁷⁰ Interview with a policy advisor to MOFCOM, Beijing, 25 October 2012.

manufacturing sector (Francois & Hoekman 2010), and contributes to adding valuable inputs into infrastructure development (Jensen 2011).

Comparing the two cases, the WTO agencies' were identified to have impact, but to varying degrees. According to the interviews for both cases, there was a strong belief that the WTO's costs-and-benefits analyses were accepted by Chinese decision-makers because they demonstrated strong congruencies with the government's domestic reform agendas. The Committee on Government Procurement, for instance, made a strong case for the GPA membership by highlighting the political benefits of controlling corruption (i.e., through its rules, MFN obligations, and offsets). The argument appealed directly to the Chinese leaders and galvanised domestic political support. Since the mid-1990s, Beijing has been vigilant about ferreting out official corruption, bribe-taking, and dereliction of duty. In his opening speech to the 18th National Party Congress, former President Hu Jintao stressed the urgency in addressing corruption¹⁷¹ before it erodes public confidence¹⁷² and cause the "fall of the state" (BBC News China, 8 November 2012; Phillips, 8 November 2012). Leaders believe the GPA could be a useful external force for pushing domestic political anti-corruption efforts. This motive was found, through interviews, to be a dominant reason for China's submission to the GPA accession in 2007.¹⁷³

Likewise, the WTO's analyses were perceived to be useful supplements to the government's existing plans to reform its services sectors. As one MOFCOM policy advisor points out, China's national preference shift in services over the recent years has much to do with the fact that an international agreement on services would be beneficial

¹⁷¹ The Chinese business magazine, *Caixin*, reported in early-2012 that China's Central Bank believes as many as 18,000 government officials and SOE employees are guilty of corruption worth an estimated US\$127 billion (cited in Today Online, 30 October 2012).

¹⁷² Recent cases of official corruption have stoked public anger and there have been a series of high-profile mass protests focusing on land grabs and environmental issues. Personal observation.

¹⁷³ Interview with an expert from China University of International Business, Beijing, 17 February 2012.

for the country's next round of economic reforms.¹⁷⁴ This is not least because the average annual rate of growth in the services sectors such as the tertiary industry is approximately 10.8 per cent of added value between 1978 and 2007. This is at least three to six percentage-points higher than the agriculture and manufacturing sectors in China (Zhang and Evenett, 2010: 9). In addition, the Chinese decision-makers believe that opening-up Mode 4 services will help address its domestic unemployment problems.¹⁷⁵ Because opening-up contributes to China's domestic objectives, the decision-makers were more willing to accept the WTO's rationalisations.¹⁷⁶ Arguable then, the WTO agencies' costs-and-benefits calculus is influential, especially when it serves China's national objectives.¹⁷⁷

However, where the case studies differ is in the extent of which the WTO's influence was absorbed into real policy shifts. While the GPA case illustrated perpetual expansion of compromises by the Chinese government in terms of its offer coverage, the services trade preference shifts were largely incremental. What explains this variance? From the qualitative data, it is clear to see that a key contingency of influence is the *perception* of the decision-makers. For instance, decision-makers for the GPA generally perceived a strong set of benefits as a result of accession, especially to China's future political system. Reversely, the risk of not participating in the GPA was considered detrimental to the CPC's political legitimacy. By comparison, decision-makers for the services trade modality generally perceive liberalisation as beneficial for its domestic economic restructuring. At the same time, however, the short- and medium-term political cost of not non-action is also not high and open to debate. More

¹⁷⁴ Services reform has already begun in June 2012 with the establishment of the "Qianhai" project based in Shenzhen worth US\$45 billion. Interview with a policy advisor to the WTO Division of MOFCOM, Tsinghua University, Beijing, 22 November 2012. Interview with a policy advisor from CAITEC of MOFCOM, Beijing, 19 November 2012.

¹⁷⁵ Interview with a policy advisor from the China Academy of International Trade and Economic Cooperation under the MOFCOM, Beijing, 19 November 2012.

¹⁷⁶ Interview with a senior Chinese negotiator from the WTO Division of MOFCOM, Beijing, 22 November 2012.

¹⁷⁷ Interview with a member of the Department of Treaty and Law, MOFCOM, Beijing, 23 November 2012.

importantly, the decision-makers believed that with the suggested benefits are potential costs. For example, although consumers in theory should favour services reforms as it expands the diversity of services available to them at competitive prices it is also possible that they will oppose such reforms due to a fear that doing so will lower consumer welfare, including the quality of services.¹⁷⁸

Another concern the decision-makers had concerns the notion of “stability maintenance.” That is, a primary goal for Beijing was to maintain short-term stability in its service sectors, despite a need to improve long-term efficiency. Nowhere was this debate more imminent than in the banking sector reforms. The thought process is that as long as the short-term financial crises do not occur, the chance of resolving the long-term problem, including efficiency, is possible. But if China was to liberalise its services sectors, then uncontrollable events such as a global financial crisis could erode long-term certainty and short-term stability (Wu, 8 October 2012). A further political fear was that services trade could undermine Beijing’s autonomy to enforce domestic regulatory standards since trade brings with it regulatory intrusion, and service suppliers will only be subject to the home market’s rules. This is especially the case for mode 1 and 4 services – if trade is permitted to occur on the basis of qualifications and certifications obtained in their home country, then it is uncertain whether foreign providers will seek to also meet Chinese norms. Thus, the regulatory concerns of excessive intrusiveness, inherent unpredictability in commitment implications, and the capacity to set-up complementary measures for achieving regulatory and social objectives clouded the perceptions of the decision-makers regarding the WTO agencies’ relatively more positive calculus of the gains from services liberalisation. It goes to say that the different degrees of *perceived* benefits vis-à-vis the costs generate variances of influence, as seen in the two cases.

¹⁷⁸ Interview with an experts from the Chinese Academy of Social Sciences, Beijing, 8 November 2012.

5.3.2 *Information dissemination*

When asked about China's passive participation in the DDA negotiations, especially in the fore years of the negotiations, 97 per cent of Chinese and non-Chinese interviewees commonly believe that the country was in a learning process with regards to the WTO system and the specialised issues on the DDA. As a US official said, "A major problem in China is economic literacy and a lack of it in Chinese officials; this is very problematic for negotiations."¹⁷⁹ The GPA negotiation is a case in point. Unlike the strong domestic drive to WTO membership, the country's accession into the GPA framework was, in the beginning, almost neglected by the senior leaders. Jiang Zeming and Hu Jintao have rarely mentioned the issue in public; and Wen Jiabao only occasionally acknowledged it in passing (Xinhua News Agency, 29 April 2010). For the most part, China's attitude on the issue was relatively ambiguous. The interviews suggest that Beijing's ambivalence was primarily caused by a lack of understanding about the framework; even today, Beijing is still in a process of familiarising itself with the laws of the GPA.¹⁸⁰ To raise government awareness, the technical staffs at the WTO offered consultative support, especially from 2005, to policymakers from the MOFCOM, the MOF, among others.¹⁸¹ However, the support was mostly elementary, and little substantive policy assistance was received as the WTO does not itself have enough experts on government procurement.¹⁸²

Even so, interviewees recalled that the MOFCOM and the MOF, in particular, "became very supportive of joining the GPA after realising its purpose and benefits as a result of consultative learning with WTO members."¹⁸³ The MOFCOM Minister subsequently stressed to the State Council that becoming a GPA country could help the

¹⁷⁹Interview with an expert from the Chinese Academy of Social Sciences, Beijing, 8 November 2012.

¹⁸⁰Interview with an expert from the University of International Business and Economics, Beijing, 17 March 2012.

¹⁸¹Interview with a Japanese negotiator to the WTO, London, 26 January 2012.

¹⁸²Interview with an expert and policy advisor from the University of International Business and Economics, Beijing, 12 March 2012; Interview with a Japanese negotiator to the WTO, London, 26 January 2012.

¹⁸³Interview with a policy advisor to the WTO Division of MOFCOM, Shanghai, 3 March 2012.

government promote new industrial reforms and drive the country's procurement system towards openness and transparency.¹⁸⁴ The conservative decision-makers rejected this argument however and argue that it is not appropriate or necessary to depend on foreign pressures to push for domestic reforms.¹⁸⁵ In the end, the MOFCOM's proposal was overshadowed by more imminent members of the central government; and the influence of information dissemination was undermined. This goes to show that the influence of international discourse can at times be barricaded by internal politics. The finding is supported by the qualitative data, which has 72 percent of respondents share the view that information dissemination is effective in improving the policymakers' understanding about the legal and professional aspects of the GPA, but not necessarily in influencing national preferences.

Like China's initial GPA stance, its early policy on services was characterised as ambiguous. Because of the wide range of complex and technical issues involved in the services negotiations, from finance to telecommunication and distribution, it has required a labyrinth of government agencies to participate in the knowledge catch-up marathons, and often behaved passively in the process at the multilateral negotiations.¹⁸⁶ As Bernard Hoekman and Aaditya Mattoo (2011: 14) point out, "Matters are already complex when negotiations revolve around traditional trade policies such as tariffs and quotas; but they are an order of magnitude more complicated when it comes to services given that there is almost invariably a regulatory dimension."¹⁸⁷ The interviews illuminated that the Council on Services Trade within the WTO have actively supported the relevant agencies in technical and specialist training through various forms of

¹⁸⁴Interview with an expert from the University of International Business and Economics, Beijing, 17 March 2012.

¹⁸⁵Interview with an expert from the Chinese Academy of Social Sciences, Beijing, 10 November 2012.

¹⁸⁶Interview with an expert from Fudan University, Shanghai, 25 April 2012.

¹⁸⁷ There are two specific dimensions to the broad challenge of *national* regulatory cooperation and services policy reform: (i) addressing knowledge gaps – increasing information on regulatory experiences and impacts and identifying alternative options/good practices; (ii) identifying the impact of – and the options for dealing with – the political economy constraints that impede the implementation of welfare improving reforms (Hoekman and Mattoo, 2011).

information dissemination on (i) the scope and size of services trade liberalisation and regulations; (ii) the competitiveness of the relevant industries as well as the likely impacts of the services trade liberalisation on those industries; and (iii) other information relevant to its policy preference formulation.¹⁸⁸ Participating policymakers suggested that whilst engagement with the Council produced positive learning benefits, they also felt the constant influx of diverse information complicated the inter-agency coordination process as different agencies received too diversified and at times contradicting information, which caused the emergence of competing ministerial interests.¹⁸⁹ In the words of one Chinese negotiator to the WTO, “Information that were received were confusing as it covered so many different and varied details for different government departments, and the inter-agency discussions therefore became difficult, especially when different departments received different kinds and amounts of information, causing imbalances in knowledge and perception.”¹⁹⁰ As a result, establishing a coherent consensus becomes a challenge.¹⁹¹ This finding contrasts with the cognitive assumption that international discourse is useful in guiding inter-agency negotiations between domestic groups as it increases their mutual understanding about the country’s negotiation objectives and priorities. A similar implication for the GPA case study was not found. This variance could be due to the fact that the GPA-related WTO agencies only provided elementary support and therefore it was not significant enough to trigger a similar effect.

Related to this point is the WTO agencies’ lack of any robust mechanism for generating reliable information on regulatory substance and enforcement in different country contexts (Feketekuty 2010). In the case of the GPA, an explanation for the reduced influence of information dissemination is that the WTO agencies’ discourse did

¹⁸⁸ Interview with a Japanese negotiator to the WTO, London, 26 January 2012.

¹⁸⁹ Interview with a former member of the Department of Legal Affairs in MOFCOM, Beijing, 22 November 2012.

¹⁹⁰ Interview with a Chinese negotiator from the MOFCOM, Beijing, 17 November 2012.

¹⁹¹ Interview with an expert from Shanghai Institute for International Studies, Shanghai, 27 August 2011.

not actually enhance Beijing's understandings about the concept of "government procurement"; it failed to provide a clear definition of what the notion actually implies in political and economic terms. And neither the GATT 1994 nor the GPA 2007 embodies precise definitions for the notion of "government procurement." For instance, the GATT 1994 defines "government procurement" as the procurement for government purposes without referring to what government purposes are. Similarly, the GPA 2007 defines the notion as any kind of purchases made by the covered entities rather than for other commercial purposes. The lack of a concrete definition in the WTO discourse – leaving each Party to legislate their own definition based on the scope of their government procurement activities – created difficulties for Beijing to ascertain how they should treat the negotiations. What the disseminated information from the WTO did clearly indicate in great detail were the political costs attached to joining the GPA. For example, Beijing might lose their authority to select between government control and market forces. Since Beijing believes it is important for the government to retain control over investment and consumption in order to meet economic and social development objectives, compromising this for entry to the GPA was unacceptable. A senior member of the WTO Secretariat admitted that the regime needs to improve its supply of updated information to nation-states. In fact, it was suggested that member-states often do not even know where to find information and where to seek technical assistance within the WTO. This is one area the WTO agencies need to expand in capacity.¹⁹²

In services, a policy advisor to MOFCOM points out that the WTO's services norms tend to be vague and there were limited support offered to China – only on the labour issues were there some support.¹⁹³ Within the Council on Services Trade, interviews revealed that there is limited sectoral/regulatory expertise to assist China or

¹⁹²Interview with a senior member of the WTO Secretariat, London, 2 February 2012.

¹⁹³ Interview with a policy advisor from the Chinese Academy of International Trade and Economic Cooperation under the MOFCOM, Beijing, 19 November 2012.

any other country.¹⁹⁴ For instance, the WTO comprises of around 600 people of which only approximately 300 are working staffs. Breaking down the calculus to 20 working departments, then each technical section is only comprised of approximately 10 staffs.¹⁹⁵ One Chinese negotiator went one step further to claim that, in many instances, the “WTO simply is not interested in expanding their expertise due to US and EU influences; if it was interested, it would have improved its expertise and information quality.”¹⁹⁶ Instead, other MERs, such as the World Bank are the actual providers of regulatory and sectoral information and assistance for a number of services sectors including transport, telecommunications, and finance (Hoekman and Mattoo, 2011: 15).¹⁹⁷

Members of the WTO have pointed out that in the absence of such mechanism it has actively hosted a range of training workshops which already serve similar purposes. However, interviews with members of the Chinese government reveal that these workshops are not usually treated with much seriousness; and this is even more so in the presence of language barriers.¹⁹⁸ As a result, the influence stemmed from the workshops tends to be small. The lessons here is that the WTO agencies’ influence through information dissemination is contingent on (i) how detailed and precise the international discourse; (ii) the benefits of adapting to the information; (iii) the variety of information disseminated across different government agencies; and perhaps the most important element is (iv) the level of proficiency within the WTO’s working bodies.

¹⁹⁴ Interview with a former member of the Department of Legal Affairs in MOFCOM, Beijing, 22 November 2012.

¹⁹⁵ Interview with a member from the Department of Law and Treaty, MOFCOM, Beijing, 23 November 2012.

¹⁹⁶ Interview with a senior member of the WTO Division in MOFCOM, Beijing, 22 November 2012.

¹⁹⁷ For instance, on February 27, 2012, the World Bank and the Development Research Center of the State Council released *China 2030: Building a Modern, Harmonious, and Creative High-Income Society*. The 468-page document contains six broad economic policy recommendations, including achieving the trade-related goal of “mutually beneficial relations” with the rest of the world (*Reuters*, 29 February 2012).

¹⁹⁸ Interview with a member from the Department of Law and Treaty, MOFCOM, Beijing, 23 November 2012.

A further impediment to the impact of information dissemination is Beijing's fragmented decision-making structure characterised by the inter-agency power struggles. As already mentioned, even though the MOFCOM is, in theory, responsible for the GPA negotiations and preference formation, the MOF also leads numerous dimensions of the negotiations due to its high-level content relevance. Meanwhile, the NDRC is the oversight agency against the GPA, although the MOF – a proponent of the GPA – has on numerous occasions implemented national positions outside the NDRC authority. Yet, the MOFCOM has the discretion to either accept or ignore other ministerial proposals, depending on the consensus and support from the leadership (Liang, 2003: 301-304). As a result of the fragmented decision-making structure, it is difficult for the WTO agencies to identify a reliable route for channelling its discourse.¹⁹⁹ The preference formation for services points to a likewise situation. Although the MOFCOM is formally the lead trade policy agency and usually represents China in the services trade negotiations, it only has the authority of a negotiator on behalf of industries and not the authority of a real coordinator (Wang, 2010). In other words, the MOFCOM needs the endorsements of the relevant industrial ministries and commissions for its trade preferences, which is often very difficult to attain given that its interests tend to clash with fierce contradictions from other ministries in charge of various sectors such as banking, telecommunications, and insurance dimensions of the services negotiations.

That is why domestic interest groups can at times be assertive in resisting further liberalisation beyond the WTO-accession levels, as long as the political leadership does not directly intervene in the preference formation. Moreover, as more representatives from other ministries join the MOFCOM at the WTO negotiation table, it further undermines the MOFCOM's control over the discussions. For instance, negotiators

¹⁹⁹As a matter of fact, if there is a solid agreement among the leadership for a particular policy preference, the upper consensus has therefore already set-up a common target for all the relevant ministries. Hence, there is not much room for ministries to take into account their own preferences.

from other ministries blamed the MOFCOM officials for not understanding the real situation in their sectors, and as such, there was no reason why the MOFCOM officials should speak on their behalf (Liang, 2010: 716-717). In this context, even if the WTO agencies' information was effective within a particular ministry it was disseminated to, the incoherence between the ministries can easily undermine the impact of the discourse. One Chinese expert have commented, "China's domestic politics does interfere with China's trade policy; and the lack of coordination due to competing interest between ministries is a key impediment."²⁰⁰ Thus, the second contingency of influence through information dissemination is the policy setting in Beijing; especially the level of cohesion in the inter-ministerial coordination process.

The third contingency has to do with the political costs attached to the international discourse. On the GPA issue, the information disseminated to Beijing caused concerns about the impact of joining the GPA on the government's autonomy. As the GPA rules directly regulates the government's activities, and have a restrictive effect on state interventionist policies for market activities, membership would imply a reduced autonomy over consumption and investment. This is problematic for China because government investments have long been thought of as a useful and effective instrument for the stimulation of social investments. The 2008 financial crises is a case in point; Beijing injected a stimulus package of 4000 billion RMB in order to stimulate social investments. Although the WTO agencies stressed that opening its government procurement regime will not harm the Chinese economy, Beijing nonetheless worries that a GPA accession is not just a concern of market access but more importantly, imply the need to undergo major government reforms of the state sectors. These high political costs attached to supporting the WTO discourse caused some hesitation in Beijing.

²⁰⁰ Interview with an expert from an expert from Peking University, Beijing, 1 September 2011; Interview with an expert from Fudan University, Shanghai, 25 April 2012

Likewise, the information disseminated to Beijing on services was ineffective in shaping China's policy preference because its intentions clashed with the interests of Chinese SOEs. Following the economic reforms since 1978, the SOEs have enjoyed augmented autonomy to make market-based business decisions. At the same time, since the deliberated reforms were only partial, they have retained the rents that were created by the former monopolised system. Together, it has become much more influential in Chinese policy because of its relative importance in generating the country's revenue and employment. As of 2012, Chinese SOEs contribute to approximately 36 percent of the world's products.²⁰¹ Naturally then, Beijing is keen to remain on good terms with the interests of the SOEs or risk domestic political and social instability. Moreover, numerous presidents of major SOEs hold an affiliation with some of the key government agencies. In a way we see a paradox: the sectors which benefited from partial reforms have become major resistance points for future reforms. Their resistance stems from the fact that their profits and rents under the existing system are likely to be lost if faced with external competition and scrutiny.

With this said, the powers of the SOEs are increasingly rivalled by the rapid growth of privately-owned enterprises (POEs). In the past, POEs were generally disadvantaged in the domestic market and resource access as a result of the SOEs' monopolisation of the services sectors.²⁰² This caused many POEs to look to foreign investors (i.e., through the "China-China-Foreign" or CCF JV system) in order to assert themselves within the domestic market.²⁰³ As more POEs take on the CCF, it created a loophole for foreign entry and undermined the coherent industrial policy protected by numerous service sectors from liberalisation (Gao and Lyytinen, 2000: 725). On top of this development, the size of the SOEs' workforces has been falling from 85 percent in

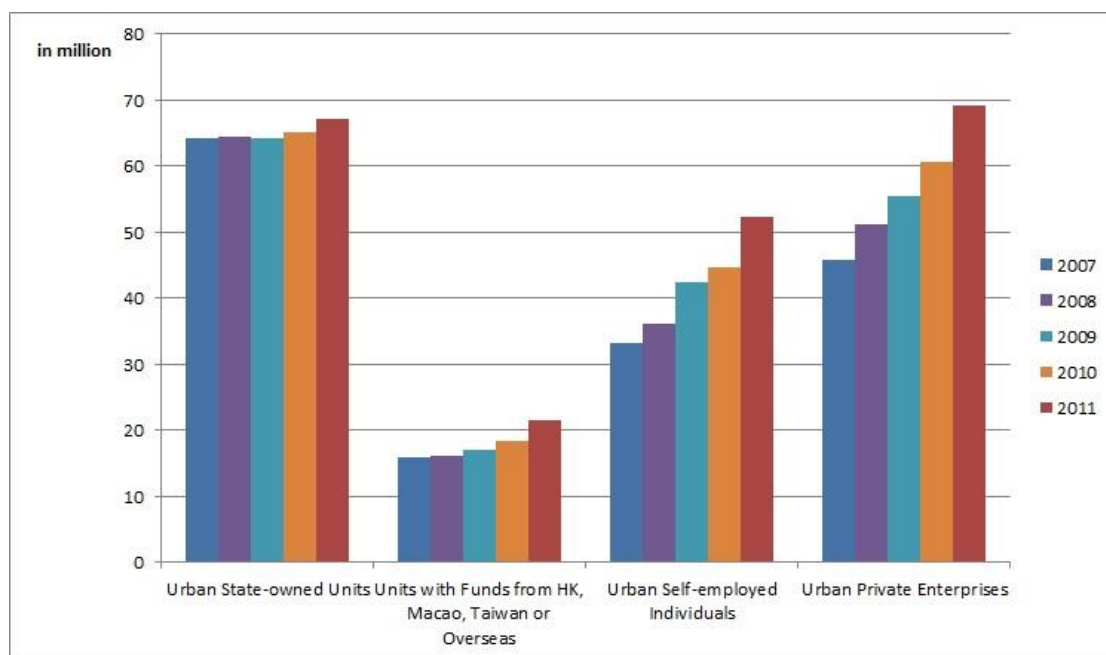
²⁰¹ Interview with an expert from Tsinghua University, 22 November 2012.

²⁰² Interview with an expert from the Shanghai Institute of International Studies, Shanghai, 27 April 2012.

²⁰³ The CCF allows POEs and their shareholders to establish a joint venture with foreign companies whom can hold up to 70 per cent of the ownership.

1952 to approximately 30 percent at just over 60 million as of 2011.²⁰⁴ At the same time, there has been sustained growth in employment in private and foreign-owned businesses. The number of POE employees in urban areas shot up from 45.8 million in 2008 to 69.1 million in 2012 (see figure 5.1) (China Labour Bulletin, 22 June 2013).²⁰⁵

5.1 Working Population by Form of Ownership



Source: China Statistical Yearbook 2012

The growing significance of the POEs,²⁰⁶ and their expanding relationship with foreign investors, added much pressure on the State Council to revise their national preferences on services trade in order to retain control over the domestic market, and mitigate any potential undermining of the CPC's legitimacy.²⁰⁷ One services trade policy advisor claims that an obvious correlation can be drawn between China's national preference shifts in services and the business interests.²⁰⁸ In light of a

²⁰⁴ The majority of workers currently in SOEs are most likely not directly employed by the enterprise but rather by an employment agency created by that enterprise as a means of cutting costs.

²⁰⁵ A further 5.7 million jobs were added in foreign-owned enterprises.

²⁰⁶ The significance of the POEs is also reflected in the CPC's invitation to numerous POE CEOs (Chief Executive Officers) to become members of the Party.

²⁰⁷ Interview with a member from the Department of Treaty and Law, MOFCOM, Beijing, 23 November 2012.

²⁰⁸ Interview with a policy advisor from the Chinese Academy of International Trade and Economic Cooperation under the MOFCOM, Beijing, 19 November 2012.

somewhat ineffective WTO information generating system, business and industrial actors seem to be controlling the steering-wheel of preference formation.

5.3.3 Reputation reinforcement

The third hypothesised variable of influence, advocated by contractualists, is reputation reinforcement; that is, the WTO agencies can constrain China's preference formation by monitoring their performances against international standards and protocols. In theory, even in the absence of material constraints, states may act certain ways or refrain from certain behaviours in order to avoid a loss of status, humiliation, and/or other social sanctions (Johnston, 2008). Empirically, the WTO Secretariat works very closely with the media in the name of transparency and hold daily briefings with the press during negotiation sessions.²⁰⁹ The way the WTO agencies assess China's preferences, and subsequently the way they portray China to the global media adds policy pressure on Chinese decision-makers. For China, the indirect influence of this is significant, and like in climate change, it saw cooperation in international trade as an opportunity to improve its disrupted international image from the events of the past century. It is this concern that prompted China's keen interest to form a united developing country front. In November 2003, Supachai Panitchpakdi, former Managing-Director of the WTO, stressed that the organisation hopes China could work as a bridge between developing and developed countries to help restart the new round of trade negotiations, and stated that, "It [China] has a special status, because it is rapidly becoming a very, very powerful player in international trade" (Cited in BBC Monitoring Asia-Pacific, 10 November 2003). In the view of some interviewed Chinese decision-makers, maintaining China's reputation is also a part of their international policy objective to maintain a stable international environment that is conducive to its national

²⁰⁹Interview with a senior member of the UNFCCC Secretariat, 2 July 2011.

development. Therefore, the reputation reinforcement mechanism can, in theory, drive Beijing towards more cooperative national preferences.

In reality, however, the GPA and services case studies reflect contrary findings. Neither of the two case studies indicated any evidence that members of the WTO actively sought to influence or guide China's GPA nor services policy preference formation through the reinforcement of its reputation factor. As well, there was little indication that reputation has the level of impact that drives national preference changes. According to the interviews, whilst reputation generally matters in the norm-compliance and commitment implementation decision-making processes, it becomes a secondary consideration in preference formation for multilateral economic negotiations. This view was supported by 79 per cent of the interviewees. In contrast to the climate change negotiations which is generally framed as a moral and ethical concern, and hence elevates the reputation costs of non-commitment, the moral and ethical concerns in trade negotiations, be it on government procurement or trade in services, is comparatively less of a concern and therefore the reputation costs of taking non-commitment is lower.

Yet, one should not so easily dismiss this variable. With the increase of China's global economic activities, the government does feel the pressures of scrutiny around the world, particularly on whether China will succeed in its market transition and the WTO has been a highly visible yardstick for that measurement. Hence, the government is very careful with public opinion and media commentary.²¹⁰ A case in point is China's first WTO dispute. The US filed a complaint with the Dispute Settlement Body (DSB) with regards to China's preferential value-added tax (VAT) for domestically produced or designed semiconductors. The complaint claimed that all semiconductors sold in China were subject to a 17 per cent VAT, but domestic producers – including both

²¹⁰ It is important to note that China today wields greater leverage internationally due to its economic weight and if they make mistakes, they don't treat it as a big deal as before. Interview with an expert from Fudan University, Shanghai, 25 August 2011.

Chinese and foreign-invested firms – were eligible for an 11 per cent tax rebate, rising to 14 per cent if the products were designed and fabricated in the country. Imported semiconductors, on the other hand, did not qualify for any rebate (Liang, 2007).²¹¹ The US argued that the tax rebate for domestic producers violated the cardinal WTO principles of non-discrimination and national treatment in the GATT.²¹² Although China claimed that they were confused by the US's actions (People's Daily, 20 March 2004), the dispute was soon resolved without being escalated to the panel stage – on 14 July 2004, China and the US notified the DSB that they have come to an agreement. According to the notification, China agreed to amend or revoke within a few months the measures at issue to eliminate the availability of VAT refunds on Integrated Circuits (ICs) produced and sold in China, and on ICs designed in China but manufactured abroad. The speed at which China settled the case is surprising considering that over three years of prior bilateral negotiations on the issue had failed to yield any meaningful results. The key factor that prevented China from litigation was the government's concern for potential reputation loss associated with defending its protectionist measures in the formal WTO dispute resolution system (Li, 2012: 1130).

Several factors reinforced this fear for reputation loss. First, the Chinese leadership often finds it difficult to disentangle legal issues from political and reputation-linked concerns, and views the initiation of legal disputes in the WTO as tantamount to setbacks in diplomatic relations with the other countries (Gao, 2007). Interviews with Chinese negotiators on the VAT issue also suggested that they were given explicit instructions from Beijing to resolve the case at the consultation level by all means.²¹³ This kind of aversion to litigation behaviour is in line with China's Confucian philosophy that litigation would cause irreparable harm to normal

²¹¹ See WTO DS309.

²¹² Article III ("national treatment") of the GATT requires that imports be treated no less favourably than the same or similar domestically produced goods, once they have passed customs (Wang, 2010).

²¹³ Personal interviews.

relationships and should be pursued only as a last resort (Diamant, 2000). Moreover, in the post-Deng Xiaoping leadership, China has been documented as being highly sensitive to a negative reputation because a loss of face and reputation (e.g., being sued and perhaps losing cases) would be detrimental to the CPC's political legitimacy, both at home and abroad. As well, social pressures are particularly strong on novices in an uncertain environment (Checkel, 2005). China at the time of the VAT dispute can be clearly categorised as a novice in the WTO system. Merely into its third year as a formal WTO member, after decades of negotiations and promises to abide by international rules, Beijing was keen to steer clear of any action that might cause it to be stigmatised as protectionist and tarnish its image as a "responsible power."

Again, this is not to imply that reputation reinforcement can influence policy preferences. Sure, it is undeniable that Beijing cares very much about its reputation, just like any other country. But the reputation factor is a relative variable in the eyes of Chinese decision-makers and its significance varies according to the situation and circumstances of a given issue and at a given moment in time.²¹⁴ Generally speaking, the view of the Chinese government is that if the WTO was to portray a negative reputation to the media about China, then no matter what it does, it will still be portrayed negatively. As one MFA policy advisor explained, "If a person is reflected as ugly through the mirror, no matter how that person dresses itself, it will still be reflected with an ugly image."²¹⁵ To the Chinese decision-makers, they know that the Chinese public generally hold the view that any negative image depicted of China is usually created by the western media and therefore it is an external problem that has no impact domestically whatsoever. Since it does not generally affect the Chinese public, it implies a relatively low political risk attached to a less-than-satisfactory reputation abroad, and thus, Beijing does not feel the need to change its preferences in response to

²¹⁴Interview with an expert from the Chinese Academy of Social Sciences, Beijing, 8 November 2012.

²¹⁵Interview with a policy advisor of the Ministry of Foreign Affairs, Beijing, 25 October 2012.

reputation-building. This is a basic domestic support versus international attempts at driving China's reputation balance; when the former is stronger, then the impact of the latter is weakened.²¹⁶ The reverse is also true: if domestic support is weak, then the impact of reputation reinforcement could be stronger. At the end of the day, China's national interest remain at the centre core and the effectiveness of the reputation reinforcement mechanism is contingent on whether it (i) serves China's interest; and (ii) the political and economic costs associated with a non-commitment approach – if the risks, especially politically, are high, then this mechanism is more likely to be impactful.²¹⁷

5.4 Concluding Remarks

Over the last decade of DDA negotiations, China has consistently upheld its fundamental principles and remained, for the most part, loyal to its modest policy preferences. The country has repeatedly called for the need to treat the RAMs with flexibility and permit the space for developing countries to learn, adapt and adjust its national regulations fit for international cooperation. At the core of China's position is a reinforcement of the *development* dimension of the DDA, and a push for a *balanced* negotiation outcome between the developed and developing countries. But changes in national preferences have also occurred, especially concerning the GPA and services trade. Given China's strengthened relationship with the WTO agencies, this chapter was interested to see whether actors of the multilateral trade regime have any capacity to influence Chinese preference formation on international trade issues.

The study found that although it is difficult to pin-point one most effective mechanism of influence, all three have *some* influence, though at varying degrees. The mechanism with the least influence is reputation reinforcement. Because the multilateral

²¹⁶ Interview with an expert from the China Foreign Affairs University, Beijing, 25 October 2012.

²¹⁷ Interview with an expert from Tsinghua University, Beijing, 22 November 2012; interview with an expert from Peking University, Beijing, 23 November 2012.

trade negotiations under the WTO are driven primarily by narrow commercial considerations rather than moral ones, and this lowers the political risk of adopting a no-commitments national preference. With this said, the decision-makers also recognise that given the importance of international trade as a key economic lifeline of China, maintaining a reputable global image is of imperative, which means that policymakers do feel the need to consider reputation factors when forming its policy preferences. Still, this is a case-dependent factor that is contingent on the perceived political costs. For this reason, reputation has an inertia-absorption level of influence.

By comparison, a seemingly more effective mechanism is the costs-and-benefits calculus. By focusing on the benefits of cooperation, the WTO agencies have instigated a momentum in Beijing's preference shifts for the GPA and services modalities, though to different extents. The presence of contingencies for this mechanism means that the costs-and-benefits calculus does not have a transformative degree of influence, though it also does not just have an absorptive-level of influence. Rather, its impact-factor sits in between transformation and absorption. Finally, information dissemination was found to be effective in reshaping policymakers' awareness and understanding about the negotiating issues, but its capacity to change policy preferences is constrained by limitations in Beijing and at the WTO. Due to its limitations, this direct mechanism has an absorption level of influence.

With all the mechanisms considered, none of the mechanisms have a transformative, retrenchment or inertia effect. Reputation reinforcement has arguably an inertia-absorptive influence level, while the costs-and-benefits calculus has an absorptive-transformative level of influence. Only information dissemination has absorptive influence. Based on these research outcomes, the primary hypothesis is *partially valid*. That is, *none of the mechanisms can independently influence China's trade policy preferences as each is tied with contingencies and limitations*.

This conclusion, however, does support the underlying assumption of the primary hypothesis, which suggests that *the level of influence WTO agencies have is contingent on situational factors: national objectives, policy goals, policy settings, and policy instruments*. In all cases, it was found that the influence level was dependent on whether the mechanisms serve China's national objectives. The costs-and-benefits mechanism worked well for the GPA because it served Beijing's political reform agenda on corruption. Information dissemination worked less well for services because it did not claim much benefit to China's national objectives. China's national objective to establish itself as a peaceful and cooperative nation also heightened the influence of reputation reinforcement to an extent. The policy goal contingency was a key determinant for the effectiveness of information dissemination and the costs-and-benefits calculus. For instance, with a policy goal of tackling corruption, Beijing needed resources to which the WTO agencies provided, albeit at an elementary level. Reversely, the lack of congruency between China's policy goals in services and the international discourse undermines the WTO agencies' influence in this sector.

Next, the impediment of Beijing's fragmented coordination and decision-making processes is the policy setting contingency which has hampered the WTO agencies' information dissemination efforts. As well, the extent to which China takes reputation reinforcements seriously also depends on the broader domestic and international settings by means of pressure and scrutiny. Finally, policy instruments as a contingency was featured in information dissemination. For instance, the WTO agencies' lack of professional systemic support on issues such as the GPA and services undermined its perceived credibility by the Chinese decision-makers. In all, China's trade diplomacy preference formation does have access points for WTO agencies to manoeuvre influence, but the extent of actualised influence is circumscribed by the situational factors.

A COMPARATIVE ANALYSIS OF THE SHADOW RELATIONSHIP

6.1 Introduction

The primary purpose of this thesis is to create a better understanding about the way(s) that multilateral economic regime (MERs) agencies can influence Chinese economic diplomacy preference formation. Two main MERs – the United Nations Framework Convention on Climate Change (UNFCCC) and the World Trade Organization (WTO) – were examined, and two “case-pairs” formed the empirical basis of study. The cases were considered appropriate because of the widely held perception that there would be no substantial change in China’s preferences in these areas but that change were identified. These case study data were applied to three hypothesised mechanisms of MER agency influence: the costs-and-benefits calculus, information dissemination, and reputation reinforcement. The task of this chapter is to draw together the empirical findings and synthesise the results for the purpose of yielding generalisable conclusions regarding the primary hypothesis. These mechanisms of influence are largely applicable and probably effective at the national preference formation and policy-drafting stages of economic diplomacy decision-making. The key questions this chapter addresses are: were all hypothesised mechanisms effective or were some more so than others? What are some defining contingencies of influence? In the long-run, how does the China-MER relationship affects Beijing’s decision-making structure?

The goal here is not to identify clear causal mechanisms between success level and the institutional make-up or type of advice being produced. Rather, several factors can be identified, to which have had an impact on not only the credibility, legitimacy, and salience of advice, but also on the way advice is received and responded to by the

relevant policymaking body in Beijing. Our examples demonstrate that there is no single best approach, and that flexibility and adaptability are fundamental. Ultimately, the chapter finds that China does not refuse the influence of MER agencies. Rather, it absorbs and adapts to their influences within the existing domestic system. Sometimes policy actors will use the MERs' influence to their own advantage in the domestic inter-agency bargaining process. With this said, the highest probable influence of the MER agencies can achieve is, on average, an absorption level, and the costs-and-benefits calculus and information dissemination mechanisms are arguably most effective ways of channelling influence.

The remainder of this chapter proceeds as follows. Sections two, three, and four discuss and synthesise the empirical results for the costs-and-benefits calculus, information dissemination, and reputation reinforcement mechanisms respectively. Thereafter, section five accounts for the variance of influence by discussing the related contingencies. Section six discusses the implication of the MER agencies' influence on China's decision-making structure. Finally, the last section concludes the present chapter.

6.2 Costs-and-Benefits Calculus

The interest-based rationalist approach holds the belief that states act as unitary rational actors, whereby the decision-makers will evaluate their policy options based on a costs-and-benefits calculus; and formulate positions that is perceived to be maximising the net national gains (Bjorkum, 2005: 15; Underdal, 1998: 7). Accordingly rationalists argue that the MER agencies influence Chinese economic diplomacy preference formation through an incentive restructuring process that involves assisting Beijing in determining a best outcome among different equilibria situations where more than one efficient solution exists. Usually this can be achieved through the calculations of the estimated

costs and benefits faced by China (Costa and Jorgensen, 2012: 4; Scharpf, 1997: 39; Chayes and Antonia, 1993: 178). In the process of doing so, the MER agencies structure the political situation and leave their own imprint on China's preference formation. Based on these assumptions, it was hypothesised that the MER agencies influence Chinese national preference formation through the mechanism of costs-and-benefits calculus.

As seen in the previous chapters, both "case-pairs" exhibited this kind of activities by the respective agencies from the UNFCCC and the WTO. The empirical data indicate that the UNFCCC actors have, over the past 15 years, frequently offered costs-and-benefits analyses to Chinese policymakers during its preference formation process on issues including the clean development mechanism (CDM) and mitigation. The Inter-governmental Panel on Climate Change (IPCC), for instance, issued repetitive warnings about China's vulnerabilities against the consequences of climate change, with millions of people habituated by the coastlines potentially struck by sea-level rises, and severe ramifications on agricultural output and fresh-water resources, all of which result in significant economic costs (IPCC, 2001, 2007).

To address Beijing's uncertainties about how mitigation might affect national development, there was evidence that the presiding staff of the Conference of Parties (COP) under the UNFCCC have argued against heavy abatement costs. Rather it reasoned that mitigation improves energy efficiency, diversifies energy sources, reforestation, and improves the energy sector, all of which are consistent with China's national development objectives. As well, mitigation can spawn the development of new technological and industrial sectors with long-term commercial profits and short-term technical and financial transfers from abroad (Underdal, 1998: 8). These benefits ultimately outweigh the alternative, which is economic predicaments and air pollution from the combustion of coal – causes of respiratory diseases and cancer. A consistent

non-cooperative stance could also result in international sanctions and damages to China's international prestige and reputation. On the whole, the real costs to China from a non-cooperative position are 100 per cent higher than the price of the abatement that is also beneficial to development (Saich, 2001: 295). Interviews suggest that arguments as such certainly contributed to Beijing's decision to complete an *Initial National Communication on Climate Change* (2004), and for the first time, the government acknowledged in the report its vulnerabilities to climate change. The national leaders emphasised the need for adaptation measures to be adopted and economic support for climate change activities. What is more, interviews suggest that the UNFCCC agencies' costs-and-benefits calculations triggered Beijing's newfound willingness to negotiate a legally-binding mitigation framework for the post-2015 period. Taking these events as indications of effectiveness, it is arguable that the UNFCCC agencies restructured Beijing's incentives on the issue of climate change through its costs-and-benefits calculus.

A similar claim can be made for the GPA and services trade cases. In services trade, Beijing has been deeply concerned about the regulatory uncertainties in the governance of further services trade liberalisation. In response, the WTO's Council on Services Trade argued that further opening up to foreign services providers and competition can reduce the cartel effect and attenuate the cost efficiency effect. As well, it can introduce the domestic market to new technical know-hows, and contribute to the economy's production and export of more sophisticated and advanced products. Above all, the Council argued that the increased competition in the services sectors can boost economic growth and serve China's national development. Similar focuses on the benefits of acceding to the GPA were made by the WTO's Committee on Government Procurement. For instance, the Committee emphasised on the GPA's advantage in controlling government corruption, which has prevailed within Beijing, especially in the

bidding and tendering processes. The increased transparency of the procurement system means that officials are more likely to reduce their incentives for self-enrichment, while firms will be more willing to bid, rather than bribe, for government contracts and have the incentive to do a good job. Interviewed policymakers have indicated that these arguments were relatively convincing and could have contributed to the gradual increase in flexibility for both areas of policy preferences. In turn, one can then make the easy argument that the WTO agencies were able to effectively influence Chinese trade policy through the rationalist mechanism.

Yet, other empirical indications also call for more prudence in drawing such a conclusion. In spite of the WTO agencies' costs-and-benefits exercises, China did not formally adopt a real transformative change in its preferences on services trade. True, the coverage of China's opening-up has expanded over the years it is nonetheless incremental (instead of an all-out reform); and many barriers remain intact across numerous services sectors. Compared with the GPA, the costs-and-benefits calculation was much less effective in influencing actual preference change in services trade. Likewise, the case-pair under the UNFCCC also showed that the degree of impact this mechanism had on mitigation is comparatively milder compared to the CDM. This variance was measured by the length of time (i.e., years) it took before Beijing shifted their preferences. While it only took two to three years for this mechanism to catalyse a preference change on the CDM, it took five-times as long to see a slight increase in rhetorical flexibility from the Chinese delegation on the mitigation issue.

A key contingency of influence is the *perception* of Chinese decision-makers. For the most part, the decision-makers in Beijing did not believe that the payoff from cooperating in the long-term global effort to combat climate change through mitigation actions was significant enough to prioritise the government's limited professional and other resources in this area over other short-term demands such as economic growth and

poverty alleviation. This perception in turn undermined the UNFCCC agencies' costs-and-benefits calculation on mitigation. The situation could not have been more different for the CDM. Key decision-makers in Beijing believed that the benefits of joining the initiative would contribute to both the short-term development policy goals, and long-term battles against global warming. The proximity between the UNFCCC agencies' arguments and that of the decision-makers' perceptions thereby granted the former with stronger influence. This contingency is of equal relevance to the WTO cases. A reason the GPA was more susceptible to the Committee's costs-and-benefits calculations than services trade to the Council's was that the decision-makers perceived the benefits of acceding to the GPA framework to be of significance to China's political reform agenda and therefore the legitimacy of the Communist Party of China (CPC).

Where the WTO and the UNFCCC cases differ is that the former indicates the importance of not just the perception of decision-makers but also the political rank of the decision-makers. For instance, the GPA case felt more external influence from the Committee's costs-and-benefits calculation, not only because it appealed to the ministerial-level policymakers, but that it also attracted the elite members of the Politburo. Services trade, on the other hand, only appealed to the second-tier decision-makers from the Ministry of Finance (MOF). This goes to show that the political rank of the receiver of the costs-and-benefits analysis matter, at least in the WTO context. This is not a surprising or unique finding about China; support from senior decision-makers in any country enhances the MER agencies' influence on preference formation. But in a system where policy preferences often rest in the hands of a few elite leaders as in Beijing, this factor is even more pertinent.

By comparison, the UNFCCC cases did not present much evidence that this played a key role in either enhancing or undermining external influence. This is perhaps due to the inter-agency processes. In climate change, although the power structure can

at times marginalise second-tier agencies, the interests and objectives among the ministries and commissions involved are generally cohesive and the power structure clearly defined. However, decision-making for trade negotiations often involve various competing interests between agencies, with many having overlapping responsibilities and the power structure is rather ambivalent and fragmented. For example, although the Ministry of Commerce (MOFCOM) coordinates trade policies, a constellation of other agencies take the lead across a range of specialised trade issues,²¹⁸ which dampens-down the MOFCOM's authority and disturbs the inter-agency policy cohesion at large. In this context, it is important for agencies involved in trade policy to have the backing and support of the elite leaders in order to have their preferred preferences promoted above others. As such, it is also of imperative for the WTO agencies to establish good relations with the elite leaders in Beijing in order to enjoy greater influence through the mechanism of costs-and-benefits calculus.

Overall, *this study finds the costs-and-benefits mechanism of influence partially valid, with an absorption level of influence.*

6.3 Information Dissemination

The preceding discussion on the limitation of the costs-and-benefits calculus includes a problem of uncertainty caused by incomplete information. Cognitivists would argue this demonstrates the important role of information in shaping Chinese preferences. As John S. Odell (2000: 189) argues, the importance of studying (technical) information about a problem, and designing the next plan of action according to the studies of the available information is of imperative for designing national negotiation positions and its success in reaching the optimal outcome. The MER agencies, including the UNFCCC, the

²¹⁸Interview with an expert from Renmin University, Beijing, 14 November 2012.

WTO, and others such as the International Monetary Fund (IMF), have played significant roles in conducting fiscal and other related research, for instance, not just for increasing technical awareness but also on how nations can cooperate.²¹⁹ Cognitivists therefore believe information dissemination is an effective way for MER agencies to influence Chinese preference formation.

In contrast to rationalism, cognitivists downplay the factor of “interests” and claim that Chinese decision-makers hold imperfect information and tentative policy preferences when they enter political processes (Haas, 1990).²²⁰ In this situation, the MER agencies have the opportunity to adjust, reframe, and/or reshape the perceptions of the Chinese decision-makers through the dissemination of ideological and professional information (Softing, 2000: 24; Underdal, 1998: 21). According to the case studies, information dissemination activities from the UNFCCC and the WTO agencies were prevalent, and primarily in the form of informal dialogues, information exchanges, research collaborations, training workshops, and so on. Indication of these activities support the cognitive assumption that the growing complexity and uncertainties over global economic problems will often lead policymakers to turn to new and different channels for advice, and specifically to new networks of knowledge-based experts within the MERs in order to articulate its objectives in forthcoming negotiations; realise the *real* stakes or interests of the Chinese government; and the perceived appropriate policy remedies (Haas, 1992: 12). For the most part, interviewees across the cases commonly agree that external information affects the perceptions of Chinese decision-makers, not least because the professional training, prestige, and reputation for expertise possessed by the professional staff of the MER agencies are viewed with great respect in Beijing and thus accord them access to the Chinese political system in a way that

²¹⁹ Interview with an expert from the Chatham House, Beijing, 5 November 2012.

²²⁰ Whereas rationalists treat problems as exogenously given, cognitive theorists treat the nature of the problem as concepts that leave considerable scope for interpretation; and solutions as something that will, to a significant extent, have to be discovered through the process itself (Underdal, 1998: 20).

grants them great potential for influence. If the shortcoming of the rationalist mechanism was due to *perception*, then in theory, the cognitive mechanism of information dissemination should be much more impactful given its ability to shape decision-makers' policy preferences.

Yet, the empirical data from the two case-pairs showed great variances in the degree of influence information dissemination can actually inflict. The variances are caused by three contingencies. The first relates to the political and economic costs involved with implementing international discourse; the higher the political and/or economic costs, the less influential the international discourse. In the GPA negotiations, the political costs of agreeing with the WTO agencies' recommendations for accession would undermine Beijing's autonomy, which is a political cost it was not willing to compromise at first. The economic costs of supporting the UNFCCC agencies' proposals on mitigation would imply the need to restructure China's entire energy sector, which can have dire consequences on China's energy security and social stability in the short- and immediate-term. By contrast, the minimal political and economic costs as communicated by the international discourse on the CDM initiative led to a much faster adoption than any other climate change modality to date. Hence, the perceived economic and political costs conveyed through the information disseminated to Beijing can have substantial impacts on its influence levels. Here, it is clear to see that the degree of influence information dissemination can achieve is tightly intertwined with, and to an extent, determined by the government's costs-and-benefits calculations of adopting international discourse. Although the real political and economic costs across the cases were relatively at par for all issues, the empirical data found that the policymakers nonetheless perceived the nominal costs to be slightly higher for the services trade and mitigation cases compared to the other issues. This might explain the slower pace in preference shifts among the issues. Thus, the management of the

government's costs-and-benefits calculations is a key contingency to the influence of information dissemination.

It was previously mentioned that an advantage of information dissemination is its ability to shape the perceptions of decision-makers by tailoring information to that purpose. However, the cognitive theory does not explain how information can actually reform perception other than taking it as an automatic consequence. When this assumption was applied, results from the comparative empirical analyses was that it is often challenged by the MER agencies' real capacity to competently design discourse in a way that can induce perceptual changes especially where the policymaker holds strong beliefs; and/or tailor it according to actual perceptions. For starters, Chinese decision-makers have for many decades treated international discourse with scepticism and caution, partly due to its perceived *poor quality* and incompetence to even address questions posed by the Chinese decision-makers. In trade, such inadequacies were reflected in the GPA case study, where the WTO agencies failed to provide even the most basic information such as the definition of "government procurement." Imprecise and vague information have challenged Beijing to ascertain what they should negotiate about. A similar case can be found in climate change, when China asked the IPCC in 2003 to develop practicable methodologies to "factor out" direct human-induced changes in carbon stocks from those due to indirect human-induced and natural effects, the IPCC responded that "the scientific community cannot currently provide a practicable methodology" that would do so (IPCC, 2003). The problem – known as "factoring out" – had to be brought back to the negotiating table to be addressed with a political decision. This goes to show that while there are some questions that are simply too complex for science to answer in a manner that satisfies the Chinese decision-makers, others involving moral or ethical questions are perhaps better answered directly by the policymakers.

The Chinese decision-makers have additionally held the traditional view that most international discourse are too westernised to be applicable templates in the “China” context.²²¹ For example, when the IPCC Working Group III attempted an economic valuation of the social costs of climate change impacts, including human life, for the Second Assessment Report, the writing team used controversial assumptions based on the available literature on the “value of statistical life.” These assumptions were based on the economists’ calculation that human life is valued differently in developed and developing countries, since the risk of death is not valued equally between countries (i.e., based on a “willingness to pay” approach). Chinese delegates like most of the developing world reacted with indignation at the suggestion that human lives in their countries were somehow worth less than in rich countries.²²² The disagreement between the economists who had written the report and the Chinese policymakers was such that the Working Group III report failed to get plenary approval in July 1995, and although governments eventually accepted the chapter, they changed the “Summary for Policymakers” in such a way that it implicitly criticised the underlying chapter. In angry responses, the IPCC authors dissociated themselves from the summary (Brack and Grubb, 1996). Thus, a discussion on the form and function of information dissemination by the MER agencies, therefore, must acknowledge an underlying point, which is that for Chinese policymakers it matters *who* produces the information that are used to inform its preference formation.

The second explanation regards Beijing’s incoherent inter-agency processes.²²³ Most economic issues involve multifaceted problems that require the involvement of numerous agencies, and each agency tends to have small staffs, and vary widely in their level of activity as well as in ministerial interests. In trade, a decision on the trade in

²²¹ Interview with a policy officer from the National Development and Reform Commission, Beijing, 21 September 2012.

²²² A cash value of US\$1.5 million was assigned to a human life in the OECD, for example, while one in a developing country was assigned a mere US\$150,000.

²²³ Interview with an expert from Harvard University, Boston, 11 June 2012.

transport services, for instance, is attached with complicated, lengthy and changing procedures, requirements and documentation; and concerns a labyrinth of agencies, ranging from transport, customs, immigration, security, health, veterinary and phytosanitary issues, product quality, and the private sector actors. When compelled to come together for consensus-building, these agencies tend to aim to assert jurisdiction over the same issue, compete with each other for scarce budget resources, power, and recognition from higher government officials. Consequently, bureaucratic competition can sometimes result in the agencies declining to implement each other's policies, based on the claim that they lack budget resources or man-power (Lawrence and Martin, 2012: 10-11). The implication of this on negotiations is that Beijing will often act silently in order to buy more time to address internal conflicts. Dipak Das Gupta (1997) supports this finding by suggesting that the reason for China's defensive positions in trade negotiations is often due to institutional challenges. Although China has established coordination organs (i.e., leading small groups or LSGs), they rarely function efficiently.

What is more, the case studies further show that international discourse can diversify ministerial interests and add further fragmentation between the government agencies. Such was seen in the services trade case. A policymaker for climate change issues said, "The WTO does a fantastic job distributing information, but sometimes the ministries are flooded with information to the extent that it becomes difficult for ministries to manage, synthesise and establish consensus accordingly. So contrary to studies (i.e., Yu, 2008) that argue engagement with international actors can improve inter-ministerial coordination, this study found that too much diverse information actually cause further inter-agency divergence, which is also why both MERs failed to achieve maximum influence through information dissemination. But learning from the CDM example, if MER agencies distribute identical information tailored for a diverse

audience and yet ensures its relevance, it is feasible to create inter-ministerial convergence in interests and consensus.

Finally, it is important for the international discourse to be supported by the Chinese business and industrial actors. This empirical finding contradicts an underlying cognitive assumption that the MER agencies usually equip the Chinese government with information and ideas for the conduct of analyses and for the purpose of reaching policy decisions independent of direct pressures from organised groups or citizens. In other words, business actors exert *little* direct influence on the policy decisions of the government officials (Jacobs and Page, 2005: 108). In reality, as one China expert puts it, “Enterprises are the skeleton of Chinese decision-making today.”²²⁴ This is not to say that Chinese enterprises today operate completely independently from the central government; China is still a top-down system. But domestic enterprises do have stronger influence over the government’s policy agenda. Ergo, holding their support can immensely boost the influence of MER agencies on the government’s preference formation.²²⁵ It was for this reason that the CDM case saw greater UNFCCC influence and more substantial preference shifts than mitigation; and it was the domestic enterprises that pushed the government to consider greater open-ups for services trade.²²⁶ Meanwhile it was the clear opposition from business actors concerning the information on mitigation that have kept the government’s preferences on the issue at relative constant resistance throughout much of the COPs negotiations. At the end of the day, without the support of domestic business actors, international ideas may not necessarily attract much attention from government agencies and officials.

²²⁴ The enterprises’ independence is indicated by many companies’ convergence with international standards and has started competitive operations abroad against foreign firms; some have even entered the stock market. These indicate that many SOEs (including the oil companies) are no longer under pure government governance. Interview with an expert from the Chinese Academy of Social Sciences, Beijing, 8 November 2012.

²²⁵ Interview with a financial advisor from the Export-Import Bank, Beijing, 20 November 2012.

²²⁶ Interview with a policy advisor from the China Academy of International Trade and Economic Cooperation under the Ministry of Commerce, Beijing, 19 November 2012.

In all, it is clear to see that information dissemination does not have transformative influence, and that the cognitive assumptions do not inform Chinese economic diplomacy preference formation in a vacuum. But it is also not without any impact at all. Rather, *information dissemination has an absorption level of influence*, and the mechanism, as part of the primary hypothesis, is *partially valid*.

6.4 Reputation Reinforcement

Moving away from processes of socialisation, contractualists assume that social interactions have little or no effect on shaping preferences. Instead, actors generally emerge from interactions within MER agencies holding to the same perceptions and beliefs to which they entered with. Moreover, contractualists believe the quality and/or quantity of prior social interaction and information provision between the MER agencies and the Chinese decision-makers have no effect on the basic preferences of these decision-makers in the short- or long-run. So it should be irrelevant whether China decides to cooperate or not (Frank, 1988: 143). With this said, contractualists do share the cognitive assumption that the MER agencies can provide new information to reduce uncertainty about the credibility of the commitment of others' and thus help China converge their expectations around some cooperative outcome (Martin 1999, 84). But their difference lies in that contractualists argue information only affect the policy actors' perception of the strategic – rather than social – environment whereby the actor pursues a *fixed* set of policy preferences – there is no reassessment on the desirability of these preferences after the information engagement. In addition, contractualists argue that an assumption based on the information runs a regression problem. Unless there are prior agreements on a set of criteria about success and failure, what makes the information about success or failure conclusive? How are prior agreements on these criteria formed? In what way can actors be convinced of reliability of the information

concerning the validity of the criteria? What leads to an agreement of credibility based on the criteria about credibility? At any stage it could be suggested that policy actors received reliable information regarding an economic problem and leave it at that. But this does not escape the problem that at any given point, the criteria for establishing the credibility of new information are problematic.

A better mechanism for the contractualists is through an under-socialised nature of motivating Chinese decision-makers based on arguments about reputation. Without rehearsing too much details of the assumptions, it suffices to say that with the changing global political and economic landscape, the proliferation of media and communication technologies, the emergence of new MER players, the complex confluence of these facets have meant that the credibility and effectiveness of standard Chinese communication practices in public diplomacy is increasingly under challenge (Wang, 2006: 92). Hence, the desire to maximise reputation, both domestically and internationally, can motivate the Chinese government to cooperate and avoid social sanctions (i.e., psychological anxiety from opprobrium) (Frank, 1988: 32).²²⁷ It is widely accepted that a motivation for compliance is the fear of opprobrium even if this causes a suboptimal outcome for the actor. Oran Young (1989: 176-177) remarks, “Policymakers, like private individuals, are sensitive to the social opprobrium that accompanies violations of widely accepted behavioural prescriptions. They are, in short, motivated by a desire to avoid the sense of shame or social disgrace that commonly befalls those who break widely accepted rules.” These specific micro-processes where actors are compelled to act in a way that prevents opprobrium are similar to those that encourage people to pursue back-patting.

At the macro level, Beijing has an interest to maintain a consistently good reputation and credibility so other actors will be encouraged to deal with China in other

²²⁷ Reversely, conforming to group behaviour could be rewarded with psychological benefits and wellbeing from back-patting.

areas.²²⁸ In this context, contractualists argue that the MER agencies can affect Chinese preference formation by reinforcing its reputation. Just as Beijing is concerned about how foreign parties view China, and how it projects itself abroad, the MER agencies that engage with Chinese policy actors should be interested in the impact of China's projected reputation vis-à-vis their actualised behaviour. If reputation can affect behaviour, the MER agencies can influence China's preference formation by shaping the kinds of reputation it endeavours for. Yet, the question becomes how will one know when a strategic reputation has a causal influence on China's economic diplomacy preference formation? There are two obvious ways of identifying the causal relationship. The first is to try and identify any *direct* evidence in which Chinese decision-makers have adopted a preference in order to be consistent with the strategic reputation it seeks to project. The second is to identify any *indirect* evidence that a policy preference is (not) adopted because of intervening variables such as economic side-payments that may be consistent with the hoped-for reputation. Since direct evidence are difficult to find due to the largely opaque nature of China's preference formation, this analysis relies on the indirect evidence.

The empirical research finds that a prominent aspect of China's approach to the MER agencies regards a concern about its reputation. This motivation stemmed out of historical experiences, and recovering its disrupted reputation was not only a national objective but a key reason for engaging with the MERs in the first place (Hatch 2003, 51; Oksenberg and Economy, 1999: 21). In the late-1980s when the issues relating to climate change took momentum, China saw this as an opportunity to boost its prestige and bolster support especially from the developing countries (Zhang, 2003: 78). At the COP15 in Copenhagen, insiders interviewed for this research suggested that the UNFCCC Secretary-General, Christiana Figueres, stressed to the Chinese delegation the

²²⁸ Interview with a policy advisor from the China Academy of International Trade and Economic Cooperation under the Ministry of Commerce, Beijing, 19 November 2012.

expense of their non-cooperative national preference on their reputation; and similar sentiments were expressed to the global media through press briefings. True to her words, China's part in the eventual breakdown of the negotiations did not go unnoticed. When the Chinese leaders walked out on a leaders' informal consultation, it became the face of blame for the collapse of yet another round of negotiations and it was labelled as "immoral" and "irresponsible" to human life.²²⁹ The impact of this was significant for a country sensitive to external criticisms. The effect is not unique to China. A parallel can be drawn when the United States (US) withdrew, in 2001, from the Kyoto Protocol, and caused heavy protests from many state representatives and the wider international civil society. In the subsequent negotiations, China carefully orchestrated its rhetoric and actions in a benign manner to avoid being taken as the scapegoat of failure. The trade negotiations similarly had the Chinese government bear the grant of international criticisms for acting "passively" and "selfishly" to protect its own interest at the expense of the global economic good. Members of the Chinese delegate indicated that senior members of the WTO (i.e., Pascal Lamy) often hinge at China about its reputation as a major economy and the responsibilities that comes with. Contractualists (i.e., Kreps, 1992) believe doing so stems pro-social behaviour and incentivise nation-states to engage in norm-conforming acts.

If reputation was a very important driving force, one could have expected a more proactive set of national preferences in both trade and climate change negotiations, even if the purpose was just to impress its domestic and international audiences. However, to date, the world has yet to see any drastic preference shifts from Beijing in areas such as the mitigation and services trade negotiations, among many others. In mitigation, despite being taken as a scapegoat for past failures, China has not, to date, made actual legally-binding commitments under the UNFCCC. The best it has done is pay lip service to potential future targets. Similarly, despite the international finger-pointing on

²²⁹ Personal observations.

China in the trade talks, services trade remains an unfinished business. Why did reputation not trigger policy changes? A prevalent view from the interviews was that the degree of influence reputation reinforcements could have depends on the level of political pressures China feels from other negotiating partners or the perceived political risks of taking a non-commitment position. In the earlier years of negotiations for all the cases, even though Beijing was concerned about its reputation, the costs inflicted on reputation as a result of taking a low-commitment posture was not high enough to have the Chinese decision-makers insist on a shift in their national preferences towards climate change and international trade issues. As Elizabeth Economy (1997: 39) observes, China's preferences for most economic negotiations are conditioned by how willing the US is in taking on serious commitments. China "has emphasised that as long as the US does not take on commitments, it would be politically unacceptable for them [China] to do so" (Bang, Heggelund and Vevatne, 2005: 26). In this context, the level of pressure placed on, and of which determines the reputation cost of China stems largely from the negotiating partners as well as the members of "G77 plus China" and the "Group of Twenty" (G20) as opposed to just the MER agencies per se. So contrary to the contractualist assumption, the reputation mechanism alone does not change China's national preference. It usually requires geopolitical factors to supplement its effectiveness.

Another point of caution, as the interviews stressed, is that the reputation card is only effective on China if it has material incentives attached to it, including the transfer of funds and technology, usually obtained through economic side-payments. For instance, there may be resistance by other players to transfer technologies to a country that is perceived as having a *free-rider* status – a reputation perhaps shaped by past experiences. Hence, the more material and economic benefits a country receives, the more careful it will be regarding its reputation as a compliant and committed actor

(Johnston, 1998: 559). In this sense, it is not necessarily the effect of the MER agencies that causes China to treat reputation with care, but because of other materialistic incentives. In the words of one Chinese decision-maker, “Yes, reputation does play a part in China’s decision-making, especially within the economic arena. But mere pressure from the multilateral institutions does not usually lead to substantial preference change. There are usually other factors that come into play in conjunction.” The UNFCCC actors have certainly played the reputation card with the Chinese delegation since its inception. But it was only in recent years that China demonstrated growing concerns about its reputation vis-à-vis its national preferences. If the reputation mechanism alone can really generate effective influence, why has it taken this long to see effect?

This leads us to the point that it is often difficult to judge whether a national preference change is due to the influence of the MER agencies or whether it is strategic play – i.e., China can set-up a positive image deceptively to convince other states to cooperate, setting them up for the sucker’s payoff in some exploitative prisoners’ dilemma game. As Robert Frank (1988) points out, one should be cautious not to take reputations of this nature as credible or reliable. In general, reputation-building behaviours are carried out under the assumption that it will be observed by a wide audience. China will see no point in engaging in reputation-building activities unless it is observable to others. But if reputation-building is carried out to be observed, then players within the observing audience are likely to doubt that it is actually a high-cost behaviour.

With this said, such line of argument has three drawbacks. First, as Alastair I. Johnston (2008) points out, if other nations find out about this instrumentality, then China’s reputation as a responsible co-operator will be ruined, and in turn, place it in a relatively disadvantaged position. That is why it is within China’s interests to naturally

seek cooperation in order to strengthen its credible reputation. Second, instrumentality assumes that with a positive reputation, policy actors are able to seek more concrete and calculated benefits. This implies that a good reputation can be used as some form of leverage in some issue-areas. With this said, it is also the case that concrete benefits are hard to identify or that they are rather diffuse and ambiguous (Kelley, 2004). Finally, instrumental arguments about reputation invoke external (and material) costs as the disincentive to acting in anti-social ways. That is, observed anti-social behaviour is costly because it might lead to a loss of trust and thus a loss of exchange opportunities and payoffs (mostly calculated in streams of economic welfare or political power).

In sum, this study finds the primary hypothesis on the mechanism of reputation reinforcement *partially valid, with an influence level between inertia and absorption.*

6.5 Measuring Influence

It is one thing to analyse the strengths and weaknesses of theoretical assumptions in light of the empirical data and quite another to measure the level of influence, given that the MER agencies can produce different sorts of policy preference shifts across various issue-areas, which renders them difficult to not just compare with each other but also judge accurately the comparative strength of each mechanism. Nevertheless, the dependent variable of this research – China’s economic diplomacy preference formation – has been measured in a consistent and flexible way. And the qualitative scale has covered all the possible magnitudes and directions of preference change and it is comprehensive enough to include different sorts of change. As explained in the *Chapter One*, four indicators of influence are used in this thesis for measuring influence: *inertia*, *absorption*, *transformation*, and *retrenchment*. *Table 6.1* summarises the four indicators vis-à-vis the empirical findings.

The levels of influence were measured based on the qualitative findings and the extent in which the MER agencies' influence were constrained by contingencies. As can be seen, substantial variances in the degrees of influence present itself across the mechanisms, case studies, and at different levels of analysis. As expected, the capacity of the MER agencies in altering China's national preferences is unevenly distributed, and the variation of influence needs to be accounted for. One thing for sure is that none of the case studies have shown a *retrenchment* effect. That is, the Chinese government have not reacted against any of the MER agencies, at least within the time period of this research. This means that the MER agencies do have *a* level of influence. If the MER agencies have a lack of influence, it would have been suggested by an active and explicitly negative attitude from China towards the MER agencies. In addition, we would expect to see China to take specific measures to counteract the effects of the MER agencies. However, the empirical research has not identified any data that correspond to these realities. Therefore, it is argued that *the MER agencies do hold a degree of influence on China's preference formation.*

Table 6.1

Levels of Influence

MER	Negotiation Modality	Costs-and-Benefits Calculus (Rationalism)	Information Dissemination (Cognitivism)	Reputation Reinforcement (Contractualism)
UNFCCC	<i>CDMs</i>	Absorption	Absorption	Inertia/Absorption
	<i>Mitigation</i>	Absorption	Absorption	Inertia/Absorption
WTO	<i>GPA</i>	Absorption	Absorption	Inertia/Absorption
	<i>Services</i>	Absorption	Absorption	Inertia/Absorption

The focus then shifts to how and through which mechanism the MER agencies can exert influence most effectively and efficiently. To do so, let us proceed in accordance with the three remaining indicators of impact, beginning with *transformation*. *Transformation* indicates a deep MER influence on China's preference formation to the extent of drastic paradigm shifts. Empirically, however, this study finds

no cases where the MER agency was able to cause transformative changes in China's national preferences through a single mechanism without any contingencies. A similar case can be made for the *inertia* level of influence. *Inertia* indicates a level of influence that is only slightly above minimal impact by the MER agency in question. Under this situation, the Chinese government may only acknowledge the MER agencies' proposals and recommendations but its policy preferences remains constant. Like transformation, the study did not find any mechanisms to which satisfy the criteria of this indicator. Again, to have transformation level of influence, the mechanism cannot be constrained by any contingencies. This study, however, did not identify any mechanism that is not limited by a situational factor, one way or another. Therefore, no mechanism has this kind of influence.

The only mechanism that came close to, though it cannot be placed as having, an inertia level of influence is reputation reinforcement. This mechanism was found to have a mid-range influence of both inertia and absorption, which implies that the MER agencies may have triggered some momentum, but that it did not catalyse actual national preference shifts. The justification for determining the reputation mechanism as having this level of influence is that not only is reputation reinforcement constrained by situational factor contingencies, but that it is challenged by a vague distinction between the impact of the MER agencies, and the influence of other factors such as the national governments of other countries. Such ambivalence cannot qualify the mechanism to an absorption level of influence. And yet, the evidence that suggest some MER significance in the preference formation implies that it does not have just an inertia-level of influence. For this reason, reputation reinforcement is considered to be somewhere in between. Overall, it can be concluded that *the MER agencies does not have a transformation or an inertia level of influence on China's national preference formation.*

The last indicator is *absorption*. Absorption implies some influence on China, but this influence only propels the country to the point of adaptation, and any preference change is the result of both the MER agencies and other intervening variables. In other words, absorption refers to a situation in which China formally adopts the features and underlying collective understandings attached to them as derived from the MER agencies, but may not adopt any real policies and measures derived from a MER *unless* other factors (i.e., domestic constituents, existing interests) complements absorption. Looking at the preceding analyses, information dissemination and the costs-and-benefits calculus mechanisms are identified with this level of influence consistently across the cases. The absorption of the MERs' proposals, recommendations, norms and practices has allowed the Chinese government to acquire new capacities to address the relevant issues, both internally and externally. But both mechanisms only reformed Chinese preferences to the point of acceptance and perhaps attitudinal and rhetorical adaptation in various forms.

Given that two out of the three mechanisms have this level of influence it is arguable that, in general, and on average, the *MER agencies have, at best, an absorption level of influence over China's economic diplomacy preference formation*. In addition, the *costs-and-benefits calculation and information dissemination mechanisms are the most consistent and effective ways to channel influence*.

Although the thesis finds the MER agencies holding an absorption level of influence, it nonetheless implies that they do have a degree of impact. This impact is made possible because Chinese policy actors and agencies, under normal circumstances, do not reject the influence of the MER agencies. Instead, they are open to engagements with the MER agencies and absorb the consequential effects to policymaking.

Evidences of this were seen in China's generally adaptive reactions to the MER agencies' costs-and-benefits calculus and information dissemination activities during the preference formation processes. Moreover, the Chinese policy actors generally respect the analyses and viewpoints of the MER agencies and take them into serious consideration during the decision-making process. This is particularly the case when the Chinese decision-makers lack adequate information to make an informed and utility-maximising decision. At times, the influence of the MER agencies is also used by certain government agencies to support their own ministerial interests and/or desired policy outcome. This was the case when the MEP and the MOST pushed for the adoption of the CDM initiative; and when the MOF encouraged a revision of China's position for the GPA framework. In all, China's reception of the MER agencies' influence is generally a positive one.

6.6 Accounting for the Variance of Influence

In *Chapter Two*, it was assumed that *the level of influence the MER agencies have can be affected, and is contingent on, policy settings, policy instruments, policy goals, and national objectives*. This taxonomy of contingencies is referred to as the *situational factors*. The taxonomy of contingencies was informed by the structure-agency debate that pre-defined structures can enable or constrain agency, while agents can affect structure through reflexivity and cognition, among others. In this context, it was assumed that there are four categories of contingencies that determine (either by enhancing or undermining) the influence of the MER agencies. And the extent of their influence felt in Chinese preference formation depends on how well it complements the situational factors. The *national objective* is synonymous with national interests of which, in the present context, is the leadership legitimacy, of which Beijing is measured by its national development performances. The MER agencies' influences often need to

be compatible with China's development in order to affect preference formation. *Policy goals* are the targets and aim on Beijing's political agenda that needs to be achieved in order to reach its national objectives. *Policy setting* is Beijing's systemic political context, political dynamics and power relations across different levels of the government, and the bureaucratic interests. Finally, *policy instruments* are the mechanisms, channels, and political and professional tools that are used within a policy setting to carry out policymaking exercises. The qualitative data of this study found that much of the variances in the impact of the MER agencies across the case studies were due to different conformity to these situational factors.

National objective played a fundamental contingency role across all case studies and mechanisms. In the climate change cases, the influence of the costs-and-benefits mechanism, for instance, was undermined by a *perceptive* issue about the political opportunity costs that comes with a MER costs-and-benefits policy prescription. On the issue of mitigation, while Chinese decision-makers do not deny the predicament of climate change, they also perceive mitigation efforts as expensive to their short-term development goals, and ultimately to the government's political legitimacy. For Beijing, the perceived cost is much more detrimental to them than the costs of non-action on mitigation. By comparison, the CDM initiative is attached with lower threats as it does not undermines but enhances China's short-term priorities and contributes to its long-term objectives. That is why the UNFCCC agencies' costs-and-benefits analyses were more effective in shaping China's CDM preferences compared to mitigation.

The mechanism of information dissemination was likewise affected by the contingency of national objective. Continuing with the climate change cases, it was seen that a meaningful participation in mitigation would require a complete reorientation of China's energy structure and substantial investment in new energy-efficient technologies. This implies an entire restructuring of the Chinese economy and

inevitably affects the country's growth and social development, particularly in the short-term. However, when the abatement costs of mitigation was later found to contribute to a rebalancing of China's future development strategy, the government did overlook the short-term costs of economic restructuring and participated in the discussions about a future multilateral mitigation framework. Similar examples can be identified in the trade cases in support of this contingency. For instance, the influence of information dissemination was undermined in the GPA preference formation when regulations of the framework clashed with the government's national objective of supporting the social development of the local indigenous population; as well as the realisation that a GPA membership could affect the government's national autonomy. Thus, national objectives is a key determinant of the MER agencies' influence, especially for the costs-and-benefits and information dissemination mechanisms.

Related to national objectives is the *policy goal* contingency. The GPA case study illuminates that the costs-and-benefits calculations determined by the WTO's Committee on Government Procurement effectively instigated preference shifts because the consequential benefits complement the government's corruption control policy goal. The leaders were convinced that the GPA framework is a useful external force for addressing the domestic policy goal and as such, the Committee's analyses galvanised much support in Beijing. China's gradual flexibility in the services negotiations is a reflection of the fact that it had existing policy goals to reform the domestic services infrastructure and market. Therefore, the costs-and-benefits determined by the Council on Trade in Services also had gradual influence given that its estimated outcome converged with China's policy goal in this regard. In the CDM case study, it was found that Beijing had a policy goal to transform its domestic economy to a low-carbon framework, which required significant amounts of investments that were available through the initiative. This provided a strong incentive for Beijing to reach an

agreement with the help of economic side-payments. Thus, the extents to which the MER agencies' efforts are compatible with China's policy goals matter much in determining its ultimate level of impact especially for the costs-and-benefits mechanism.

The third contingency is the *policy setting*. Across the case studies, it was seen that China's political structure and system was a major impediment to the MER agencies' influence, especially through the mechanism of information dissemination. In climate change, the earlier information dissemination efforts were overshadowed by the power structure between the key ministries such as the Ministry of Foreign Affairs (MFA) and the National Development and Reform Commission (NDRC), and the periphery ones like the Ministry of Science and Technology (MOST), the China Meteorological Administration (CMA), and the Ministry of Environmental Protection (MEP). Although the CMA, alongside the MOST and the MEP lead the policy coordination process and policy drafting, they are marginalised by the MFA and the NDRC when the political debates begin. In trade, although the MOFCOM is responsible for the GPA negotiations and policy coordination processes, the MOF also leads numerous dimensions of the negotiations due to its high-level content relevance. Meanwhile, the NDRC is the oversight agency against the GPA, although the MOF has on numerous occasions implemented national positions outside the NDRC's authority. All the while, the MOFCOM has the discretion to either accept or ignore other ministerial proposals, depending on the consensus and support of the top leaders. Decision-making for services points to a likewise situation. Although the MOFCOM is formally the leading trade policy agency, and usually represents China in trade negotiations, it only has the authority of a negotiator on behalf of industries but not the authority of a real coordinator. Fragmented decision-making settings as these make it

very difficult for the WTO agencies to channel information successfully, let alone produce impact.

In a likewise fashion, the external setting that surrounds China's preference formation (i.e., MER monitoring, foreign country observations, international scrutiny, and global media pressures) can impose much impact on China's ultimate preference as the government does care about its domestic and international reputation. The study found that the higher the pressures in this regard, the more susceptible Beijing becomes to MER influence. In all, policy setting plays a crucial role in determining MER influence, especially for the cognitive and contractual mechanisms.

Last but not least, *policy instruments* determine much of the MER agencies' influence. A particularly useful and effective policy instrument for the information dissemination mechanism across all case-pairs was support from the Chinese business and industrial actors – a key constituent group for the CPC. Gaining support from domestic industries, state-owned and private alike enhances the political weight of the discourse disseminated to Beijing, because it raises the political anti of non-action. Hence, the availability of industrial support for the CDM case, and the lacklustre of it in mitigation was a key reason for the difference in the influence level of the UNFCCC agencies. Similarly, the clash of the WTO agencies' discourse with the interests of the SOEs played a significant part in China's initial rejection to further liberalise services trade. Then support from the domestic private enterprises in services prompted the government to reform their position, though incrementally.

Another notable instrument that affected the MER agencies' influence was the systemic mechanisms within the UNFCCC and the WTO. The UNFCCC agencies' role as provider of operational advice can sometimes fall prey to concerns relating to the credibility of the output that are unrelated to the quality of the science as such. While broad membership subsidiary bodies lend well to legitimacy in providing the expert

advice required for achieving a treaty's governance goals, in practice they often fail to deliver salient and timely advice to China. Likewise, interviews point out that the WTO's services norms tend to be vague, and there is limited support available to China. Within the WTO's Council on Services Trade, there is only a handful of expert staff that provides sectoral/regulatory expertise to China among other countries. The limited support from the WTO means that China has often had to seek support from elsewhere. Hence, the MER agencies' deficiencies served to undermine their own attempts at influence. In all, having effective and reliable policy instruments is important for boosting the influence of the MER agencies, especially for the information dissemination mechanism.

With all considered, it can be concluded that, as expected, the underlying assumption of the primary hypothesis holds in the China context. That is, *the level of actualised influence the MER agencies have on China's preference formation is contingent on four situational factors: national objective, policy goals, policy setting, and policy instruments.*

All four situational factors are dynamic by nature; that is, they are not fixed variables. The four factors can be affected by a change in the decision-makers' beliefs, worldviews, and/or a change in the central government's strategy of governance. Hence, a change in the core foundation of the state can alter abstract policy goals, or the type of policy instruments utilised for meeting the needs of those goals. According to the research interviews, the drivers of changes in the situational factors are fundamentally the emergence of new ideas and policy actors. An understanding about the relationship between the two variables – actors and ideas – can lead to new appreciations for the situational factors as determinants of China's economic diplomacy preference formation. For example, China's policy goal can evolve when new policy actors – emerged from a leadership change, for instance, or from the introduction of new policy

specialists and interested parties – have simultaneous preferences. Alternatively, policy goals could also change from the emergence of new ideas (which may include a shift in the general policy frames that emerges either from a change in the preference formation venue and/or through a policy learning process).

However, the advent of new actors and ideas into the preference formation apparatus is not an automatic one, because factors such as informal politics (i.e., path dependencies and closed networks) can weaken the possibilities of altering the existing constellations of beliefs and the related policy actors (Hansen and King, 2001; Coleman and Perl, 1999). Hence, the emergence of new actors in a path-dependent situation, for example, is only likely to cause a change in the kind of policy instrument Chinese decision-makers use in preference formation as opposed to any broader shifts in policy goals or national objectives. In this context, the propensity for change in the situational factors can be considered as driven by the interactive effects of stable and change processes. This implies that an assessment on the influence of the MER agencies in China's preference formation necessitates an analysis on how the macro-level processes impact the micro- and meso-level structures. As such, the likely impact of the China-MER relationship on the decision-making structure in Beijing is discussed in the following section.

6.7 Consequences of Influence on Decision-Making Structure

Beyond mere influence on preference formation, this thesis also found implications from the Beijing-MER interaction on China's decision-making structure. What are the long-term cumulative effects of engagements with the MER agencies on China's overall policy structure? For some Chinese decision-makers, they believe that the MER agencies have marginal long-term impact because it is the issues that cause institution

rather than the institution on issues.²³⁰ This also implies that the trajectory and design of China's national interests and policy agendas are immune from exterior forces. Without denying this view, the qualitative data of the present thesis also indicate that the MER agencies have *an* impact on the decision-making structure. In *Chapter Three*, it was argued that engagement with MERs decentralises the decision-making system. In addition to this effect, this section further argues that *engaging with the MER agencies fundamentally shifts the domestic inter-agency balance by providing opportunities or constraints to certain agencies over others. As a result, it alters the distribution of power among the policy actors.* This is even more so given that the MERs often demand the establishment of new internal agencies, as was seen in the climate change and trade case studies.

As China's interactions with the MER agencies increase, it strengthens the possibility for the former to influence the policy structure of the latter by means of empowering the comparatively more liberal government agencies at the expense of the conservative ones. The thought process is that frequent engagements between particular government agencies and the MER actors will over time establish a natural bondage synonymous to that of an alliance. This alliance shares a converged set of values, beliefs, and policy preferences. Such relationships are particularly useful for government agencies that face a decentralised environment like Beijing's, with numerous veto points and uncertainties about the likelihood of an inter-agency cooperation.

Under this circumstance, the MER agencies become useful for persuading and changing the incentives of some (often opposing) Chinese policy actors in the internal bargaining process. For instance, the MER agencies and its domestic allegiance can reward opposing agencies for accepting a policy proposal they had initially rejected by

²³⁰ Interview with a senior member of the WTO Division of the Ministry of Commerce, Beijing, 22 November 2012.

providing resources, for instance, to offset any potential losses caused to the agency as a result of their cooperation. Reversely, the MER agency and its domestic allegiance can also impose costs on others upon the exercise of domestic vetoes. For instance, the agencies that do not fulfil MER commitments and obligations will be ineligible for subsequent programs that may benefit them. If this combination of carrots and sticks is strong enough, the MER agencies will have the capacity to effectively determine the process of reaching a desired preference formation outcome through a domestic intermediary agency.

As a consequence, a spiral pattern of influence emerges when domestic actors bypass government leaders and directly search for international allies in an attempt to bring external pressure on government agencies in opposition to their preferences. Such was the case when the MEP, the MOST, and the MOF invited the Global Environmental Fund (GEF) and other UN agencies to invest in pilot simulations to test the applicability of the CDM, of which their relationships were then used as an alliance to pressure the NDRC to be more proactive on the flexible mechanism.²³¹ In fact, interviews revealed that the MEP's strong support from the UNFCCC played a significant role in the ministry's promotion to Ministry-level status, because the GEF, among others, demonstrated the importance of the MEP to other governmental agencies involved in the internal climate change debate. The MOFCOM has similarly established alliances with agencies of the WTO, such as the Working Group on Transparency in Government Procurement on the issue of the GPA. The People's Bank of China (PBOC) and the MOF established special relations with the IMF.

The implication is an empowerment of these government agencies over others without a similar bondage, or access to external support and resources – all of which collectively translate into policy leverage. A case in point is when Zhu Rongji used its

²³¹Interview with a senior member of the China CDM Fund under the Ministry of Finance, Beijing, 3 March 2012.

informational advantage regarding the WTO to tie the hands of the Politburo Standing Committee. The possibility of an adverse ruling from the WTO and the resulting sanctions implied too high costs for the Standing Committee. As a result, the Standing Committee ratified the liberalisation policy over vetoing it. The Chinese decision-makers can use the available support from the MER agencies to promote a preference against the domestic critics, present these policies as part of an international package deal, and shift onto others the political costs of unpopular policies. The interviews indicate that this was what the MOF did in the months leading up to Beijing's decision to participate in the GPA accession negotiations. The NDRC also deployed this method when attempting to convince senior leaders in Beijing the benefits of participating in mitigation activities. Thus, an intimate relationship with the MER agencies can empower certain government agencies through the redistribution of domestic power resources and permit them to loosen internal constraints imposed by the traditional government structure.

Still, the research data also suggest the influence of the MER agencies does not operate as an automatic system of power redistribution in Beijing. The ability of the MER agencies to systematically empower Chinese agencies can be weakened if certain conditions are not fulfilled. The re-centralisation of power is more likely to happen when: (i) domestic agencies are already granted a measure of institutional autonomy in the conduct of economic diplomacy preference formation; (ii) they enjoy privileged relations with the MER agencies in the sense that other domestic actors do not have a similar relationship; and (iii) a permissive consensus exist in favour of the policies endorsed by the agency in an intimate relationship with the MER. These conditions are less readily available for *new issues*, which are more prone to the mobilisation of agencies (Moravcsik, 1994: 61); and the existence of sizeable societal groups or publics

with intense issue-preferences can also decrease the likelihood of an empowered agency due to its association with the MER agencies.

Finally, the MER agencies tend to require China – like other countries – to establish a corresponding set of internal arrangements *and* institutions as part of its membership. For instance, the report on the seventh session of the UNFCCC required the set-up a National Adaptation Programmes of Action (NAPA) team which entails a lead agency and other government stakeholders, responsible for preparing and coordinating the implementation of NAPA activities. Similar impositions from the World Bank can be identified. In this way, the MER agencies actually guide the creation of new domestic policymaking bodies and policy systemic plans that subsequently influence preference formation. In the process of interacting with the MER agencies, Chinese decision-makers will have observed how best to organise itself in accordance with the regimes and this in itself is a structural change process that can engender domestic institutions, sometimes at the expense of others. As well, these changes will promote the establishment of new government agencies in Beijing, and ultimately transform the decision-making structure that corresponds to certain international norms. This was true when entry into the UNFCCC and the WTO saw Beijing establish new inter-agency organs such as the Climate Change Coordination Leading Small Group (CCCLSG) and the World Trade Organization Leading Small Group (WTOLSG). Likewise, the ratification of the CDM was followed by the establishment of the China CDM Monitoring and Management Centre, responsible for monitoring and feeding performance related data to the UNFCCC; while WTO accession spawned new judicial review systems in China.²³² These organs were perceived as necessary because multilateral policies often entail ambiguous functions, vaguely defined power capacity and responsibilities, limited inter-departmental information sharing, and a prevalent

²³² Interview with a member of the Department of Treaty and Law of the Ministry of Commerce, Beijing, 23 November 2012.

mentality of administering its affairs based on discretion rather than macro-interests (Yu 2008, 504). Therefore, the MER agencies tend to promote “horizontal government policy institutions” to assist in clarifying departmental duties. Although it remains contested as to whether these agencies contribute or defect the inter-agency coordination processes, it is nevertheless true that their establishment has the effect of decentralising the national decision-making processes, increase the specialisation level, and reconfigure the government’s internal distribution of power.

Ultimately, the deepened relationship between Beijing and the MER agencies have opened China’s preference formation process to the MER agencies, and provided them the opportunities to establish themselves as interested parties that contribute inputs into the decision-making of China’s economic diplomacy. The thought process is that the reiterative processes of engagement with the MER agencies will, over time, integrate them into the general decision-making system of China – be it implicitly or explicitly, directly or indirectly, and intentionally or unintentionally. This is to suggest that as Chinese policy actors become used to regular communications and coordination with the related MER agencies throughout the preference formation, for instance, this kind of activities will eventually establish itself as a systemic norm within the decision-making process. Over time, policy actors may believe it is perhaps even necessary to bypass certain proposals to the MER agencies for their professional perspective and feedback. Significantly, this conclusion implies that China’s economic diplomacy decision-making in the 21st century is not necessarily a stand-alone domestic process. Although, on paper, China’s preference formation is determined by its national interests and other domestic political factors, a deeper examination of the agency-level activities suggests that the MER agencies also play critical behind-the-scenes roles that indirectly shape Chinese economic diplomacy. As such, China’s economic diplomacy is today arguably shaped by a *collective* system involving domestic and international agencies.

6.7.1 *Stable factors*

In this evolving process, it is important to note that two characteristics remain crucially stable. The first is the need for consensus in preference formation. The consensus-driven nature of China's preference formation entails much discussion and inter-agency bargaining for the purpose of reaching a mutual agreement as well as compromise. Government agencies that partake in the preference formation, from the Politburo to second-tier ministries, commonly endeavour to reach some sort of real or illusory inter-agency consensus. Failure to do so will usually postpone the decision-making, so policy actors have more time to study the matter. In the words of a ministerial official, "Policymakers are trained from early on in their careers that the taller the tree, the more wind it attracts."²³³ Even the most senior members of the government, such as the President, must seek consensus in the current collective leadership system. This is to maintain unity and loyalty within the CPC and prevent factions emerging. The 2012 leadership transition is a case in point whereby even veteran Jiang Zemin was reportedly playing a greater influence over the selection of the succeeding group of leaders than Hu Jintao. As a Hong Kong-based China expert Willy Lam said, "He's [Jiang] still very much the power behind the throne" (cited in Pomfret & Lim, 10 November 2012). As a result, the economic diplomacy preference formation process can be lengthy and complicated, particularly if the issue is viewed as sensitive.

To illustrate this point, in the process of China's WTO accession preference formation, the negotiators believed that Zhu Rongji (former Premier) would not assent to a WTO package unless they consulted with and gained the consensus of most (if not all) domestic interests. Therefore, Li Langqing (former Vice Premier) would not send an accession deal up the hierarchy without accompanying documents demonstrating the agreement of key domestic interests (i.e., the assent of the grain bureau to the parts of

²³³ Interview with a policy officer from the Policy Planning Department of the Ministry of Foreign Affairs, London, 7 June 2011.

the deal related to agriculture). If a package were to be sent upward without such signatures or with dissents, Zhu would be expected to seek some explanations. He might take on the burden of trying to hammer out a compromise with the relevant constituencies, but he is more likely to refer to the problem back down the hierarchy, and the seemingly endless coordinating meetings would begin again. This highly bureaucratic decision-making process – a product of the need to generate agreement from many potentially hostile units – played a large part in creating the stalemate that engulfed the negotiations with the US during the late-1990s. It is also this process that was essentially scrapped in the months of 1999 leading up to a bilateral agreement (Pearson, 2001: 349-350). Within the Chinese policy and scholarly discourse, the weaknesses of the present consensus-driven nature of preference formation are candidly discussed. In the words of the former President of China, Hu Jintao, the system of “collective leadership with division of responsibilities among individuals” should be improved in order to “prevent arbitrary decision-making by an individual or a minority of people” (cited in Xinhua, 15 October 2007).

This takes us to the second stable factor: informal politics and allegiances. Attempts to institutionalise preference formation have been on-going since Deng Xiaoping inaugurated economic and political reforms in the late-1970s, within the state government and the CPC. Despite those efforts, China’s preference formation is still heavily affected by the informal channels of influence.²³⁴ Many China enthusiasts have stressed the importance of using a combination of the formal and informal channels. While the formal, consensus-driven system of preference formation requires both time and the willingness from all participants involved to reach compromises, the informal decision-making system based on personal relationships, or *guanxi* (关系) necessitates an understanding and consideration of the interests held within one’s own network.

²³⁴ Interview with a policy officer from the Department of Treaty and Law of the Ministry of Foreign Affairs, Beijing, 7 September 2011.

In Beijing, both the formal and informal systems of preference formation need to be taken into account by policy actors vying to influence the preference formation outcome. Although a weak inter-agency process undermines any government's preference formation processes, in China, the issue of bureaucratic rivalry is even more severe because of the lacklustre transparency in a vertical political regime where the agencies' access to economic benefits, funds, and decision-making power, are fiercely contested between themselves. As such, establishing and maintaining personal relationships have been an endemic practice in China. In all, the characteristics of a consensus-driven preference formation process and the importance of informal politics are concrete stable factors that remain consistently immune from international influences.

6.8 Conclusion

In this chapter, the objective was to reach some conclusions about how the MER agencies influence China's preference formation. From the discussion, it is clear to see that China does not reject the influence of the MER agencies. This claim is made on the grounds that none of the mechanisms had an inertia or retrenchment levels of influence. Instead, Chinese decision-makers absorb the consequential effects of engaging with the MER agencies, and adapts as well as integrates to it vis-à-vis the domestic situational factors. This is seen in the empirical findings for the costs-and-benefits calculus and information dissemination mechanisms, both of which were identified with an absorptive-level of influence. The fact that Beijing accepts and adapts to international forces is an important finding which contrasts with the existing scholarly assumption that Chinese decision-making is an opaque and highly autonomous process immune from external impacts.

What is more, not only do the MER agencies have some degrees of influence on preference formation, it also impacts on the distribution of power within the decision-making structure. By establishing close relationships with various domestic actors, the long-term effect is an empowerment of those actors against others in the internal inter-agency bargaining process. Of course, the influence of the MER agencies is conditioned, as expected, by a range of situational factors and stable conditions, including the consensus-driven preference formation, and informal politics. On the whole, the primary hypothesis is valid to the extent that both costs-and-benefits calculus and information dissemination mechanisms affect preference formation, but that they are conditioned by a range of situational factors. The only mechanism that is found to have an influence level below absorption is the reputation reinforcement. Overall, the thesis finds the primary hypothesis partially valid.

PART THREE

Approaches, Processes, and Some Last Thoughts

TURNING TABLES TO THE NEGOTIATION APPROACHES

7.1 Introduction

In the study of economic diplomacy, there is a two-fold research interest concerning the preference formation of nation-states, on the one hand, and the decision-making during a negotiation process, on the other hand. In this context, the thesis makes the assumption that the agencies of multilateral economic regimes (MERs) have the explicit or implicit capacity to influence both dimensions of China's economic diplomacy; that is, the MER agencies have impact at different stages of the economic diplomacy decision-making. In the previous chapter, it was argued that the MER agencies have, at best, an absorption level of influence on China's economic diplomacy preference formation. Here, the focus was placed on the preparation stages of decision-making based primarily in Beijing. This chapter moves away from such focus and turns the attention to the second dimension of economic diplomacy to examine the extent to which the MER agencies can shape China's negotiation approach. As party to multilateral economic negotiations, in what capacity can the MER agencies manoeuvre and shape China's negotiation approach? The purpose of this chapter is to address this question. To that end, the secondary framework (presented in *Chapter Two*) is applied to guide the analysis.

Rationalists, cognitivists, and contractualists commonly assume that during the negotiation process, the international actors are most effective in shaping national postures from a function of *mediation*. Where they differ is in the type of cognition mediation alters and the steps the MER agencies have to take to impose effective

influence. The rationalists believe national negotiation approaches are determined by the policy and/or action options available to them and the expectation for the likely outcome. Although the preferences over the desired outcome are assumed to be fixed, the nation-state's expectations are not. Rather, their uncertainties about the accuracy of its expectations cause them to perpetually inform and renew their perceptions as they encounter and get hold of new information (Walsh, 2005: 5). In this situation, the MER agencies in a mediation function can use the available private negotiation information (i.e., the utility associated with each available negotiation approach) that may be important to Chinese decision-makers to alter the expectations, and therefore the negotiation approach of China.

The cognitivists take a slightly different approach to rationalism. Drawing on the Habermasian theory of communicative action, the cognitivists hold that from a function of mediation, the MER agencies and the Chinese policy actors can communicate frankly with one another in the process of building consensus about the cause-effect relationships, for instance, and what is considered normatively correct behaviours. The MER agencies interact with the Chinese policy actors without being aided by material power resources to impose their own perspectives onto the Chinese decision-makers. In turn, the Chinese decision-makers become more open to the possibility of being convinced by the better argument regardless of whom that argument stems from. This viewpoint contrasts with rationalism, which rejects the possibility that mediation could transform how a government defines what is *right* and what constitutes *normatively correct* behaviour (Finnemore, 2003: 154; Risse, 2000: 20). The contractualists, in the meantime, believe that mediation is nothing more and nothing less than an effort to change the costs-and-benefit calculations of a negotiation approach with exogenously positive or negative incentives to secure cooperation. Furthermore, mediation does not

change that player's underlying desire to defect in a suasion game, nor does it change basic beliefs – or common knowledge – about what kind of game is being played.

Building from the preceding assumption on a function of mediation, and based on the empirical research, a second framework of analysis was yielded (as explained in *Chapter Two*) to examine the MER agencies' effect on China's negotiation approach and the role it plays in doing so. Accordingly, this framework informs the secondary hypothesis of this thesis, which holds that, *the agencies of the multilateral economic regimes can shape China's negotiation approach through three capacities: as a mediator in shuttle diplomacy proximity talks, as a facilitator of informal negotiation practices, and as an instigator of side-payment bargaining*. The underlying assumption of the secondary hypothesis is that *the level of influence is contingent on three social instigators: expectation, trust, and personal reputation. All three social instigators are cumulatively necessary criteria of influence*. The chapter finds that the MER agencies can affect China's negotiation approach through the hypothesised mechanisms. However, their actualised influence varies according to the context of the communication and the negotiation process. For this reason, it is difficult to draw definitive conclusions about a fixed level of influence. Rather, the chapter argues that the MER agencies as mediators of proximity talks and facilitators of INPs can achieve influences between absorption and transformation. Meanwhile, the MER agencies as instigators of side-payment bargaining can, at best, achieve an influence level between inertia and absorption. In addition, the chapter finds the social instigators as core drivers of China's negotiation approach, and are fundamental contingencies of the MER agencies' influence in this dimension of economic diplomacy decision-making.

The chapter proceeds as follows. Sections two, three, and four examine the influence of proximity talks, INPs, and side-payment bargaining respectively. Section five discusses the social instigators as drivers of Chinese economic diplomacy decision-

making, and contingencies for the influence of the MER agencies on China's negotiation approach. Finally, the last section provides some concluding remarks.

7.2 Shuttle Diplomacy Proximity Talks

Shuttle diplomacy is the act of meeting country representatives abroad to discuss contentious cross-border issues. The inter-personal meetings held in the course of the shuttle diplomacy are known as *proximity talks*. The micro-process of proximity is a case of persuasion and it involves changing the decision-makers' minds, opinions, and attitudes about causality, and affects the absence of overtly material and/or mental coercion (Johnston, 2008: 25-26; Walsh, 2005: 3). Some political scientists believe persuasion is the "central aim of political interaction" (Mutz, Sniderman and Brody, 1996: 1). Others consider politics as all about persuasion (Gibson, 1998: 821). The rationalists, cognitivists and contractualists mutually agree that persuasion triggers policy impact. For instance, the rationalists believe the hoped-for effect of the costs-and-benefits calculation is to use it to persuade the Chinese government of better negotiation approach equilibria. The cognitivists likewise assume the purpose of information dissemination is to persuade Chinese decision-makers that the international discourse guides a better negotiation approach. As well, the contractualists argue that reputation reinforcement is effective in persuading the Chinese government to be cooperative. These understandings of persuasion differ from other tactics of influence (i.e., rhetorical action or heresthetics) where one party manipulates the context (i.e., political environment or the rules of decision-making) to achieve an objective of their interest (Schimmelfennig, 2002). Despite the conciliatory nature of mediatory persuasion, 91 per cent of the research interviews indicated that it works more effectively in China than other methods. This is because the MER agencies generally

have better knowledge about how to engage with the Chinese decision-makers in a meaningful and reasoned communicative manner.²³⁵

Based on the case studies of this thesis, two strategies of persuasion under proximity talks were identified as actively exercised by the agencies of the UNFCCC and the WTO: the *central* route and the *peripheral* route. The central route is where the MER agencies weigh evidences and puzzles through counter-attitudinal arguments, and comes to a conclusion that is different from what the Chinese government had begun with. This form of mediatory persuasion involves a high-intensity process of cognition, reflection, and argument about the content of new information (Bar-Tal, 1990: 122). In the case of mitigation, albeit the Chinese government's view that mitigation measures are threatening to economic growth, the UNFCCC Secretariat and the Intergovernmental Panel on Climate Change (IPCC) provided calculated evidence to persuade the Chinese decision-makers that improving energy efficiency, diversifying energy sources and reforestation are all "no-regret" policy options, and contribute to the efficiency of the energy sector. Furthermore, these policies can spawn the development of new commercially profitable technologies, as well as new access to technical and/or economic assistance from abroad. In the case of the Government Procurement Agreement (GPA), the GPA Committee attempted to persuade the Chinese decision-makers – who viewed entry to the GPA with ambiguous benefits for China – that the benefit of a GPA membership enhances the country's rule-making in this area and contribute to better governance over the private regulations on the participants of procurement activities. Doing so can mitigate internal corruption and other illegal behaviours as well as strengthen the efficiency of the system. Due to the visible attitudinal changes from Beijing in both areas, it is easy to argue that Chinese decision-makers are susceptible to the central route of persuasion which occurs in proximity talks.

²³⁵ Interview with a policy advisor to the Ministry of Commerce, Beijing, 4 September 2012.

Yet, the empirical data also indicate that the impact of the central route persuasion declines if the initial attitude in Beijing was already linked to a larger internally consistent *network of beliefs*. This drawback resembles that of the information dissemination mechanism; and it explains why after years of proximity talks, the UNFCCC agencies were only able to achieve a slight attitudinal change from Beijing concerning the issue of mitigation, as opposed to actual shifts in the negotiation approach. The widely held conviction, particularly within the National Development and Reform Commission (NDRC), that mitigation efforts endanger economic growths essentially undermine the effects of persuasion of the UNFCCC agencies. Likewise, the wider beliefs held by numerous services ministries (i.e., public transport and telecommunication) that China's services is still shaped by weak infrastructures prompted a consistent negotiation approach that is characterised by a resistance to further service trade liberalisation in much of the early years of negotiations. With these said, as long as decision-makers are open to the MER agencies – which the Chinese government is – and as long as they continue to face uncertainties about the available policy options, and the approximated net benefits of each available option, the central route can still be effective. Of course, this effect will be even greater when decision-makers hold weaker prior beliefs.

The second strategy is the peripheral route. This strategy promotes the establishment of institutionalised relationships between the MER agencies and the Chinese decision-makers in informal and private settings. The Chinese decision-makers often search for cues about the nature of a given relationship with a MER agency to judge the legitimacy of their counter-attitudinal arguments – a point that was raised in the previous chapter as a weakness of information dissemination. Like other countries, Beijing finds proximity talks with in-groups to be more effective than with out-groups; and talks with the *liked* sources are usually better-received than sources that are

disliked. The determining factor of *like* is based on familiarity and the level of exposure to the agency. For example, this study finds ministries with regular contacts with the agencies of the UNFCCC and the WTO to not only embody deeper knowledge about the related issues for negotiation, but are also generally more sympathetic toward the global agenda. By comparison, the ministries with little or no contact with the MER agencies tend to perceive them with less legitimacy. As a result, the ministries with established relationships with one or more MER agencies often consider them with greater credibility than other ministries that do not have similar relationships and associations.

This point is nicely encapsulated by the rationalist assumption that even though preferences over the desired outcome are fixed, the actors' beliefs are not, and their uncertainties about the accuracy of these beliefs cause them to renew their beliefs infinitely as new information are encountered (Walsh, 2005: 5). This assumption complements the cognitive view that the dynamisms of beliefs, and the new information about the utility associated with each available policy, can alter the beliefs of the Chinese decision-makers. In 2000, the COP5 President held proximity talks with the Chinese decision-makers in an effort to alter their CDM negotiation approach. The COP5 president emphasised the net benefits (i.e., new investments, technology development, and job creation) that will come with cooperation. Interestingly, Chinese decision-makers responded with enthusiasm *only* when it viewed the COP5 President as informed and credible.²³⁶ That is, the Chinese decision-makers need to be convinced that the COP5 presiding staff possessed more and accurate information concerning the negotiations and the policy options available to China. At the time, the Chinese decision-makers faced some degrees of uncertainty about which of the available policies on the Kyoto Mechanisms will maximise their utility. As one member of the COP5

²³⁶Interview with a Chinese negotiator from the Department of Law and Treaty, the Ministry of Foreign Affairs, Beijing, 11 February 2012.

Presidency involved in the process interviewed for this research indicates, in order to be successful at persuasion, the Chinese decision-makers need to face some degrees of uncertainty about the relationship between policies and outcomes. When this uncertainty is low, the information from the MER agencies will be taken as accurate and reliable guidance for the net benefits that are spawned from each available policy option. It is understandable that when the Chinese decision-makers faced high uncertainties about the CDMs, they searched for and evaluated the new information to determine as close to the correct estimations of potential economic payoffs as possible from each available negotiation approach, and that they will resort to the guidance of the COP5 presiding staffs' suggestions based on the belief that they might have a better capture of the real relationship between the available policy options and its associated outcomes than their own. In the end, the Chinese decision-makers adopted the CDMs with the conclusion that the COP5 Presidency had superior and credible information concerning the true relationship between the policy and outcome nexus.

In addition, whether the Chinese decision-makers accept MER persuasion rest on how honestly the MER agencies have communicated their superior information. As China's negotiation approach can affect the utility of the MERs (i.e., by determining the likelihood of reaching an agreement and the kind of agreement), the MER agencies may thus not necessarily act on neutral grounds when advising and mediating the negotiations; rather, it could hold preferences over the type of negotiation policies China adopts. The MER agencies have an incentive to play around with their information resources so that the preferred negotiation approach is adopted by China. In this situation, Chinese decision-makers will think the most credible MERs are the ones with agencies that desire outcomes similar to China's. When the Chinese decision-makers know that the MER agencies endeavour to lock-down outcomes that are similar to their own, they trusts that the MER agencies will then communicate on a more honest

level with regards to their information and of the true consequences of the proposed negotiation approach. On the other hand, however, if China holds different preferences over the outcome compared to the MER in question, then it may refuse any suggestions made by the MER's agencies on the grounds that it is not considered credible. In other words, the Chinese government might fear that their divergent preferences may cause the MER agency to deliberately communicate incorrect information for the purpose of persuading China to take-on their desired negotiation approach. This sentiment was communicated by an interviewed Chinese negotiator to the WTO and with a particular focus on the services trade.²³⁷ He recalled that in the early years of the DDA, the WTO Secretariat envisioned a complete liberal international structure on services with minimal restrictions, and in turn, played his words around however way he thought was necessary to have China jump on board to the imagined scenario. However, the interviewee felt that much of the arguments made were not congruent to China's domestic situation, and therefore, he could not go along with this vision of an agreement in services. The Chinese decision-makers' estimated degree of preference convergence between them and the MER agencies are usually based on past interactions and experiences, and/or from a general expectation about the international environment and behaviour. With this said, the MER agencies can enhance their credibility by demonstrating its commitment to a proposal regardless of China's actions. The UNFCCC agencies are particularly good at this and they often do so by sponsoring domestic pilot projects across various regions in China to illustrate its intentions and persuade through doing. The success of the CDM negotiations is a case in point.

As mediators, the MER agencies can further overcome China's expectation issues in proximity talks by sharing their insights obtained from caucus sessions (i.e., proximity talks) held with other member-states. Of course, as mentioned earlier, the problem with this strategy is if China knows that a MER agency is going to share what

²³⁷ Interview with a Chinese negotiator to the WTO, Geneva, December 19, 2011.

they learn with the other parties, what reasons do they have to distribute their own private information that may come back to bite them? On the one hand, if the MER agency in question keeps its insights from the proximity talks confidential, then it has limited ability to utilise the insights for improving the negotiation outcome. That said, when the MER agencies encounter this dilemma, in practice, they might exercise “noise translation” (Brown and Ayres, 1994: 356) in private dialogues with China – i.e., share their insights about the views of other parties without explicitly stating any one party’s perspectives. In this way, China might communicate more honestly with the MER agency with the knowledge that whatever they share will not be directly relayed to other parties. On the other hand, even partial information is beneficial for the other side in moving towards the best possible agreement. And yet, David A. Hoffman (2010: 16-17) stressed, although the notion of communicating only partial information may seem wrong, in practice, the principle of transparency is difficult to implement. The only feasible way for this strategy to work is if China, like other parties, has perfect knowledge about how the MER agency intends to apply the insights acquired from proximity talks. As such, “noise communication” and other inexplicit means of communication such as *signalling* are commonly used to guide parties toward productive negotiations.

In the empirical research, it was found that in the mediatory function, MER agencies frequently exercise signalling in their proximity talks. Signals are actions which convey a kind of information that reduces uncertainty (Jervis, 1976). In strategic interactions, where the MER agencies hold private information regarding the preferences of other parties, for instance, signalling can be effective for converging China’s negotiation approach to one desired by the MER actors. In the process of setting the climate change negotiation agendas and in the process of drafting the Chair’s text, the Secretariat of the UNFCCC requires all signatories to send their national

reports to Bonn, Germany – the UNFCCC headquarters – on an annual basis (Softing, 2000: 23). The UNFCCC can, in turn, use the information to alter China's negotiation approach. The same function can be found for the WTO Secretariat. One Chinese decision-maker notes that member-states of the WTO had to submit proposals containing elements relating to the regulatory cooperation such as transparency disciplines and negotiation intents for the DDA to Geneva. This implies that the WTO holds substantial private information it can use for signalling.

With this said, the empirical research finds that the MER agencies do not necessarily have as much private information in practice as cognitivists assume, especially access to the true versus revealed preferences of the member-states. It is often difficult for the MER agencies to verify claims by parties that their hands are tied by domestic constraints, for instance, and it is not obvious when a member-state is bluffing when they claim that they have attractive alternatives in hand. The situation is further exacerbated when deciphering the preferences of states through coalitions. This challenge in identifying the real preference orderings is nicely illustrated by the DDA negotiations. When faced with a coalition of states putting forth a collective demand, as is often the case at the DDA negotiations, it is difficult for the WTO to determine the intent and resistance points of the individual parties. A coalition may claim complete commitment to a particular position, and its members may threaten to collectively block the negotiation process unless their joint demand is met. But unless the WTO has some additional information about the credibility of this position, it may assume that the members of the coalition are bluffing and could actually be bought off through individual side-deals. In the DDA negotiations, the difficulty in identifying the real preference orderings of all the parties constitute a key reason why trade-offs through the Single Undertaking, win-win situation, has been difficult to achieve. All parties recognise to some degree that the stated positions do not represent the bottom-line of

the negotiating parties. But amidst uncertainty about the extent to which coalitions (and countries within them) are willing to stand firm over certain areas and concede on others, the zone of agreement itself remains ambiguous.

Furthermore, signalling exercised in proximity talks are expected to inform policy. This expectation naturally affects the way negotiation questions are framed and how it should be approached (i.e., certain matters are attended to at the expense of others; some questions are identified as political and removed from inquiry, while others are addressed as if they were merely technical and had no political implications). However, the MER agencies' signalling exercises may not reflect a state of neutrality. Rather, it is located in a context of competing national and institutional interests, and their influence tends to be either enhanced or circumscribed by this context. At times, the signalling exercises may not translate well into policy and the uncertainties spawned out of shallow-detailed mediatory recommendations from the MER agencies can dampen their credibility. For instance, the WTO is in principle charged with the function of reporting independent and private information to China and the United States (US) regarding each other's demands and intents. Another case in point is the "signalling conference" held in 2008, and the subsequent informal discussions with some 25 groups, each focused on a distinct service sector. These activities helped identify sectors and activities where liberalisation might be possible (Oxford Analytica Daily Brief Service, 28 May 2012).²³⁸ However, since the WTO is also uncertain of either the Chinese or American costs, but does have some independent information it can pass on, it must be biased in order to have any effect on the outcome of the bargaining. The intuition is that if the WTO only cares about preventing a deadlock, then it will always tell China and the US the situation is resolute (regardless of whether

²³⁸ Promising areas included some air transport services (e.g., maintenance and repair), computer-related services, civil engineering, and rules on establishment of banks and other financial services institutions. Only limited opportunities were signalled for legal and architectural services, rail and road freight, education and postal services and telecommunications.

the WTO believes it) and therefore China should moderate its demands.²³⁹ This advice, if followed, could lead to an agreement, but most likely on either *actual* or *perceived* unfair terms. And China, seeing the WTO as having an incentive to lie, will consequently discount its advice, and the WTO agencies' influence is therefore undermined; the imminent regression problem ultimately reduces its effectiveness.

In general, the level of influence proximity talks can install in shaping China's negotiation approach depends on two factors: how informative the MER agencies are, and the level of perceived credibility the MER agencies have to the Chinese decision-makers. It is difficult to convince China to alter their negotiation approach by a trustworthy but ill-informed MER agency. The same goes for the reverse situation. To be sure, China certainly absorbs the mediation of the MER agencies, but this needs to be supplemented by superior information and credibility to communicate honestly. In this situation, Chinese decision-makers acknowledge that the MER agencies have better understandings about a negotiation environment and therefore trust in their information.

Ultimately, a matrix of four scenarios is most probable. First, if the MER agency has superior information and credibility, proximity talks are likely to have an absorptive/transformational level of influence in shaping China's negotiation approach. Second, if the MER agency has superior information but lacks credibility, China may be unwilling to respond to the MER agency's mediation at the fear that they may have been manipulated to select a course of action that serves to optimise the benefit of the MER agency. In this situation, proximity talks are likely to have an inertia level of influence. The third scenario is where the MER agency is viewed as credible but lacks superior information. Here, the Chinese decision-makers will consider the agency as trustworthy but will not fully absorb the mediated effects. As such, proximity talks will have an inertia/absorption level of influence. Finally, the combination of no superior information and lacklustre credibility will cause China to believe that the MER agency

²³⁹ Andrew Kydd (2003) makes arguments along similar lines.

is dishonest and manipulative in its communications to serve its own ends. Thus, proximity talks in this situation will have a retrenchment effect in the shape and form of China's negotiation approach. The four scenarios are summarised in *figure 7.1*.

Figure 7.1 *Scenarios of the Influence of Proximity Talks*

	<i>Credibility</i>	<i>No credibility</i>
<i>Superior information</i>	Absorption/ transformation	Inertia
<i>No superior information</i>	Inertia/absorption	Retrenchment

Overall, this chapter concludes that the hypothesised capacity of the MER agencies as mediators of proximity talks to influence China's negotiation approach *partially valid*.

7.3 Informal Negotiation Practices

Cognitivists believe that influencing negotiation approaches does not just occur at the national level. The negotiation processes itself can contribute to the actor's perceptions of how a problem should be handled (Barnett and Finnemore, 2004: 3-7; Finnemore 1996, 333). Hence, informal negotiation practices or the INPs facilitated by the MER agencies during the negotiation process can modify China's expectations, strategies, and posture, all of which underline their approach to the negotiations. Under the normal circumstance, negotiations in an open, formal plenary with all the attending national delegates tend to be cumbersome at best and unmanageable when the agenda grows in complexity. In turn, the INPs are strategically designed by the MER actors to streamline the negotiation proceedings by allowing the texts to be discussed by smaller and specialised groups of negotiators. The INPs can come in numerous forms, one of which is known as informal consultations. These are open-ended and off-the-record meetings, often steered by the figure-head of a MER or the Chair of a general council or

committee. In July 2008, the WTO's Director-General, Pascal Lamy, acted as Chairman of the Trade Negotiation Committee (TNC) and steered a "services signalling conference" with a small group of key economies including China, to discuss outstanding services issues and exchanged potential offers (Footer, 2011: 230). Lamy's predecessor, Mike Moore, was also recorded to have steered informal consultations with China, Kenya, the US, and India on agricultural tariffs for instance in 2001. According to one witness negotiator, Moore had "firmly retorted back to any doubts and objections Chinese Minister Shi and Indian Minister Maran had" about the Chair's draft text (cited in Jawara and Kwa, 2004: 110).

Another form of INP is roundtable discussions. Member-states in this situation are divided into smaller groups and sit across – rather than behind – each other. During the 2011 COP17 conference, the South African COP President called a roundtable (or the "huddle") including representative from China, the US, the European Union (EU), and India to discuss a final resolution on mitigation issues as part of the Durban Package. Based on personal observations inside the negotiation room, the South African COP President, Maite Nkoana-Mashabane, acted as Chair of the roundtable discussion and had placed particular pressure on China, India, and the US to accept the middle-range proposal forwarded by the EU. Finally, the INPs can come in the form of inter-personal corridor or lobby dialogue outside the main meetings. According to one Chinese delegate, these corridor conversations are very effective in guiding the negotiation proceedings and outcome; and even more so when China encounters a negotiation dilemma with other parties.²⁴⁰ In 2008, the Chair of the "services signalling conference" exercised signalling with members of the Chinese delegation in corridor conversations. It was suggested that Lamy indicated that the participating ministers may improve their services offers for an agreement on agriculture and NAMA from China

²⁴⁰Interview with a policy advisor to the Ministry of Commerce, Beijing, 4 September 2012.

(Hoekman and Mattoo, 2011: 7-8). China apparently approached the negotiations thereafter with more flexibility and approved the 2008 Chair's draft text on services.

The strength of the MER agencies acting as facilitators of the INPs – characterised as confidential and informal/off-the-record processes of negotiation – for securing agreements is the capacity's effectiveness in elevating the probabilities that negotiating parties will reciprocate. The probable settlement-effect stems from the setting of the INPs, which is conducive to problem-solving. For instance, a fundamental principle of the INPs is that nations can select freely how and on what grounds they should settle. As such, it is a more comfortable environment for Chinese decision-makers to consider the best negotiation approach. The setting is particularly important because, in some negotiations, especially concerning highly contentious issues, the clash of communication styles can undermine China's willingness to cooperate. In some cases, certain delegates can communicate abrasively that the Chinese decision-makers cannot tolerate being in the same room.²⁴¹ In one DDA joint session about how certain business interests should be valued, one Chinese delegate could not tolerate the tone of voice of the foreign delegate that is making a statement. The Chinese delegate sat uncomfortably, a pained look swept her face, and it became clear that this delegate was unable to listen to what he was saying.²⁴² The fact that the native spoken language between the two delegates also differed further compounded to the severity of the issue. In this situation, the informal nature of the INPs is much better at easing any discomfort felt by members of the Chinese delegation, and in turn, enables a much more effective process of honest and receptive communication.

In addition, and perhaps more important, is that INPs such as informal consultations involve processes of rationalisation in the communications between the MER agencies and the Chinese negotiators. The rationalisation is itself a source of

²⁴¹ Personal observation.

²⁴² Personal, first-hand, observation at the 2011 WTO Ministerial Meeting, Geneva, December 2011.

constraint because the form of justification for a recommended set of possibilities communicated by the MER agencies structures how the Chinese decision-makers view the available options in terms of the negotiation approaches.

Moreover, when the parties are stuck for options in a stalemate, the MER agencies facilitate INPs to brainstorm alternative solutions. Brainstorming in a formal plenary can impede thinking outside the box because *distrust* can undermine the joint sessions regardless of how skilful the MER agency frames the brainstorming exercises and explain the ground rules. The Chinese delegation may fear that advancing an idea could disclose private aspects of their negotiation approach, such as the level of their flexibility to solutions; or the spontaneity of the discussion can disclose more details about China's position than they are willing to reveal. Thus, the MER agencies like to encourage brainstorming through a form of the INPs and vet out some initial ideas in a separate and safer-feeling environment before hosting joint sessions. In the process of brainstorming, the mediatory effects of the MER agencies (i.e., by conveying their own ideas alongside that of nation-states) will naturally be absorbed into China's final negotiation approach. In a way, this can be considered as the MER agencies' attempts to level the playing field by engaging in some form of negotiation coaching. For instance, the MER agencies have a high tendency to encourage the Chinese delegates to explore each side's underlying interests, help decision-makers generate negotiation options, and discuss the ways that different elements of a deal might be structured. Coaching of this kind is virtually impossible to do in formal plenaries, partly because it gives the appearance of partiality, and partly because candour about bargaining strategies in joint sessions is rare (Hoffman, 2010: 28). The implication of these exercises is that the MER agencies will soften the edges of China's national position and assert their beliefs in the framing of China's negotiation approach. At the same time, the MER agencies

implicitly and indirectly impose international norms on China to constrain the possible negotiation approaches they can adopt.

To be sure, the MER agencies, by design, have no capacity to make negotiation decisions; their designated roles are by definition primarily administrative. Multilateral economic agreements are, in theory, member-driven. But in reality, leading MER representatives can exercise powers comparable to national leaders.²⁴³ In the 2001 ministerial conference, Chairman Kamal, for instance, refused to take a backseat during the negotiation proceedings, demanding that he play a central role in the process of reaching a compromise (Jawara and Kwa, 2004: 84). Likewise, although Lamy remains neutral and impartial in public, he has, on numerous occasions, pointed out to the Chinese delegation on what he perceives as right or wrong with China's negotiation approach, and has made recommendations accordingly behind closed doors.²⁴⁴ Some interviewed Chinese delegates also revealed that the WTO facilitators sometimes request China to agree to the inclusion on the negotiation agenda despite Beijing's reluctance; and senior personnels often play very active roles in the final green room meetings of ministerial conferences to harness the Chinese delegates to accept draft declarations.²⁴⁵ One developing country delegate observed,

Those who supported the [chair's] text were given the floor to speak first...it was arranged in this way to literally set the consensus...People cheered and clapped after every endorsement of the text...This made those who wanted more clarifications feel like they were the bad guys...This is a common tactic, to make a certain viewpoint appear more dominant (cited in Jawara and Kwa, 2004: 108).

This view is supported by an interviewed Asian delegate to the WTO during the 2011 ministerial conference:

²⁴³ Interview with a Japanese delegate to the WTO, London, 3 February 2012.

²⁴⁴ Interview with a senior advisor to the WTO, Beijing, 22 November 2012.

²⁴⁵ Personal interviews.

Being Chair of a committee at the WTO gave me the opportunity to see how the Secretariat functions, and how some group of countries would subtly get what they want into draft documents. It is done in a very clever, sophisticated and subtle manner...If, for example, the majority of delegates don't agree with a negotiating text produced by a chairperson and thus demand changes, the chair could turn to the Secretariat for help, especially if he or she is not technically competent. The clever lawyers of the Secretariat will then redraft the text in such a way that it would lean towards what it wants, and, importantly, it would also seem that consensus was reached. The chair would then be placed with the responsibility of presenting this skewed document to the membership without further consultations.²⁴⁶

This shows the level of control the Secretariat has over the direction of the negotiations.

This reality was echoed by an interviewed African delegate during COP17: "The Secretariat has very strong views on mitigation, and they do aggressively pursue that way of thinking. You get questions like 'Why don't China want to talk about emissions-reduction?' forgetting how much China has already achieved domestically."²⁴⁷ An interviewed Central American delegate to the COPs similarly said, "The Secretariat has biased positions, which has helped create another layer on to the COPs negotiating structure. Mission officials from the developing countries not only have to negotiate with their counterparts, they also have to negotiate with a so-called 'neutral' Secretariat."²⁴⁸ By helping the developing countries extract commitments from developed countries (i.e., aid, technology transfers, market access, commodity prices, and debt relief), whilst helping developed countries demand economic reforms in developing countries; and/or by simply listening to the different positions and redrafting a compromise text him- or her-self, the MER actors are running the show behind-the-scenes, with immense capacity to influence the negotiation outcomes as they see best through its facilitator function.

With these said, some Chinese negotiators have noted during interviews that it does take measures to ensure the presiding staffs of the MER agencies do not go beyond their job descriptions as a "secretary" during the negotiation process; and that they remain in a limited capacity to interfere with the member-driven decision-making

²⁴⁶ Personal interview.

²⁴⁷ Interview with a Tanzanian delegate to COP17, Durban, 3 December 2012.

²⁴⁸ Interview with a Central American delegate to COP17, Durban, 7 December 2012.

system.²⁴⁹ Undoubtedly, the actions and decisions of the MERs' staffs are constantly under tight scrutiny of the Chinese negotiators; but this does not deny the fact that the presiding staffs do exercise strategies and tactics – though not on an open and prevalent basis. For instance, in the DDA negotiations, the WTO Secretariat has a tendency to host informal consultations in remote locations where few national embassies reside (i.e., Cancun). This makes it difficult for many national delegates including the Chinese to seek decision approvals from their capital cities, and in the spur of the moment with added pressure and stress, negotiators are more likely to give in to the Chair's draft texts.²⁵⁰ One negotiator also mentions that when there is a prevalent and dominant consensus, the Chinese negotiators find it harder to keep to its bottom-line and have a high tendency to give-in and reach agreement due to the imminent pressures and environmental influences.²⁵¹ Most Chinese negotiators generally believe that the MERs' presiding staffs does interfere at times in the negotiations, and the facilitators do tend to coordinate between member-states – all of which can have consequences on China's negotiation approach.²⁵²

Advocates of rationalism, however, argue that how China shapes their negotiation approach should be exogenous to the social interaction dimension of the INPs (Reus-Smit, 2005: 192). This is because China enters negotiation processes with pre-defined interests, beliefs, and expectations. Given the strategic and rational nature of nation-states, they only participate in processes such as the INPs to maximise their pre-defined interests. As a result, it is difficult to imagine the INPs as having much influence over China's negotiation approach.

²⁴⁹ Interview with a former member of the Department of Legal Affairs, the Ministry of Commerce, Beijing, 22 November 2012; interview with a policy advisor to the Ministry of Commerce, Beijing, 23 November 2012.

²⁵⁰ Interview with a senior Chinese negotiator from the WTO Division, Ministry of Commerce, Beijing, 22 November 2012.

²⁵¹ Interview with a Chinese negotiator from the Department of Treaty and Law, Ministry of Commerce, Beijing, 23 November 2012.

²⁵² Interview with a senior Chinese negotiator from the WTO Division, Ministry of Commerce, Beijing, 22 November 2012; interview with a member from the Department of Treaty and Law, Ministry of Commerce, Beijing, 23 November 2012.

The drawback of this form of rational argument is that it takes China's negotiation approach as a given, without consideration for *how* such negotiation approach developed in the first place. As the preceding discussion showed the informal and inter-personal social element of the INPs form a strong basis of decision-making among Chinese policy actors at the negotiation-stage. The informal and unstructured setting and nature of the INPs stem normative and ideational structures which can condition the available negotiation manoeuvre China has. It does so in three ways. First, as cognitivists argue, the non-material structures of the INPs affect what China views as the realm of possibility. That is to say, how it believe it should act in negotiations, what the perceived limitations on their actions are, and what strategies they imagine to achieve their objectives. The ideas and norms floating around in the INPs thus condition what China considers, as well as expects, as necessary and possible in practical and ethical terms.

Second, the roundtable brainstorming and coaching exercises show that the INPs constrain China's negotiation approach through an emphasis on the international norms. For instance, the MER agencies can seek to justify its ideas and recommendations by appealing to the established information norms of legitimate conduct. Third, the processes of rationalisation in INPs (i.e., the informal consultations) are a form of constraint in itself. Certainly the very language of justification provides constraints on the available actions China has in a given negotiation. In all cases, these structures would not exist without the MER agencies facilitating the INPs. Thus, the dialogical effect of brainstorming exercises, roundtable discussions, and corridor conversations define much of the Chinese perceptions regarding the appropriate negotiation approach to a given economic and/or political problem.

It is important to recognise, however, that the INPs usually occur at the later stages of economic diplomacy decision-making, during multilateral negotiations. By

this time, Chinese decision-makers arrive in negotiation settings with relatively strong pre-defined postures, expectations, and beliefs. Although these elements are not fixed and can be reshaped, the task of doing so is nonetheless a tough one for external agencies through a facilitating capacity. For this reason, one can be certain that the MER agencies as facilitators of the INPs do not have a transformation level of influence. Given that influence through this capacity is context- and situation-dependent, it is difficult to prescribe a definitive level of influence. But based on the empirical findings, it suffices to say that the MER agencies as facilitators of INPs have an influence level between absorption and transformation. This is because even though the MER agencies cannot fully reconstruct the pre-defined value-sets, it has few contingencies and generally produces immediate effects – which can be felt during the negotiation processes. As such, it can be considered as capable of more than just an absorption level of influence. For this reason, it sits somewhere in between.

Overall, the chapter finds the secondary hypothesis on the role of the MER agencies as facilitators of the INPs *partially valid*.

7.4 Side-Payment Bargaining

The third way the MER agencies can affect China's approach to economic negotiations is by instigating side-payment bargaining. Rationalists believe that side-payment bargaining alters Chinese incentives by bringing material payoffs into the decision-making. Theoretically speaking, this mechanism works well in the China context because a primary motivation Beijing sought MER memberships was to access foreign assistance (Economy, 2001: 232). Access to foreign economic and financial capital and technical know-how was a key motivation for China's long march to the WTO. The UNFCCC case studies demonstrated how Beijing often uses its economic and social

vulnerabilities to justify for foreign funding and technologies. For instance, the section on the “needs for funds, technologies and capacity-building” in China’s *Initial National Communication* (2004: 18) states, “China is relatively sensitive and vulnerable to climate change in the fields such as agriculture. Technical support and funds are needed for mitigating or adapting to the effects of climate change.” As the head of the Chinese delegation, Xie Zhenhua, said at a COP18 news conference, the core issue blocking progress at the UN negotiations is finance – an incentive that would “create very good conditions for the settlement of other issues” (cited in Reuters, 5 December 2012). Technology transfer has also featured as a high incentive for the government to move some of the cost of putting its own economy on a low-carbon path onto other countries. As well, the acquisition of advanced climate technologies would help it not only decrease the energy and carbon-intensity of its economy, but also develop its growing green technology sector as a way to move from the low-level manufacturing to a skilled labour production of high-tech goods (Conrad, 2012: 498-499). In order to use the international climate regime to aid these efforts, China has spearheaded proposals for technology transfer mechanisms within the framework of the UNFCCC.²⁵³ And when the CDM simulation exercises demonstrated the initiative as a promising way of accessing technologies and finance, it acted as a key catalyse for China’s proactive approach towards the initiative. But how can one be sure that the UNFCCC agencies was the main creditor of facilitating or provoking side-payment rather than mere forces of national interests or acts of inter-governmental reciprocity? Since the material benefits already motivated China to adopt new positions for the CDM, to what extent can it be argued that the UNFCCC was responsible for a change in negotiation approach?

²⁵³ For an overview of current proposals on climate technology transfer see Gerstetter & Marcellino (2009).

Although the UNFCCC agencies' influence did not seem to go beyond its role as a facilitator of the climate change negotiations on the surface, a closer examination of the events reveal a somewhat more interesting story. During the earlier stages of the side-payment bargaining between China and the developed nations, any positive dynamic that could have developed was significantly dampened by the developed nations' reluctance to agree to a significant expansion of technology transfers to China. This is because the developed nations thought the transfer of advanced technologies – usually owned by private western companies – raised a spectrum of complex questions that ranging from legal issues of ownership to the protection of intellectual property rights (IPR) and the potential distortion of markets and competition. This is especially true for China, which features a questionable record in terms of the IPR protection. As a result, it failed to gain the developed countries' trust due to uncertainties in its willingness and capability to deal responsibly with IPR and the fair utilisation of innovative technologies (Conrad, 2012: 498-499). It became clear that the debate on technology transfers would be treated as a sideshow at best; and the Chinese team's game plan, which might or might not have included some Chinese concessions, was stifled from the outset. Under this circumstance, the COP presiding staffs at the time believed it was necessary to subject China to surveillance measures before any side-payment bargaining success could be realised. Initially, the Chinese delegation refused such suggestion, arguing that it is a breach of national sovereignty. But as the interviews revealed, after numerous informal discussions with the Negotiation Committee, and side-payment bargaining with developed nations, China agreed to submit to the international monitoring, validation, and verification systems in response to the conclusion of a "too good to miss" package deal. As one Chinese negotiator remarked, "the UNFCCC have their own visions about the kind of agreement member states should endeavour to achieve and they certainly know how to guide China towards that

end.”²⁵⁴ In this way, the UNFCCC agencies certainly catalysed the proceedings and details of the side-payment agreement and subjected China to a position it was initially uncomfortable with.

By comparison, side-payment in the case of climate change mitigation was identified with minimal influence. Interviewed negotiators recalled that side-payment bargaining did occur in the earlier years of negotiations but less so recently. As a leading contender in the international green technology market, China has less need to seek technologies elsewhere. Already, China has become the world’s largest producer of solar cells; and the government poured US\$34.6 billion into investment and financing for clean energy in 2009 – nearly double the US\$18.6 billion spent by the US and about a quarter of the global total invested according to a report by the Pew Charitable Trusts (Tran, 9 October 2010). In addition, the government has announced a further investment of US\$738 billion over the next decade on alternative energy (Stone 2010). Meanwhile, as most mitigation efforts are nationally-based, it is not realistic to receive foreign funds, which makes the financial resources incentive irrelevant. For these reasons, material incentives were less attractive.²⁵⁵

With respect to the WTO cases, this study found minimal side-payment activities for both cases. In the GPA negotiations, side-payment bargaining was seldom exercised, and the lack thereof made verifying this variable difficult. But for the present purposes, an estimation of the potential influence of side-payment is worthwhile considering. In 2006, the Chinese government increased the utilisation of the national procurement regime for industrial, environmental, and other social policy goals. For instance, in 2007 a “buy national” policy was implemented as part of the Ministry of Finance’s (MOF) *Measure on Government Procurement of Imported Products*. This policy suggests that only imported products with approval from the designated

²⁵⁴Interview with a Chinese delegate, Beijing, 14 February 2012; interview with a professor from Beijing University, Beijing, 17 September 2011.

²⁵⁵Interview with an official from the Chinese Ministry of Foreign Affairs, Beijing, 14 February 2012.

authorities can be procured. Approvals are usually granted based on expert assessment reviews and with the satisfaction of certain criteria. In addition, preferences are usually given to foreign suppliers who offer offsets (i.e., technology transfers). This criterion could imply that by raising the material incentives through side-payment bargaining, it could pull some weight over China's negotiation approach on the issue. Yet, mandated by the government's 15 year strategy for the promotion of science and technology, numerous administrative decrees and regulations were enforced between 2006 and 2007 in order to accommodate the procurement of energy-efficiency and products certified as environmentally friendly products,²⁵⁶ and indigenous innovation products.²⁵⁷ These policies are generally incompatible with the rules of the GPA. For instance, in spite of the enforcement of transitional measures (i.e., a domestic price preference programme and offsets for assisting in the promotion of indigenous innovation products and technology transfers), they are nonetheless confined to a relatively short transitional period. In a similar fashion, even though the GPA 2007 Article X: 6 permits a party to "prepare, adapt, or apply technical specifications to promote the conservation of natural resources or protect the environment," the existing system is nevertheless incompatible. In particular, the product lists are determined by administrative organs that give little consideration for international standards, and therefore, the Chinese system have much inconsistencies with the requirements contained in the GPA 2007 Article X: 3. These regulatory clashes could reduce Beijing's enthusiasm towards the material incentives realised from side-payment bargaining, because of the political and economic costs it will have to endure in the aligning the domestic system to the international one through reforms.

²⁵⁶ For "energy-efficient" products and products certified as environmentally friendly, the regulations merely require that preference be given to such products contained in listed promulgated by the competent authorities without specifying a margin or any detailed procedure.

²⁵⁷ Articles 13-17 of the MOF's *Measure on the Evaluation of Government Procurement of Indigenous Innovation Products* provide that indigenously innovated products shall be given preference at a margin of five to ten per cent in case price is the sole determining factor and four to eight per cent otherwise.

Like the GPA case, few side-payment activities were found for the services negotiation except for one Green Room meeting in January 2007. Pascal Lamy provoked a side-payment bargaining between the services trade demandeurs (i.e., the US, EU, Japan) and major developing countries including China. It was suggested that if China, for instance, could present a meaningful offer in services liberalisation, then it could unlock possible concessions by the major developed countries in agriculture and industrial goods (Leal-Arcas, 2007). Then in 2011, Pascal Lamy reportedly oversaw another round of side-payment bargaining to reach an agreement on Modes 2 and 3 services – liberalisation in exchange for increased financial transfers.²⁵⁸ As China subsequently announced plans to gradually open these sectors after the 2011 negotiations, one can draw the convenient conclusion that side-payment triggered a shift in China’s negotiation approach. Yet, one should be careful to suggest that this was the doing of the WTO. Since this study only found evidence of Lamy facilitating and overseeing side-payment bargaining rather than actively negotiating the terms and details of the end package – this was the job of the member-states – it is risky to draw correlations between the WTO and China’s negotiation approach. Still, interviews with members of the Chinese delegation and the Council on Services Trade revealed that while Lamy did not negotiate the details of the package, he did lay-out a vision of what an agreement would look like. Also, Lamy was suggested to have stimulated the bargaining process by presenting the worse-off alternative scenarios. For instance, he emphasised to the Chinese delegation that in the absence of a multilateral agreement for services, China would have to carry out delicate economic reforms in its service sectors with less international institutional support. This was argued to be a worse-off situation than one where Beijing endures varying degrees of economic dislocation as a result of entering a multilateral agreement but those compromises are less formidable than

²⁵⁸ Interview with a member from the Department of Treaty and Law, Ministry of Commerce, Beijing, 23 November 2012. Interview with a senior advisor to the WTO, Beijing, 22 November 2012. Interview with a Chinese negotiator to the WTO, Beijing, 11 April 2012.

navigating openings into the international markets without an institutional platform as a guideline. Hence, Lamy was instrumental in both stimulating China to join the bargaining process and also by framing the bargaining from the outset.

Based on the qualitative findings, the MER agencies' influence through side-payment is not as straightforward as anticipated with mixed outcomes across the cases. While the CDM and services trade cases indicate positive influence from the UNFCCC and WTO respectively, the mitigation and GPA cases revealed minimal influence as a result of side-payment bargaining facilitation. One explanation for the variance concerns whether the economic side-payments are compatible with China's policy goals. The CDM case revealed that Beijing's motive to transform its domestic economy to a low-carbon path, which requires enormous investments and efforts, provided decision-makers with a strong incentive to use the multilateral framework to solicit the necessary assistance (especially in the field of technology transfer) to achieve its goals. As a result of its needs, it has also weakened its bargaining win-set abroad; and in turn, granted the UNFCCC agencies higher influences over China's negotiation approach. This scenario is less likely if China had a stronger win-set that would usually emerge when the side-payment is less compatible with China's policy needs. This finding was supported by the interviews, which suggest a key reason China eventually agreed to submit to the international monitoring, validation, and verification systems was because Beijing needed the economic payoffs in order to support its domestic (and resource-short) efforts such as the industrial gas projects to reduce hydrofluorocarbon-23 (HFC23) and nitrous oxide (N₂O), and other renewable energy developments.²⁵⁹ Hence, participating in the CDM therefore meant that it would help fill the resource gaps in this regard and help the government realise its goals. Likewise, in services, the government

²⁵⁹Interview with an official from the China CDM Fund under the Ministry of Finance, Beijing, 17 February 2012.

already planned pilot programmes to liberalise its domestic services; and for this reason, any foreign technical assistance it can get access to was seen as attractive and fitting.

In contrast, the possible material gains did not appeal to Beijing for mitigation issues because it did not have any need for technologies or finances for mitigation activities – it was already an internationally-recognised innovator in low-carbon technologies, and renewable energy. Therefore, the economic gains in this regard were comparatively insignificant to China. In the GPA example, the economic payoffs from side-payment were less attractive due to regulatory conflicts between China’s existing procurement regime and the GPA. For instance, albeit a national price preference programme and offsets which may enable China to retain certain policies for promoting indigenous innovation products and technology transfers, these measures will nevertheless be confined to a relatively short transitional period under the GPA. Likewise, even though GPA 2007 Article X: 6 allows a party to “prepare, adapt, or apply technical specifications to promote the conservation of natural resources or protect the environment,” the existing practice are incompatible to China’s product lists. These regulatory clashes reduced Beijing’s enthusiasm towards the material incentives realised from side-payment bargaining. At the end of the day, domestic policy and politics surpass material benefits. As one American official observed, “There’s no bigger influence than China’s own policy agenda, which is shaped by the interest of the government and its constituents. Third Parties are mere supplemental variables.”²⁶⁰ Numerous interviewees further emphasised that as China prosper into a middle-income country, its reliance on international support is declining, which implies less feasibility for side-payment to be a likely mechanism of influence in the future.²⁶¹

The second explanation for the variances has to do with *trust*. The mitigation case showed that after previous failures to receive technologies and funding from the

²⁶⁰ Interview with an official from the US Mission, Shanghai, 22 August 2011.

²⁶¹ Interview with a policy advisor from China Academy of International Trade and Economic Cooperation under the Ministry of Commerce, Beijing, 19 November 2012.

industrialised countries, Beijing lacked trust in the UNFCCC agencies' actual ability to facilitate and mediate a degree of willingness amongst the Annex I countries to actually commit and follow through with any financial transfer pledge they make. One interviewee questioned, "If the major donors have not followed up on their existing technology transfer commitments under the UNFCCC framework, why should China believe in anything different for mitigation?"²⁶² In addition, albeit China's past reputation as a direct beneficiary of international financial support, this situation has changed and it is today further down the list of potential recipients of financial climate support from donor countries. This fact was articulated by Todd Stern, head of the US delegation, well in advance of the Copenhagen conference, that he "does not envision public funds, certainly not from the US, going to China" (cited in Wong, 10 December 2009). The Chinese team responded instantaneously that it has never seen itself as a "first candidate" for climate support. This little exchange of statements highlighted the fact that China's days as a beneficiary of direct climate support are over. China's doubts are further amplified by the reality that the UNFCCC's financial capacity is limited. Although China can benefit from the Global Environmental Facility (GEF), its resources are also constrained by Annex I countries' willingness to contribute. To put things into perspective, the UNFCCC (2007) estimates that the investment needed each year for climate change mitigation and adaptation for developing countries is in the range of US\$104-143 billion. However, a rough calculation by Gareth Porter et al. (2008) shows that the total amount of funding from all climate funds worldwide equates to less than US\$6 billion a year. It is therefore understandable why China's confidence in international funding is lacklustre, to say the least. The CDM negotiations were different in this regard because the pilot simulations allowed decision-makers to see how transactions are made and therefore build the necessary trust in the system. As Robert Powell (2002: 6) have criticised, "A striking feature of [this] actual [rationalist]

²⁶²Interview with a policy official from the Ministry of Finance, Beijing, 15 March 2012.

bargaining [assumption] is that it often results in costly delays and inefficient outcomes.” Even rationalists themselves have acknowledged that a nation will only revise their national approach if the expected marginal costs (i.e., damage or abatement costs) of cooperation is lower than (or at most equal to) the marginal benefits it expects to receive from such a position (Underdal, 1998: 8). But with distrust, even the slightest cost could be perceived in magnified scales. Hence, establishing *trust* is a precondition to effective imposition of the MER agencies’ influence through side-payment dealings.

In general, the MER agencies as instigators of side-payment bargaining can produce partial influence at best. That is, they may be able to push China’s negotiation approach towards a desired direction but it does not necessary transforms the fundamental negotiation approach – that is the game between China and other nation-states. Therefore, in measuring its level of influence, it is certain that side-payment bargaining does not have a transformative or retrenchment effect. At the same time, side-payment bargaining do not have inertia effect because the CDM and services cases showed that it can restructure China’s incentives. But the actualised success depends on how relevant are the economic payoffs to China’s policy goals and trust factor. Consequently, it is argued that side-payment bargaining has an influence level between inertia and absorption.

On the whole, the chapter finds the hypothesised role of the MER agencies as instigators of side-payment bargaining *partially valid*.

7.5 The Social Instigators

Throughout the qualitative analyses of this thesis, *uncertainty* has been a common theme across the cases. When designing, framing, and eventually setting their negotiation approach, the Chinese government, put simply, faces at least two different

kinds of uncertainty – each with an undermining effect on the MER agencies’ capacity to influence China. They face uncertainty about the political and economic environment in which their policies are implemented in, and of which can change dramatically with little notice or recognition abroad. They also face uncertainty about one another’s preferences and intentions, which may not be fully articulated in negotiations. Hence, uncertainty is a concept that emphasises the limits of our ability to obtain accurate information particularly about the future (Best, 2012). In the rationalist literature, uncertainty is often seen as a product of imperfect or asymmetrical information. In the present context, China, as like other nations, lack perfect information about the future since political and economic events are difficult to predict. At the same time, they must also contend with limited information, knowing more about their own intentions than about each other’s. Drawing on Douglass North’s (1990: 27) work on institutional economics, liberal institutionalists argue that one of the key functions of the MER agencies is to reduce uncertainty (Keohane, 1984: 245). Building on this line of thought, uncertainty runs unnervingly throughout China’s economic diplomacy decision-making, and this is the result of low expectations for foreign reciprocity, distrust, and a concern for personal reputation. These three factors constitute the *social instigators* contingencies. As an underlying assumption of the secondary hypothesis, the thesis assumes that *the level of influence the MER agencies have on China’s negotiation approach is contingent on three social instigators: expectation, trust, and personal reputation. All three social instigators are cumulatively necessary criteria of influence.* This section delves into the significance of the social instigator contingencies as enhancers and constraints of the MER agencies’ influence on China’s negotiation approach. In the process, the section makes a case for the proximity talks, INPs, and side-payment bargaining (though to a lesser extent) as have the comparative advantage

of enhancing the social instigators and thereby strengthens the influence of the MER agencies.

7.5.1 Expectation

According to the research interviews, a fundamental reason for China's seemingly low proactivity in many multilateral economic negotiations is due to Beijing's low expectations that foreign parties will reciprocate any commitment pledge they make. During the 2011 DDA ministerial conference, numerous interviewed Chinese negotiators indicated that they did not intend to work hard towards reaching an agreement because they did not think other national delegations were interested in any form of an agreement. This attitude was echoed by a senior member of the WTO Secretariat, who remarked that there is no political will amongst the member-states to push through an agreement or any expectations to be pragmatic.²⁶³ Chinese negotiators to the COPs similarly indicated low expectations that foreign parties have any willingness to commit to a post-2020 framework at COP18 even before the conference took place.

Where there is low expectations, the MER agencies have the opportunity to enhance the situation through proximity talks, INPs, and side-payment bargaining. Through signalling private information on the (likely) bottom-lines of other negotiating parties, for instance, the MER agencies can minimise doubts about reciprocity among Chinese decision-makers and elevate its expectations. Although this study was unable to find explicit evidence of this, multiple Chinese negotiators did not deny its possibility. Moreover, based on first-hand observations, Chairs of informal plenary meetings do try to steer meetings and extract mutual commitment from member-states by going around the groups and asking each delegation to promise the other that they will follow a joint strategy. They frequently end with comments such as, "Now remember everyone that

²⁶³Interview with a senior member of the WTO Secretariat, London, 2 February 2012.

we all do much better if we all follow *X* strategy.” It is probable that this form of intervention can stipulate the Chinese delegation to reframe their expectations towards others and how it should act accordingly.

In the climate change negotiations, it is well-known that China tightly eyes the actions of the US and especially design their negotiation approaches based on a *reactive* strategy determined by their expectations on how the US is likely to act. In light of this, senior members of the UNFCCC Secretariat together with the Mexican and South African presidencies attempted to reshape China’s expectation of a non-commitment American position at COP16 and COP17 by placing stronger pressures on the US decision-makers to set an example and lead the climate change efforts. In the words of one Chinese negotiator to COP16 and COP17, “Our [China’s] expectations and actions very much depend on how the Americans act. If they move, we move. If they stall, we stall. Of course, the facilitators [UNFCCC] play a crucial role in shaping our expectations by mediating with the US.” Similarly, during the 2011 DDA ministerial meeting, the Chinese delegation made clear at a press briefing that although it is committed to the negotiations, its expectations on cooperation rests with the nature of the American position. And one interviewed Chinese negotiator goes further to suggest that, “The WTO Secretariat’s inability to mediate between China and the US is a key explanation for China’s low expectations and the many deadlocks that exist in the negotiations today.” In this sense, the abilities of MER agencies to mediate between China and its most important counterparts have substantial effects on the nature of China’s expectations.

A broader perspective of this *cognitive* and *rationalist* argument is the extent the MER agencies can influence Chinese negotiation approaches depends on its capacity to mediate and general a situation of *reciprocity*, which is a precondition for shaping

Chinese expectation on cooperation.²⁶⁴ *Reciprocity* refers to a family of strategies that can be used in social dilemma situations. It involves (i) an effort to identify the actors involved; (ii) an assessment of the likelihood that other actors are conditional co-operators; (iii) a decision to cooperate initially with other actors if they are perceived as trusted conditional co-operators; (iv) a refusal to cooperate with those who do not reciprocate; and (v) punish those who betray the trust (Ostrom, 1998: 10). If the MER agencies can facilitate positive actions of others, then it will also influence positive expectations from China. The reverse is also true. If MER agencies are unable to mediate positive actions from others, it will not influence positive expectations from China. In this tit-for-tat situation, it is important that the MER agencies are willing to use retribution to some degree (i.e., punish defectors) so as to demonstrate to China that it has authoritative capacity. Doing so can boost the expectations of the Chinese decision-makers. At present, as one Chinese trade negotiator on trade said, “In both climate change and trade governances, China cannot be assured of strong and authoritative institutional bodies at the multilateral level. This causes uncertainties for the Chinese decision-makers, but that’s the member-driven system for you.”²⁶⁵

There are three imaginable limitations to an argument on expectation. One possible limitation is that since reciprocity norms are learned, the MER agencies may find a hard time mediating with all the member-states in order to shape a cooperative Chinese expectation given that not all nations necessarily understand the same norms of behaviour for effective reciprocity. In this way, expectation-building may be difficult to do if a universal understanding of reciprocity cannot be established. True, intangible variables such as culture and context can make it difficult to converge normative understanding between nations. But it is also not an impossible barrier to overcome. As cognitivists believe, normative understandings that are repeatedly emphasised will, over

²⁶⁴ Interview with a former member of the Department of Legal Affairs in the Ministry of Commerce, Beijing, 22 November 2012.

²⁶⁵ Interview with a Chinese negotiator, Geneva, 19 December 2011.

time, be unconsciously internalised within negotiators across cultures and the natural tendencies for mimicking of behaviours will eventually manifest. This was verified by interviews with Chinese negotiators.

A second potential limitation regards the reality that reciprocity-related expectations are contingent on the issues of concern. For instance, although the CDM, mitigation, and GPA issues require confident expectations of reciprocity in order to move forward with the negotiations, the services area requires comparatively less traditional reciprocity-driven market access negotiations. Instead, other considerations such as the costs of inefficient services industries and the likelihood of enduring heavier pressures for unilateral reform may cause negotiation break-downs rather than poor expectations on reciprocity. That said it is often difficult to dismiss the relevance of expectation in any economic negotiation. For instance, the pre-defined expectation that other countries will expect China to liberalise its services sector has caused much domestic disagreements and anti-reform sentiments. The consequent domestic pressures contribute immensely to the ultimate expectation and thus negotiation approach of the Chinese government.²⁶⁶ And since Beijing has had a long held expectation that a policy reform in services, made at the request of a trading partner, is often automatically going to benefit other countries more than China, it has withdrew itself from a higher bottom-line at the negotiation table. In this way, China refuses its own willingness to take on a case of reciprocity. As such, the reciprocity-driven expectation does matter in Chinese decision-making.

A third possible limitation is that even when it seems as if the MER agencies have contributed to an enhanced expectation on the part of China, such displays of positive expectations could be mere tactical play in order to lure other negotiation parties into a dilemma only to defect on them later. The motivation behind such tactic is access to foreign resources or to gain leverage over others. When a nation-state follow

²⁶⁶Interview with an expert from Peking University, Beijing, 24 October 2012.

reciprocity norms (for real or tactically), the MER agencies' ability to detect cheaters are undermined. If this happens, the Chinese decision-makers can take advantage of the situation whilst silently reject the MER agencies' influence. Hence, it is risky to be too trusting with mere displays of positive expectations, and draw quick conclusions that such equates with the doing of the MER agency. Even within the Chinese delegation, there are variances among the negotiators in terms of the probability that they will adapt to the multilateral norms, and in the ways that the structural variables propel their willingness to cooperate in a given context. For some Chinese decision-makers, as like those from other nations, the norm of reciprocity will only be used if they know that they are closely monitored by a MER and therefore may face strong probabilities of retribution if they did not do so. Therefore, it is of imperative that the MER agency knows what kind of delegate(s) it is dealing with before making efforts in expectation-building.

7.5.2 *Trust*

Second to expectation is trust. It is often the case that a root cause of uncertainty is trust,²⁶⁷ and the lack thereof from China. This problem was admitted by a senior member of the WTO Secretariat: "You don't feel trust among negotiators in the WTO...or in the climate change negotiations" not just in other countries but also towards the multilateral institutions, its agenda, and intentions.²⁶⁸ And one Chinese policy advisor to the Ministry of Commerce (MOFCOM) observed, when there is distrust from individual negotiators, they can simply reject a proposal based on personal grudge.²⁶⁹ China's trust in the general multilateral system is a major concern.²⁷⁰ In the CDM negotiations, China held severe distrust with regards to the motivation of the

²⁶⁷ Trust is the "expectation of one person about the actions of others that affects the first person's choice, when an action must be taken before the actions of others are known" (Dasgupta, 1997: 5).

²⁶⁸ Interview with a senior member of the WTO Secretariat, London, 2 February 2012.

²⁶⁹ Interview with a policy advisor to the Ministry of Commerce, Beijing, 25 October 2012.

²⁷⁰ Interview with an expert from Peking University, Beijing, 23 November 2012.

CDM initiative and who will benefit the most. It was only after the GEF/UN pilot simulations that Chinese trust was rejuvenated. In the mitigation case, many interviewed Chinese negotiators and the UNFCCC Secretariat staffs have indicated that China's lack of trust in other member-states' actual commitment towards an internationally-binding agreement was a root cause of its hesitant approach to the negotiations. Again, the trust issue is very much stemmed from China's relationship with other nation-states, especially the US. In the negotiations on the GPA, Beijing has struggled to trust the WTO's protocol and the framework at large, arguing it is too vague and ambiguous. It is clear to see that the lack of trust have undermined China's willingness to positively approach negotiations.

For the Chinese government, when it comes to multilateral economic negotiations under an international framework, trust is seen as the "bedrock" of effective negotiations, and the presence of trust is indispensable to reaching an agreement. This is supported by the theoretical presupposition that in the context of a social dilemma, trust affects whether an individual is willing to initiate cooperation with the expectation that it will be reciprocated (Ostrom, 1998: 12). Hence, one central variable that has hindered China from taking a cooperative approach to the negotiations is trust, especially over whether its negotiating counterparts will actually comply with agreements. This is not surprising given that multilateral economic negotiations often comprise of multifaceted conflicts of interests amongst a large pool of member-states, and therefore, there is little trust between them to begin with.

A labyrinth of theorists has attempted to identify methods for enhancing cooperation through trust (e.g., Axelrod 1984; Olson, 1965). However, much of the research has focused on how the MER agencies might monitor and improve the enforcement of agreements or how the comparatively more significant countries can foster or coerce their way to an agreement. Yet, anything that is monitored or coerced

tends to have an impeding effect on trust-building. In theory, a more effective method of building trust is by shaping national identity, which expands the potential range of possibilities for fostering cooperative outcomes. This is for two reasons. First, past research (i.e., Ostrom, 1998) has confirmed that the intuitive assumption that mutual identification with a common group is associated with trust between the members of that group. The level of trust varies, and trust may of course be misplaced or abused. But trust levels usually vary most strongly with the degree to which a *trustor* identifies with the *trustee* as members of the same group. Second, national identity evolves over time, and new identities can be fostered with the belief that humans, by nature, crave to *belong* and seek-out like-minded others with whom attachments can be formed. This argument is supported by the theory of cognitivism, which further argues that identity can influence one's interests far more than any other single factor, such as desire for wealth or power, as has been assumed by theorists of other schools such as liberal economics and mercantilism (i.e., Gilpin 1987; Morgenthau 1956; Oye 1986).

Over the last 20 years of multilateral economic negotiations, there have been increased efforts by the MER agencies to reduce the trust barriers between China and other nations by reducing competitive behaviours and through building unity and empathy among the negotiators. As acquiring trust from China is ever-more important, innovative mechanisms for trust-building were designed by various MER agencies to establish common identities. The MER agencies believe doing so not only foster trust but realise any overlapping and perhaps unexpressed state interests between nations. In climate change, the UNFCCC agencies have made such efforts through informal, unofficial initiatives – known as the Track II methods²⁷¹ – that take place outside the official negotiating modes, to help Chinese negotiators overcome negotiation barriers and alter their perceptions of each other, and of the issues. Given the high economic,

²⁷¹ Track II methods were originally identified as such from conflict resolution approaches employed in the Middle East.

social, environmental, and political stakes, Chinese decision-makers often view the UNFCCC negotiations with high-intensity distrust and suspicion. As part of the efforts to remedy trust issues, numerous experiments for trust-building were trialled under Track II, and one of which was characterised by the *Earth Negotiations Bulletin (ENB)* (2005: 7) as the “Comfy Armchair Theory.” Through INPs, organisers promoted a laid-back approach that seems to put the Chinese participants at ease. Chinese delegates explained that comfortable red armchairs (for government experts) were placed on a podium that was lowered to be more at level with the participants to lessen the formality of the discussions. Some compared it to a “television talk show” setting, while others likened the use of “comfy chairs” and the informal approach to a “nice fireside chat.”²⁷² According to the ENB (2005: 7) observers, the technique helped generate a positive atmosphere and an “open, frank and broad-ranging...exchange of information.”

The initial success of this tactic inspired other in-session seminars to adopt similar methods for reducing the formality, encourage open exchanges and build mutual understandings. The underlying assumption is that such exercises executed in INP settings can help China build openness to and appreciation of others’ positions as well as “win-win” compromises that emerge from a positive environment conducive to agreement. Equally important is that this approach rejects notions that negotiations are zero-sum games with winners and losers. The in-session seminars and other informal discussions, commencing with the comfy chair format, helped the Chinese delegates gain a greater appreciation of each other’s positions on their weighty agenda leading up to COP13 in Bali in 2007. The conference effectively finalised the *Bali Roadmap*, which set out a clear framework and deadline for reaching a hoped-for bigger agreement in Copenhagen in 2009. Although the Bali success can be attributed to many factors, including the painstaking preparations and the unprecedented high-level political, media, and public attention (ENB 2007: 18), the concerted trust-building exercises,

²⁷² Personal interviews.

including the informal dialogues held over the previous two years, played a significant part in transforming uncertainty to a clear roadmap. One Chinese negotiator claims that the “raised level of trust” resulted in agreement on the Adaptation Fund and was brought about, at least in part, by informal discussions which helped China reach an understanding with other countries.²⁷³

Similar trust-building efforts fell flat at Copenhagen in December 2009. Expectations for this meeting were high, with many hoping for a legally binding treaty that would chart a clear path forward in the post-2012 period. Instead, the meeting ended acrimoniously, resulting only with a non-binding agreement known as the *Copenhagen Accords* that is “noted” (rather than adopted) by parties (ENB, 2009). On the surface, the organisers were holding a strong hand at the start of the meeting. They had succeeded in persuading over 120 world leaders (including Chinese Premier Wen Jiabao) to attend, thus raising the stakes and the pressure for a strong outcome. But Chinese negotiators were unable to bring talks to a point that would allow their leaders to put their signatures to a strong outcome. Instead, Primer Wen Jiabao arrived in the final days of the meeting faced with a wide array of outstanding and immensely complex issues left on the table. Furthermore, the sheer number of participants (40,000 in a 20,000 capacity venue) meant that it was impossible to achieve the sense of inclusiveness and openness for Chinese stakeholders that have characterised some of the negotiations in previous years. Some Chinese stakeholders were literally left out in the cold due to space limitations at the venue, while organisers mis-timed the release of documents, and not distributing them to all players, making them appear to be “secret” texts. These missteps left a sense of exclusion and back-room horse-trading that was in opposition to the transparency and trust-building organisers had sought to generate in the early stages, prior to the adoption of the Bali Road Map (ENB, 2009).

²⁷³ Personal interview.

The UNFCCC process redeemed itself somewhat in December 2010, when a more satisfactory outcome was gained with the help of the new UNFCCC Executive-Secretary, Christiana Figueres, working in close alliance with the Mexican hosts of the Cancun climate change conference. This time, there were no “secret” texts, but periodic “stock-taking” briefings in the plenary hall for all participants, thus it greatly increased the *real* transparency of the process. Another innovation at Cancun was the decision to pair up key ministers to work together on some of the thornier issues. For each key topic, one developing country minister and one developed country minister were tasked with convening talks among negotiators and identify a way forward. This approach seemed to find favour with the Chinese, and perhaps the sense of ownership it generated for Chinese officials helped move things forward. At the end of the meeting, there was a far greater sense of agreement and achievement than had existed in Copenhagen, with China supporting the consensus (ENB, 2010). Similarly, the WTO Secretariat staffs have apparently played a significant role as a mediator during China’s WTO accession negotiation challenges with the US. According to a Chinese decision-maker, the demonstration by the WTO that they are able to do this portrayed a sense of trust from Beijing towards the multilateral trade system at large.²⁷⁴ As a result, China ended-up taking on more concessions than its initial bottom-line in order to enter the WTO. These examples show the importance of the INP exercises in generating and building trust. At the same time, they illustrate how a lack of trust can break the negotiation process. By acting in the capacity of a trustworthy middle-agency, the MER agencies are ultimately able to bring up issues of contention and settle inter-governmental differences.

However, one can imagine that even trust has its limitations; and the possibility for MER agencies to influence China’s negotiation approach through trust-building is not universally befitting. China may argue that there are risks of manipulation and exploitation attached to trusting someone. In other instances, the Chinese decision-

²⁷⁴Interview with a policy advisor to the Ministry of Commerce, Beijing, 4 September 2012.

makers may wonder whether making a commitment for a multilateral trust-based relationship will undermine the rights to seek competitive advantages, even in cases where the benefits outweigh the costs. Alternatively, China's interest could be jeopardised if trust is misplaced. A third possibility is that once China decides on a trustworthy counterpart, other (weaker) qualities of that country are likely to be conceived as consistent with this favourable impression even if the reality would suggest otherwise. This is the "halo effect" which occurs when one positive characteristic of a country dominates the way that country is viewed by others. Such calculus can pull-up China's defensive immunity from the MER agencies' influence and undermine the trust-building exercises.

What is more, often trust-building through the MER agencies can result in the establishment of a deterrence-based trust centred on a consistency of behaviour (i.e., countries will follow-up on what they promised to do). Such behavioural consistency is usually maintained through threats and/or knowledge of unfavourable consequences if consistency is broken. This interpretation of *trust* seems somewhat paradoxical with a strong *power* connotation attached. Compared to an identification-based trust – which operates at the level of intrinsic motivation, deterrence-based trust is more costly to maintain as it often requires external monitoring of national compliance in order to sustain it. What is more, it risks backfiring because national decision-makers can react negatively to having their policy freedoms controlled by the MER agencies.

If the MER agencies wish to mitigate these limitations, and maintain a level of influence, then identification-based trust must be established. That is, trust-building exercises based on qualities of *empathy* between member-states so that China is willing take on the values of other players as a result of the emotional connection between them. In practice, both Christiana Figueres and Pascal Lamy have, over the years, cultivated friendly relationships with members of the Chinese government through

repeated face-to-face dialogue. They have also pursued non-hostile environments for the execution of the INPs, actively diffused tensions, and used their sense of humour and humane personalities.²⁷⁵ The result of such personal relationships is a more sustainable trust. On the whole, it is important for the multilateral economic negotiations to cultivate a culture of trust-building and treat this as a precondition to, as well as an objective of, reaching an agreement. At least, for China, this is a mundane imperative and a determinant driver of their negotiation approaches.

7.5.3 *Personal reputation*

Investing in trust is only possible if the initial degree of personal reputation is sufficiently high. Thus, *personal reputation* is the third interrelated element of which the MER agencies' influence depends. When national delegates gather in small INP settings, the social dynamic is similar to that of a high school classroom. There are clear social cliques or distinct groups of friends. No one wants to be the odd one out or be seen as obsolete. The weaker negotiators admire representatives of larger nations, and no one wants to be seen as difficult and non-cooperative. In this mental vulnerable state of mind, negotiators have a relatively high desire to acquire and/or maintain a respectable reputation amongst its peers. Under this circumstance, the MER agencies are granted the most opportune time to influence Chinese decision-makers. One Chinese delegate to COP17 remarked, "When a Chinese negotiator is in an informal, they are most prone to the logics of other parties and the Chair. The repeated encounter to new ideas makes it mentally acceptable simply because everyone else accepts it. As people, we all want to be respected and feel that we fit-in. So the Chinese negotiator is likely to be more sympathetic to the Secretariat's text."²⁷⁶ In this context, the proximity talks and the INPs are especially useful for boosting Chinese negotiators' reputation. If the MER

²⁷⁵ Personal observations.

²⁷⁶ Interview with a Chinese negotiator, Geneva, 19 December 2011.

agencies are effective in this regard, it is likely to motivate the Chinese negotiator to converge with the MER agencies' interests. At the same time, the MER agencies can stigmatise personal reputation with the use of retribution against a Chinese negotiator for not keeping to its promises, for instance.

In China, an individual's reputation rests on having *mianzi* (saving face; 面子). The Chinese notion of saving face is closely related with American concepts of dignity and prestige. *Mianzi* defines a person's place in his social network; it is the most important measure of social worth. Hence, if a national delegate cause Chinese negotiators embarrassment or a loss of composure, even unintentionally, it can be disastrous for the negotiations. Hence, it is important that the MER facilitators always maintain *mianzi* for Chinese negotiators in order to increase their influence over China's negotiation approach.²⁷⁷ Maintaining *mianzi* is a reason why Chinese negotiators prefer proximity talks and INPs – it saves them from embarrassment in the consequence of tensions with other negotiating parties. The 2011 DDA negotiations demonstrated acts of upholding the reputations of Chinese negotiators when the Chair of an informal plenary meeting on the GPA raised the importance of emerging market economies.

In addition, informed by a strong tradition of Confucian values of obedience and deference to one's superiors, it is mundane that the MER agencies acknowledge the value of *shehuidengji* (social status; 社会等级), where officials of a higher rank must be respected by those at a lower position. At some point, multilateral economic negotiations may require a meeting of equals in the hope of stimulating more cooperation. But top-level Chinese officials will not be prepared to bargain and will definitely not be persuaded, as it is not within their professional repertoire to do so. Rather, they will evaluate the relationship during a show of *chengyi* (sincerity; 诚意) by

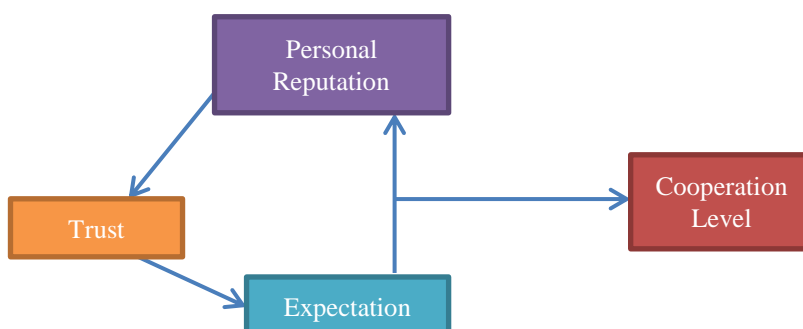
²⁷⁷Interview with a policy advisor to the Ministry of Commerce, Beijing, 25 October 2012.

their Western counterparts. If the MER agencies can embrace this value, it is anticipated that Chinese decision-makers will be more accepting of their influence.

7.5.4 A reinforcing relationship

At the core of China's negotiation approach are a set of key drivers of decision-making. The triangular relationship between expectation, trust, and personal reputation essentially shapes China's international posture. If Chinese decision-makers see that the initial levels of cooperation from others are at least moderately high, then they will also learn to trust other players and expect itself to adopt reciprocity norms. In a situation where China sees more countries genuinely using reciprocity norms, then it will place more importance to establishing a trustworthy reputation. Thus, trust, expectation, and personal reputation are intrinsically reinforcing (*figure 7.2*). As well, this implies that a defect in any one of the three core elements will cause a downward spiral especially in the influence of MER agencies. At times, China's negotiation approach is not just circumscribed by their national policy. The decision-makers' judgments on the reinforcing core triangle can be influenced by variables of structure and by past experiences, personal norms, and the individual's level of trust in others. If the MER agencies desire to effectively influence China's negotiation approach, it is necessary to embrace and be compatible with the core triangle to affect China's level of cooperation and perceived net benefit as a result of cooperation.

Figure 7.2 *The Core Triangle of Social Instigators*



In the previous sections, it was suggested that, to this end, proximity talks, INPs, and side-payment bargaining are particularly well-suited and effective mechanisms for this purpose. This is because in order to affect China's negotiation approach, it is necessary to start at the individual level (i.e., those that makes policy). The face-to-face nature of these mechanisms enable Chinese decision-makers to assess whether he or she trusts the other players (including members from the MER) enough to alter their negotiation approach. Here, it is important that the MER agencies control the dialogue that goes on between Chinese negotiators and other national delegates because the nature of communication can often increase as much as their trust in the reliability of others can decrease. The MER agencies also need to take greater leadership and initiate the direction of dialogue to be taken as well as control the level of symmetry in economic payoffs in side-payment bargaining, for instance, among the delegations. Otherwise any asymmetry can undermine the MER agencies' influence and trust-building.

Arguably, the Chinese decision-makers also depend on the MER agencies to make a contingent agreement work. For instance, contingent agreements may deal with both cooperation and punishment those considered as non-co-operators (Levi 1988). Keeping in balance how to punish defectors enables Chinese decision-makers a stronger personal reputation; however this is much more challenging in a multilateral setting than a bilateral one. In a multilateral environment, it is difficult for Chinese decision-makers to interpret outcomes that do not meet the initial expectation regardless of how much a party may have cheated, or that a mistake was made by a country, or if a random exogenous variable undermined the expected result. The problem is even worse if there are no MER representatives to facilitate and steer these discussions in settings like the INPs. The counter argument could be that the Chinese decision-makers may prefer a non-MER facilitated situation because then its external and internal reputation will not

be at stake, especially if no agreement is reached. As a result, the individual is not required to take further action. However, once a multilateral agreement has been reached, be it verbal or in writing, it turns into the pivot of future decisions within the parameters of the agreement. This means that China's negotiation approach could be further constrained to its disliking. At the same time, it puts their reputation at stake if they did not reciprocate in the future. In a comparative sense, the Chinese decision-makers may therefore prefer the former outcome, which makes the MER agencies' role less favourable.

Yet, the interview data indicate that most Chinese decision-makers and negotiators across the trade and climate change spectrums do prefer to reach cooperation if possible based on mutual trust. For many interviewees, this is not just beneficial to China's international integration process and the road to forming a more robust and defined international role, but also beneficial to its domestic development. One Chinese policymaker points out that, "China is not a lazy nation and if an agreement is possible within China's capacity and interest, then China is willing to participate."²⁷⁸ Another Chinese negotiator commented, "The MERs in general needs to assert more authority in my opinion in negotiation settings. Many delegates like to observe the way these institutions have conducted themselves in negotiations and our own sense of trust in the system depends on how well and effectively they have facilitated the meetings. However, many institutions still lack this authority and need to do a better job at it."²⁷⁹ In particular, the interviewees widely shared the view that the MER agencies should be better at sanctioning non-conformers for not keeping their commitments. Such behaviour easily breaks China's fragile trust. Consequently, one way the MER agencies can obtain trust is to first build their own credibility by improving its capacity to manage the multilateral system. Only when the Chinese

²⁷⁸ Interview with a policy advisor to the WTO Division under the Ministry of Commerce, Beijing, 25 November 2012.

²⁷⁹ Interview with a Chinese negotiator to the WTO, Beijing, 28 November 2012.

decision-makers view the MER agencies as credible will they believe in their capacity to help build inter-state trust.

This is why the face-to-face method of communication works more effectively than the alternative (i.e., sending computerised messages). The Chinese decision-makers like to judge the others' trustworthiness by watching facial expressions and hearing the way something is said. It is hard to establish trust in a group of strangers who will make decisions independently and privately without seeing and talking with one another. This is why the MER agencies' role as facilitators is so vital. The ways it embraces and/or constrains the behaviour of national delegates shape the expectations of Chinese decision-makers about the others' behaviours, which are also preconditioned by their capacity to build trust in Chinese decision-makers. The norms disseminated by the MER agencies and past experiences also shape Chinese decision-makers' trust levels. Finally, how the MER agencies identify with, project their intentions and norms, and relate to the Chinese negotiators can affect the global identities of these individuals and their reputation.²⁸⁰ If all three variables of the core triangle are satisfied, then the MER agencies should expect a relatively high level of influence. Of course, the reverse effect is also true. Consequently, understanding how the social instigators feed into one another helps explain why the mechanisms of proximity talks, INPs, and side-payment bargaining are either effective or not in influence China's negotiation approach.

In general the chapter finds the assumption that *the level of influence the MER agencies have on China's negotiation approach is contingent on the social instigators holds*.

²⁸⁰ Coming to an initial agreement and making personal promises to one another places an individual's identity at risk. The thought process is that one who keeps to their words will increase their perceived trustworthiness, and in turn, prompt others to reciprocate.

7.6 Concluding Remarks

Between the proximity talks, the INPs, and the side-payment bargaining, the underlying impact is rooted from the fact that the MER agencies, as the intermediaries of economic negotiations, possess diverse motives for choosing a certain form of behaviour or set of values and recommendations towards a policy they are attempting to effect. Paradoxically, the fact that the MER agencies possess goals and objectives that they attempt to further through mediatory practices has been a neglected aspect of studies in economic diplomacy. It tends to assume that while the member-states possess goals and objectives that underlie the behaviour they undertake – the incompatibility of which forms the basis of disagreements and negotiation impasse – any MER agency is wholly or, at worst, largely motivated by a desire to bring about a settlement. To this point, it is crucial to note that the goals and objectives of the MER agencies' mediatory mechanisms should not be taken for granted and are a proper subject for academic analysis.

In this concluding section, rather than reiterate the findings, it is perhaps more interesting to close the present chapter by reflecting on some key strengths and likely weaknesses of the three mediums discussed throughout the preceding analysis. In general, the strengths of the three mediatory mechanisms in shaping Chinese negotiation approach come in three forms. First, the venue change – the endogenous shift in China's negotiation approach as a corollary of a change in the location of decision-making – provides more receptive hearings of Chinese and non-Chinese concerns. As E. Schattschneider (1960) puts it, "This process takes the form of actors transferring the policy to another subsystem by altering the understanding of a policy with the objective of altering the resulting policy outputs in a way that suits the actors' interests." In the present context, the effectiveness of the INPs lie in the fact that sensitive discussions were taken out of the formal plenary sessions and in more casual

and comfortable small-group settings where negotiators feel more at ease about talking honestly and accepting counter-vantage-points, and thus help build trust, expectations, and personal reputation. In a similar light, as interviews have suggested, the shuttle diplomacy proximity talks are generally effective simply because Chinese leaders are able to communicate on an inter-personal level with the MER representatives and in their local vicinities whereby the *Chinese context* can be better reflected and the MER agencies' objectives clarified. The effect of venue change is not unique to China. Frank R. Baumgartner and Bryan D. Jones (1993) found in the American decision-making process that policy actors deploy numerous common strategies to gain access to the policymaking process and affect the policy outcome by changing the venue where decisions are made. Michael Howlett (1994) similarly points to Canada and Australia, where successful venue-shifting activities have been undertaken over the recent decades by First Nations or Aboriginal groups.

Second, the mechanisms have the capacity to create settlement by boosting expectation. For an interested MER agency, using any one of the mechanisms often communicates a provision of a safety net for China from a threatened negotiation impasse; and this often derives influence for the MER agencies. Such is the payoff that is derived from changing the patterns of interaction and/or from establishing a new relationship between the MER agency and Chinese decision-makers. The preceding section mentioned the importance of establishing a good relationship with Chinese decision-makers when attempting to frame the course of a negotiated outcome. Through the mechanisms, and the change of venue, a trusting relationship can be built, and thereafter, converge differential interests between China and other parties, clarify resolvable disagreements, and build consensus that agrees with their own objectives. At the same time, the mechanisms provide the MER agencies the capacity to use its intermediary role to affect the actual course of a deadlock through a judiciously timed

mediation offer. Through both shuttle diplomacy proximity talks, and INPs, the MER agencies can delay or alter a negotiating trend to provide a breathing space for China, for instance, to buy time to regroup, reorganise, re-strategise. This way, during the actual process of negotiations, the MER agencies can use its various roles to increase its own influence on China through numerous bargaining/persuasion strategies such as side-payments. It may be able to buy promises of future compliance or increased sensitivity to its wishes with rewards offered itself or with promises of concessions to be extracted from other parties to the negotiation, over which an interested MER agency may have some considerable influence.

Third, the mechanisms have the advantage of deriving tangible and intangible benefits for China. For instance, side-payment bargaining yields material benefits for China, which may include the restoration or increase of previous transfers of goods and resources between the MER agency and China or between other parties and China; or in some cases, the denial of goods and resources to others. Influence benefits include base rights, rights to information or of passage; and the promises of future support, greater sensitivity to the wishes of China, and greater openness to the goods, information and personnel of the MER agency to the Chinese agencies. Intangible benefits include reputational rewards that can be enhanced through the INPs, which accrue to a country that is deemed to have made a commendable attempt to bring about a negotiated agreement (Mitchell, 1988: 44-45). Such benefits are of particular importance to China as it is often perceived as having some special responsibility for the maintenance and restoration of global welfare.

Of course, for each advantage of the mechanisms, there are also disadvantages. Disadvantages can be incurred both through undertaking the processes of mediating itself and through achieving a settlement, although it seems more likely that disadvantages will accrue through an unpopular or unsuccessful settlement than for

merely adopting the role of go-between or honest broker. Similarly, using the aforementioned channels to influence Chinese negotiation approach can sometimes backfire and the MER agencies are left with less influence, and less opportunity to establish what it regards as a satisfactory relationship with China. Equally, mechanisms can damage reputation as well as enhance it. In short, although China is generally ready to approve the MER agencies' mediatory role, it is necessary to recognise that, although somewhat asymmetric, there is always a *balance* of potential strengths and weaknesses in undertaking influence through these mechanisms.

With all said and done, this chapter finds the secondary hypothesis *partially true*, although it is close-to-complete validation.

THE ‘*DRAGONOMIC DIPLOMACY*’ DECODED

8.1 Introduction

The present thesis began with an objective to examine the ways multilateral economic regimes (MERs) and their agencies influence Chinese economic diplomacy preference formation. In recognising that economic diplomacy is not just concerned with preference formation, but also the decision-making that takes place during multilateral negotiation processes, the study added a second element to the research interest and investigated the role(s) of the MER agencies in shaping the negotiation approach of China. The thought process is that Chinese economic diplomacy can be affected by the MER agencies at different stages of decision-making, from policy discovery, to policy definition, policy determination, and policy deliberation. To guide the investigation, two sets of mechanisms of influence were tested as part of the primary and secondary hypotheses. The study on preference formation focused on examining the costs-and-benefits calculus, information dissemination, and reputation reinforcement. The analysis on negotiation approach discussed the MER agencies as mediators in shuttle diplomacy proximity talks, facilitators of informal negotiation practices (INPs), and instigators of side-payment bargaining.

An examination of economic diplomacy is not possible without empirical substance to form the basis of the discussions. Hence, two on-going negotiations were adopted as the focal points of this thesis. They are the Conference of Parties (COP) climate change negotiations under the United Nations Framework Convention on Climate Change (UNFCCC), and the Doha Development Agenda (DDA) trade negotiations under the World Trade Organization (WTO). China’s participation in these

multilateral processes consists of both continuities and changes in its national preferences and negotiation approaches. In the climate change negotiations, although China's fundamental principles remained constant, national preference evolved for the clean development mechanism (CDM) and mitigation issues. In the international trade negotiations, what remained the same are the core principles that were hammered out since the first round of talks in Doha. What changed are China's national preferences for the trade in services modality and the government procurement agreement (GPA) framework. Where China demonstrated shifts in preferences and/or negotiation approaches, the transformation is one from absolute resistance to either acceptance or augmented flexibility.

In this final chapter of the thesis, a summary of the primary findings regarding the primary and secondary hypotheses is presented. In light of the findings, a discussion on the relative explanatory value of the study's theoretical frameworks is necessary. The chapter claims that while the approaches used to guide this thesis are comprehensive, the thesis find them to commonly dismiss crucial variables that drive Chinese economic diplomacy, such as the cause-effect of social political relations and the micro-processes of decision-making. In an effort to address this theoretical shortfall, an inclusive and integrative agenda is provided. It builds from the existing approaches and integrates new variables identified throughout the present study to yield a more sophisticated understanding about the preference formation of Chinese economic diplomacy and how the MER agencies become integral players in the process. This is a significant claim and may, perhaps, shock the mainstream scholarly assumption that China's decision-making is a national process immune from external forces. By no means does this thesis suggest that the domestic variables are by any means inferior or less important. The empirical discussions certainly showed that domestic variables dressed as the situational factors and the social instigators play rather decisive roles in shaping Chinese economic

diplomacy. At the same time, however, this study also finds China's preference formation to have a less definitive boundary against the participation of the MER agencies. There seems to be an invisible fence between the two sides and where the MER agencies can or cannot participate in China's decision-making processes is increasingly blurred due to their relevance, function, and resources.

In the latter sections of this chapter, the implication of this thesis is discussed in light of China's economic diplomacy in the future; the potential of shuttle diplomacy and INPs; and the relevance of the findings to other emerging market economies. Of course, all studies come with constraints and this research is no exception. Hence, the study acknowledges some research limitations in the section that follows. The chapter ends with some concluding thoughts about how this thesis leads the way for a future research direction.

8.2 Primary Findings

The thesis set out to test two claims. The first was a primary claim that addresses the primary research question about *how* the MER agencies influence Chinese economic diplomacy preference formation. This hypothesis is mainly concerned with the preference discovery, definition, and determination stages of decision-making. It holds that *the agencies of multilateral economic regimes influence Chinese economic diplomacy preference formation through three primary mechanisms: costs-and-benefits calculus, information dissemination, and reputation reinforcement*. The underlying assumption of the primary hypothesis is that the level of actual influence the MER agencies have through the three mechanisms is contingent on four situational factors: national objective, policy goals, policy settings, and policy instruments.

The second claim of this thesis formed the secondary hypothesis, which addresses the role(s) the MER agencies play in shaping China's negotiation approach.

The hypothesis is therefore concerned with the decision-making that occurs at the multilateral negotiation processes. As such, it holds that *the agencies of the multilateral economic regimes shape China's negotiation approach through three capacities: as a mediator of shuttle diplomacy proximity talks, as a facilitator of informal negotiation practices, and as an instigator of side-payment bargaining*. The underlying assumption of the secondary hypothesis is that the actualised influence rest on the social instigators which drives China's negotiation approach. They are expectation, trust, and personal reputation. The three social instigators are cumulatively necessary criteria for maximising the MER agencies' impact.

8.2.1 Findings for the primary hypothesis

In general, the thesis finds the primary hypothesis *partially valid*. Based on the qualitative examinations, none of the hypothesised mechanisms of influence on preference formation have the capacity to trigger a transformation of China's preference formation in the cases examined. The MER agencies, at best, achieve an *absorption* level of influence. This means that the MER agencies *do* have the capacity to affect Chinese preferences, and can, to an extent, alter the decision-makers' perspectives on the issues at hand. It also allows the Chinese decision-makers to acquire new capacities for addressing issues of a technical nature both internally and externally. However, the decision-makers will only adapt to the influence rather than allow it to trigger a paradigm shift in its preference formation. The influence also does not change the pre-defined features of the preference or the underlying beliefs held by the decision-makers regarding the issues at hand. The two mechanisms with consistent absorption levels of influence are the *costs-and-benefits calculus* and *information dissemination*.

When a MER agency uses a costs-and-benefits mechanism to influence preference formation, it frames the way the pros and cons of cooperation is framed

through counter-attitudinal analyses that generally skew towards the benefits over the costs. The study finds this framework partially effective with absorption influence. To illustrate, consider the WTO example. In spite of the WTO's costs-and-benefits exercises, China did not formally adopt a real transformative change in negotiation positions on services trade. True, the coverage of China's opening-up has expanded over the years. But this expansion was largely incremental – as opposed to a full reform – and many barriers remain intact across numerous services sectors. Likewise, the climate change case-pair showed that the degree of impact this mechanism has on mitigation is comparatively milder compared to the CDM. While it only took two to three years for this mechanism to catalyse a CDM preference change, it took five-times as long to see a slight increase in rhetorical flexibility on the mitigation issue. In reality, the costs-and-benefits calculus mechanism is conditioned by the situational factors, national objective and policy setting.

The former situational factor regards the *perception* of the Chinese decision-makers. For the most part, the decision-makers in Beijing did not believe the payoff from cooperating in the long-term global effort to mitigate climate change justified prioritising the government's limited professional and economic resources over the pressing short-term demands such as economic growth and poverty alleviation. This perception in turn undermined the UNFCCC agencies' costs-and-benefits calculations on mitigation. The situation could not have been more different for the CDM. Key decision-makers in Beijing believed that the benefits of joining the initiative would contribute to both the short-term development policy goals, and the long-term battles against global warming. The proximity between the UNFCCC agencies' calculations and that of the decision-makers' perceptions thereby enabled the former to assert a stronger influence.

The second situational factor relates to the political rank of the decision-maker to which the costs-and-benefits calculus is communicated to. For instance, the GPA case felt more impact from the Committee's costs-and-benefits calculation not only because it appealed to the ministerial-level policymakers, but also because it attracted the elite members of the Politburo. The services trade, on the other hand, only appealed to the second-tier decision-makers from the Ministry of Finance (MOF) for instance. So the political rank of the receiver of the costs-and-benefits analysis matter. The immediate effect of the engagement is therefore different between the cases on the basis of the decision-makers' perception and the rank of the policy actors whom the MER agency communicates a costs-and-benefits calculus with. As the mechanism of the costs-and-benefits calculus is conditioned by situational factors, it is at best capable of partial influence.

Like the costs-and-benefits calculus, information dissemination was found with an absorption level of influence. The case studies showed that information dissemination activities from the UNFCCC and the WTO agencies were prevalent, and primarily in the form of informal dialogues, information exchanges, research collaborations, training workshops, and so on. Indication of these activities support the cognitive assumption that the growing complexity and uncertainties over global economic problems will often lead policymakers to turn to new and different channels for advice, and specifically to new networks of knowledge-based experts from the MERs in order to articulate its objectives in forthcoming negotiations; realise the *real* stakes or interests of the Chinese government; and the perceived appropriate policy remedies (Haas, 1992: 12). For the most part, interviewees across the cases commonly agree that external information affect the perceptions of the Chinese decision-makers. However, the actual influence varies greatly between the cases, and this is due to three reasons. The first relates to the political and economic costs involved with

implementing international discourse; the higher the political and/or economic costs, the less influential the international discourse. In the GPA negotiations, the political costs of agreeing with the WTO agencies' recommendations for accession would undermine Beijing's regulatory autonomy, which is a political cost it was not willing to compromise at first. By contrast, the minimal political and economic costs communicated by the international discourse on the CDM initiative stipulated a much faster adoption in Beijing than any other climate change modality to date. Hence, the perceived economic and political costs conveyed through the disseminated information can have substantial impacts on its influence levels.

The second explanation regards Beijing's incoherent inter-agency processes.²⁸¹ Most economic issues involve multifaceted problems that require the involvement of numerous agencies, and each agency tends to vary widely in their ministerial interests. In trade, a decision on the trade in transport services, for instance, is attached with complicated, lengthy and changing procedures, requirements and documentation; and concerns a labyrinth of agencies, ranging from transport, customs, immigration, security, health, veterinary and phytosanitary issues, product quality, and the private sector actors. When compelled to come together for consensus-building, these agencies aim to assert jurisdiction over the same issues, and compete against each other for scarce budget resources, power, and recognition from the senior officials. At times, the fragmentation can be made even worse by the widely diversified information disseminated by various MER agencies, causing a divergence in ministerial interests. The implication of these realities is the undermining of the actualised influence of the MER agencies through an information dissemination function. Finally, how well the MER agencies' influences perform is contingent on whether their efforts are supported by the Chinese industrial and business actors. A key reason China's preference for the CDM initiative changed so quickly was because the UNFCCC discourse was supported

²⁸¹Interview with an expert from Harvard University, Boston, 11 June 2012.

by the local industries. In contrast, the lacklustre industrial support for mitigation contributed to China's modest profile at the multilateral mitigations negotiations. Consequently, the influence of the MER agencies through information dissemination does not exist in a vacuum. But it does inform Chinese preferences. For this reason, it is concluded that information dissemination has partial influence.

The third mechanism tested for the primary hypothesis is reputation reinforcement. This mechanism has an influence level between inertia and absorption. Historically, China has valued its national and international reputation, and the experiences of the 20th century have further highlighted the significance of this value. If reputation was an important driving force, then one would expect to see a more proactive national preference on the trade and climate change issues. Yet, this study did not find any indications that considerations for reputation correlates to a change in preference formation; and to date, Beijing has not indicated any preference shifts in mitigation, services trade, among others. In mitigation, despite being taken as a scapegoat for past failures, China did not commit to any legally-binding agreements under the auspice of the UNFCCC. The most it has done is set future rhetorical targets. Similarly, despite the many blame games in the trade talks, services trade remains an unfinished business. Why did reputation not trigger preference changes? A prevalent view from the interviews was that the degree of influence reputation reinforcements depends on the level of political pressures China feels from other negotiating partners or the perceived political risks of taking a non-commitment position, as opposed to the MER agencies per se. So contrary to the contractualist assumption, the reputation mechanism alone does not change China's preference formation. It requires geopolitical incentives to supplement its effectiveness.

From the preceding findings, it is clear to see that no single mechanism of influence has the capacity to generate a transformative change in China's policy

preference without the presence of at least one contingency. One way or another, all the mechanisms are circumscribed by one or more of the situational factors. This finding is consistent with the research assumption that the institutional macrostructure of the Chinese political system goes hand-in-hand with external mechanisms of influence in determining China's preference formation. This said, *China does not necessarily reject the influence of the MER agencies*. Rather, their influences are accepted, and one way or another, absorbed into the broader preference formation processes. One can consider this as an important intrinsic influence of and in itself.

As an offshoot implication of the China-MER engagement, the study finds the MER agencies to have influence beyond the preference formation. It can also affect China's decision-making structure. The thought process is that in the process of adapting to the multilateral processes, China feels the need to undergo institutional adaptation where domestic decision-making structures are pluralised and decentralised to ensure it meets the requirements of the multilateral system. In contrast to the existing literature that imagines the structure and process as a fixed and static one, *Chapter Three* showed that China's economic diplomacy decision-making has already evolved three times in the short life-span of the People's Republic of China (PRC). The first was the exclusion period (1949-1971) of which China was largely isolated from the MERs. The second was the *transition* period (1972-2002), in which China began its integration to MERs. Since 2003, China has entered into the *proactive* period. Here, China not only became an active international political and economic actor, but also began to question some of the structures and norms of the MERs it holds memberships to. The study finds that *the more MERs China participates in, the deeper its engagements with the MER agencies, the more decentralised the decision-making process becomes*. This is because MER participation spawns the introduction of new actors and issues, undermines the traditional policy structure and monopolies, and promotes new policy goals and

instruments. This trend is driven either by the conditions of joining a MER and/or Beijing's conviction that doing so would enable them a more effective and efficient management system of the MER-related affairs.

The impact does not stop there. The regular China-MER engagements have provided some bureaucratic agencies new opportunities to establish network allegiances with the MER agencies. With new access to resources and therefore leverage, the policy actors involved are consequently empowered by their relationship with the MER agencies. The implication of this is an alteration of the inter-ministerial distribution of power. This is an important consequence because it stipulates a spiral pattern of influence when domestic actors bypass government leaders to push through certain issues above others with the use of external force. In most cases, however, the MER agencies' capacities to assert this form of influence will only be achieved if they have established robust institutional relationships with domestic policy actors and/or agencies.

With all said, the study finds the primary hypothesis <i>partially valid</i> .
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8.2.2 Findings for the secondary hypothesis

Although the primary concern of this thesis is how the MER agencies can influence Chinese preference formation, it also concerns itself with a second dimension that looks at the formulation of national approaches to economic negotiations. A dismissal of this dimension would leave the present study on economic diplomacy incomplete. For this reason, a secondary hypothesis was derived to study the role(s) of the MER agencies in shaping China's negotiation approach. The claim is that the MER agencies shape China's negotiation approach through three capacities: as a mediator in shuttle

diplomacy proximity talks, as a facilitator of INPs, and as an instigator of side-payment bargaining.

Proximity talks involve processes of inter-personal counter-attitudinal discussions and the establishment of institutionalised relationships with the Chinese decision-makers. Its influence level varies depending on the kind of information the MER agencies hold and its perceived credibility. If the MER agency has superior information and credibility, proximity talks are likely to have an *absorptive/transformative* level of influence in shaping China's negotiation approach. If the MER agency has superior information but lacks credibility, China may be unwilling to respond to the MER agencies' mediation at the fear that they have been manipulated to optimise the benefit of the MER agency. In this situation, proximity talks are likely to have an *inertia* level of influence. Where the MER agency is viewed as credible but lacks superior information, the Chinese decision-makers consider the agency as trustworthy but will not fully absorb the mediated effects. As such, proximity talks will have an *inertia/absorption* level of influence. Finally, the combination of no superior information and a lack of credibility lead China to conclude that the MER agency is dishonest and manipulative in its communications to serve its own ends. Thus, proximity talks in this situation have a *retrenchment* effect on the shape and form of China's negotiation approach.

The ideational and normative structures of the INPs shape China's negotiation approach through three ways. First, the INPs affect how China believes it should act in negotiations, what the perceived limitations on their actions are, and what strategies they imagine to achieve their objectives. The ideas and norms floated around in the INPs thus condition what China considers and expects as necessary and possible in practical and ethical terms. Second, the INPs constrain China's negotiation approach through an emphasis on the international norms. For instance, the MER agencies can

seek to justify its ideas and recommendations by appealing to the established information norms of legitimate conduct. Third, the processes of rationalisation in the INPs are a form of constraint in itself. The very language of justification imposes a form of constraints the options available to China in a given negotiation. It is important to recognise that INPs usually occur at the later stages of economic diplomacy decision-making and by the time Chinese decision-makers arrive in at the negotiation settings, they would have had a relatively strong set of pre-defined positions, attitudes, and postures. Although these pre-defined positions are dynamic – rather than fixed – they are tough factors to undermine through a facilitator role. Hence, it is expected that this mechanism will not achieve a transformation level of influence. But given the number of probable ways it can assert immediate impacts and the minimal contingencies it is argued that the INPs have an influence between *absorption* and *transformation*.

Side-payment bargaining has an influence level between *inertia* and *absorption*. The influence of side-payment can either be strengthened or undermined by how complementary potential economic benefits are with China's national objective or policy goals. If a deal serves the government's development programmes and ambitions, for instance, then it is likely to be received relatively well. The reverse is also true; the government will reject the influence of the MER agencies if the economic side-payment clashes with Beijing's policy agenda or is perceived as irrelevant. Another contingency of this mechanism has to do with *trust*. How much China trusts the MER agencies as well as foreign counterparts play a decisive role in China's decision-making. The study finds that the levels of trust decision-makers have are shaped by their past experiences, and expectations on whether foreign parties can deliver on their promises.

When considered together, a key advantage of the three roles of influence is their ability to enhance the social instigators; that is, they are good for building expectation, trust, and the personal reputations of the Chinese decision-makers – the

core drivers of the nature of China's negotiation approach. The study finds that a fundamental reason for China's poor cooperative behaviour is due to Beijing's low expectations that other negotiating parties take on the norm of reciprocity if China did take on commitments. Through proximity talks, INPs, and side-payment bargaining, such expectations can be raised with the use of communicative strategies (i.e., the tools of persuasion). A second root problem with China's lack of agreement is its on-going uncertainties caused by problems of trust. The informality settings and smaller-group discussions in proximity talks and the INPs humanises the negotiation process, and in turn, build both unity and empathy between the negotiators. The outcome is improved inter-personal trust. Finally, investing in trust and expectations are only possible if the initial degree of personal reputation is high. For this reason, personal reputation is an interrelated variable. Through the three capacities, the MER agencies can demonstrate their sincerity to Chinese negotiators and decision-makers as well as a willingness to integrate China's cultural values at the international level, as long as it is within their capacity and interest.

In the existing literature as like in the original theoretical framework of the present study, the social instigators are rarely discussed as determinants of China's economic diplomacy decision-making. This is an unfortunate dismissal because for Chinese decision-makers, the core of their negotiation behaviour depends on this triangular relationship between the level of trust decision-makers have in the counterparts, the level of investment decision-makers make in building a trustworthy reputation, and the expectation of the probability that others will cooperate. The lacklustre of any one of these variables can lead to a downward spiral in their incentive to cooperate multilaterally. If the MER agencies wish to effectively influence China's negotiation approach, it is necessary to embrace, and understand the mundane nature of these elements in Chinese economic diplomacy.

On the whole, this thesis finds the secondary hypothesis *partially valid*.

This thesis has focused on separate processes, though based on the same cases, in order to highlight each process individually for analytical purposes. But this does not mean these processes cannot interact, and by no means are they incompatible or incommensurate. Rather, they are mutually complementary and reinforcing. For instance, the costs-and-benefits mechanism complements in effect the information dissemination activities. The INPs usually sets the provocation process for side-payment bargaining. The costs-and-benefits calculus and information dissemination are the prerequisites for the shuttle diplomacy proximity talks and the INPs. Often the Chinese decision-makers have to be subscribed to the same information and frame of mind and issue before he or she can be persuaded through the mediatory practices of proximity talks and INPs. When the MER actors travel to Beijing for proximity talks, it is likely that a discussion of the costs and benefits will occupy the meetings. As well, reputation is usually assessed and reinforced in proximity talks and the INPs. These are but a few of the many possibilities in the ways that the mechanisms reinforce each other.

8.2.3 *Some additional findings*

Based on the results from the primary and secondary hypotheses, it is argued that a correlation between the deepened China-MER engagements and the growing dynamism in China's economic diplomacy does exist to some extent. That is, the MER agencies *do* generally influence China's economic diplomacy preference formation and negotiation approach. This claim is informed by three additional conclusions that are drawn out of the primary and secondary findings. First, the Chinese government and its policy actors and agencies do not reject the influences of the MER agencies. Instead, it is open to

engagements with the MER agencies and absorbs the consequent effects of the engagements. Evidence of this can be found in China's generally adaptive reactions to the MER agencies' costs-and-benefits calculus and information dissemination during the preference formation processes. Under normal circumstances, the study finds that Chinese policy actors generally respects the analyses and viewpoints of the MER agencies and takes them into serious consideration during the decision-making process. At times, they are also used by certain government agencies to support their interests and/or desired policy outcome. In addition, the fact that China generally like participating in proximity talks and INPs as it addresses their social instigator problems is also an indication that it views the effects of the MER agencies' as helpful to their multilateral involvement. In this sense, China's reception of the MER agencies' influence is generally a positive one.

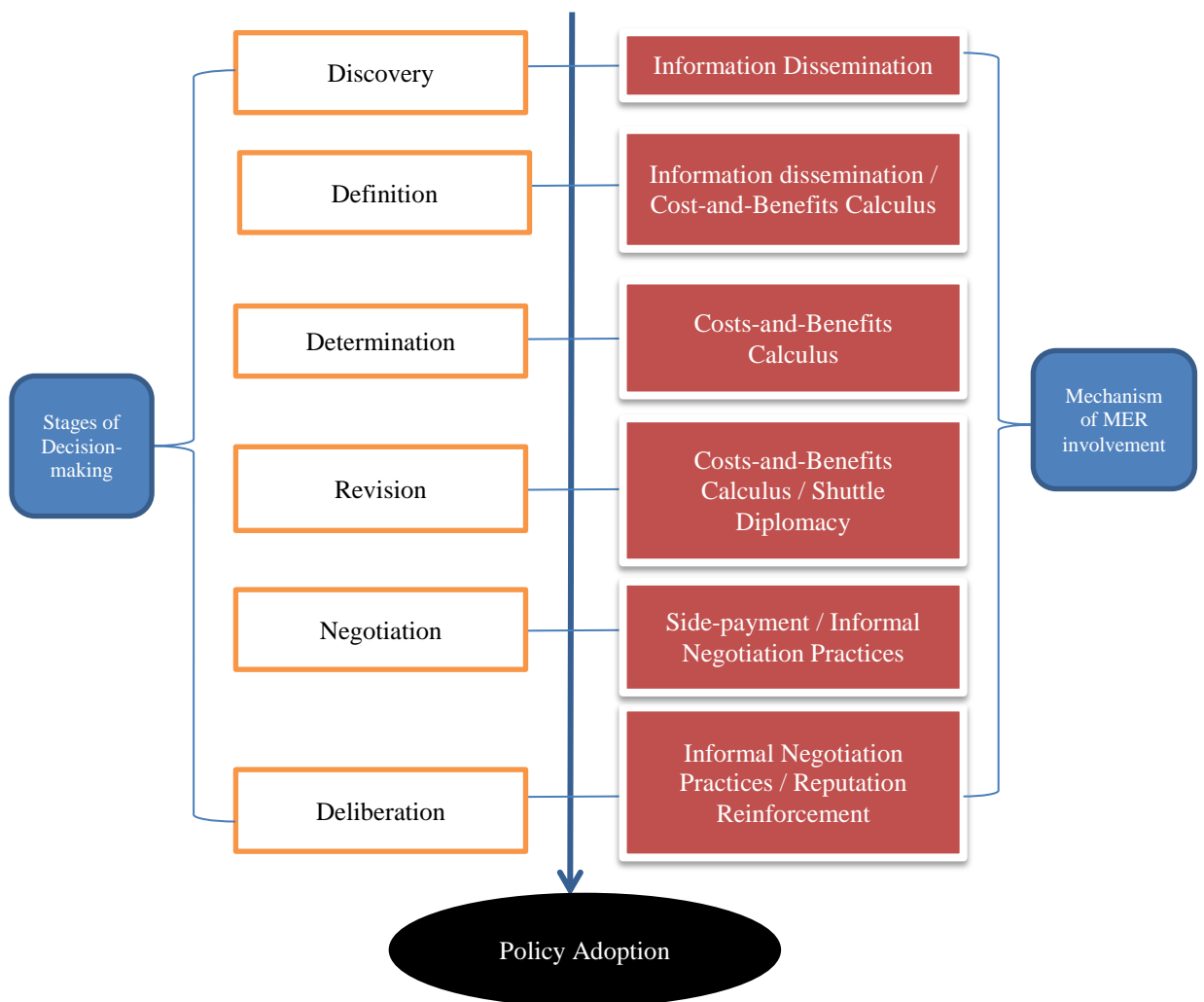
Second, the influence of the MER agencies occur on a progression and it is asserted at different stages of China's economic diplomacy decision-making process. The four broad stages of decision-making are policy discovery, policy definition, policy determination, and policy deliberation. For instance, some MER agencies influence Chinese preference formation at the preference discovery stage through a mechanism of information dissemination. Others do so at the preference definition and determination stage through a costs-and-benefits calculus. A third possibility is to influence the preference determination stage of decision-making through side-payment bargaining. Through its capacity as a mediator of proximity talks, the MER agencies influence China's negotiation approach in between negotiation sessions (i.e., between mini-ministerials and formal ministerials) in the policy revision stage of decision-making. By facilitating INPs, and instigating side-payment bargaining, the MER agencies influence Chinese negotiation approaches during the multilateral negotiations phase where the final package is being established. Finally, the MER agencies can further influence the

preference deliberation stage through a mechanism of reputation reinforcement (*figure 8.1*). At any stage, the Chinese policy actors do not reject the influence of the MER agencies. Rather, it absorbs the implicit and explicit influences and integrates it into the broader macro-processes and design of the preference formation and negotiation approach, consciously and unconsciously. Important to note is that the MER agencies do not necessarily strategically plan to assert influence at all stages of the decision-making process. Nor do the same agencies assert influence at all stages of decision-making. Rather, it is believed to be a generally eclectic process executed by different agencies across different MERs at different stages of China's decision-making. The result of this is that Chinese policy actors and agencies are challenged from maintaining a state of immunity from the influences of the MER agencies when forming national preferences and negotiation approaches. Consequently, a sustained and reiterative engagement process between Chinese policy actors and the MER agencies throughout the decision-making process will gradually internalise the effect of the latter in the preference formation of the former.

The resultant outcome of this constitutes the third overarching conclusion: the reiterative engagements with the MER agencies will, over time, integrate them into the general decision-making system of China – be it implicitly or explicitly, directly or indirectly, and intentionally or unintentionally. This is to suggest that as Chinese policy actors become used to regular communications and coordination with the related MER agencies throughout the preference formation, for instance, this kind of activities will eventually establish itself as a systemic norm within the decision-making process. Over time, policy actors may believe it is perhaps even necessary to bypass certain proposals to the MER agencies for their professional perspective and feedback. Significantly, this conclusion implies that China's economic diplomacy decision-making in the 21st century is not necessarily a stand-alone domestic process. Although, on paper, China's

preference formation is determined by its national interests and other domestic political factors, a deeper examination of the agency-level activities suggests that the MER agencies also play critical behind-the-scenes roles that indirectly shape Chinese economic diplomacy. As such, China’s economic diplomacy is today arguably shaped by a *collective* system involving domestic and international agencies.

Figure 8.1 *Decision-Making Timeline and Stages of MER Participation*



8.2.4 Road blocks and facilitating conditions

When *influence* is taken as a whole, the MER agencies’ capacity to assert its desired outcomes on Chinese economic diplomacy decision-making can be challenged as much as it can be facilitated by the domestic political structure, processes, and actors. In

Chapter Two, the primary hypothesis was supplemented by an underlying belief that the influence of the MER agencies is constrained by four general situational factors. The preceding discussion further highlighted the way they do so in the context of the variables tested. In addition to the situational factors, the present study identified two important road blocks in the preference formation process that causes the Chinese decision-makers to reject the influence of the MER agencies. They are *path dependencies* and *closed networks*.

Path dependency refers to the manner in which current policy decisions are influenced by the internal institutional and behavioural legacies of past decisions made by the Chinese decision-makers (Pierson, 2000; Rose, 1990). Policy legacies affect current policymaking because of factors such as the sunk costs or institutional routines and procedures, all of which can force decision-making towards certain directions by either eliminating or distorting the range of options available to the Chinese government (Weir 1992). Hence, a decision to alter China's core energy structure or domestic services infrastructure in which billions of RMB may already have been invested by the government is a much more difficult decision to make than a corresponding decision about a program that has not yet started (i.e., the CDM) or is vaguely institutionalised (i.e., the government procurement regime).

Closed networks refer to policy stability promoted by the ability of the existing key policy actors (i.e., the NDRC) to prevent new members from entering into policy debates and discourses. This logic is in line with the works of R.A.W. Rhodes (1997), L. Schaap and M.J.W. van Twist (1997), and Frank R. Baumgartner and Bryan D. Jones (1991). They commonly share the view that all bureaucratic policy actors attempt to construct "policy monopolies" in which the interpretation and approach to an issue is more or less fixed. In Beijing, the uneven distribution of power within the bureaucratic system have frequently seen the NDRC, and at times, the Ministry of Foreign Affairs

(MFA) marginalise the Ministry of Environmental Protection (MEP) and the Ministry of Science and Technology (MOST) in the climate change preference formation processes, even though the latter two agencies probably has more competencies in this issue-area. This road block is even more so for the preference formation of international trade. The power-clingy NDRC often block the interests of the Ministry of Finance (MOF) and the Ministry of Commerce (MOFCOM) in preference formation even though the latter is charged with trade policy coordination responsibilities. In most sectors, the structure of the policy system provides certain actors with the ability to veto or block changes in the preference or negotiation approach for that sector; and sometimes this can be done so by establishing “critical subsectors” with special abilities or resources vis-à-vis other subsectors (Rayner et al., 2001). This was the case when the NDRC established the National Center for Climate Strategy and International Cooperation of China (NCSC), a new think tank on climate research directly under the NDRC, to increase its climate change policy capacities and resources.

In spite of these road blocks, there are also facilitating conditions that ensure the influence of the MER agencies are effectively absorbed into the preference formation process. One facilitating condition regards the meso-level networks. The MER agencies that deal with issues prone to be grasped by the meso-level networks within the Chinese government are more likely to see their asserted influence absorbed and internalised into the preference formation process. Meso-level networks develop within and among the myriad of government agencies run by the specialised middle-ranking policymakers and bureaucrats. On this level, technocratic and expert rationality tends to prevail, in that decisions are approached technically even when they are of a political nature. In this context, when the MER agencies disseminate specialised information and/or transfer calculations of the costs and benefits to the meso-level networks, their views are more likely to be absorbed due to the reduced politicisation of the process. A similar outcome

may not be possible if the specialised information was disseminated to the highly politicised policy actors whose main concern revolves around power politics. When the MER agencies engage directly with the meso-level networks, they have increased capacity to frame preferences and shape the policy debates. A case in point is when the UNFCCC agencies communicated directly with the implicit network consisting of the MEP, the MOST, and the CMA with regards to the CDM initiative. As *Chapter Four* showed, there were clear indications that the UNFCCC agencies' viewpoints were reflected in the policy recommendations that emerged from this network. Similar effects presented itself in the GPA example. When the WTO agencies communicated directly with the implicit network consisting of the MOFCOM and the MOF, the international influence was gradually absorbed by these government agencies. Against the NDRC, the MOFCOM and the MOF eventually managed to promote entry into the GPA despite their initial opposite position. This goes to show that transnational network relations between the agencies of the Chinese government and the MERs can induce and push a dynamic to which Beijing cannot escape from. An added implication of engagements in this form is that it will encourage the meso-level network agencies to act as policy entrepreneurs and promote policies in line with the preferences of the MER agencies. Naturally, not all issues are equally suitable for such processes. Issues as such can thus be expected to be less permeable to the influence of MERs.

A possible limitation to this facilitating condition is that not all issues are suitable for such processes, which means that they are also less open to the influence of the MER agencies. Highly politicised issues are a key factor of this equation. This can be so for at least two different, but complementary reasons. First, by definition the more politicised an issue is, the less it will be dealt with in a technocratic manner, which is the way issues are framed at the meso-level of the Chinese government. The WTO's lacklustre impact in the rules on the hormone-treated beef, Genetically Modified

Organisms (GMOs), and sugar are cases in point.²⁸² These are unlikely cases for the influence of international norms on China precisely because they are highly politicised issues. As such, the likelihood that external pressure will prompt preference changes is reduced. Second, in a more speculative way, issues that are framed more politically fit better with the nature of the Chinese government. And by establishing its own political platforms for policy debates, the government can control the direction of its preference formation. With these said, the fact that a strong MER presence in the preference formation process implies the necessity to nuance this assumed limitation. Politicisation being a debated concept, the key parameter might not (only) be where an issue is located along the continuum of high and low politics, but also whether an issue is new to China's political agenda, or that it has already been dealt with, for instance.

Another facilitating condition has to do with the open-ended characteristic of the Chinese government. The fact that the country is in a *developing* phase with many multilateral economic policies still *in the making* means that it has a range of policies within the purview of the Chinese government that is not clearly defined. In turn, the MER agencies may be able to use any one of the assumed mechanisms or capacities to expand the range of issues under consideration, and with it, expand the scope of China's willingness to cooperate. In their study, H. Farrell and A. Heritier (2003, 580) have shown how "substantive issues may be instrumentalised to establish informal institutional gains" which can create a new status quo and therefore changes in the formal institutions. In this sense, the MER agencies that promote actions for enhancing China's international capacity are expected to find more supporters in Beijing, especially among those that favour a greater degree of Chinese integration to the multilateral economic system. Once these supporters absorb the discourse of the MER agencies, it is expected to expand China's policy spheres with the introduction of new

²⁸² For more information on the rules on the hormone-treated beef, GMOs and sugar cases, see Alasdair R. Young (2012).

issues, and/or competences of government institutions. The MER agencies' impacts are anticipated to be even stronger when China faces new issues it has not previously dealt with. Such impacts were seen in the cases of the CDM and the GPA.

A similar argument applies to the MER agencies' recommendations which help build the international *actorness* of the Chinese government, or which empower specific government institutions. The existing research has identified a *quid pro quo*, in the relationship between the Chinese government and the MERs. It is as if China offered openness vis-à-vis the influence of the MERs in exchange for a role, particularly a leadership role, in multilateral negotiations. Or as if it had to compensate for her *sui generis* character as an international actor and *pay the price* of a rather high degree of influence by (some) MERs. This is of course especially so in the domains of which the *actorness* of the Chinese government is not (perhaps yet) well established. Certainly, the influence of the WTO on China has been, in part, a function of the attempt by the latter to establish itself and exert its preferred positions on international trade governance. Martijn Groenleer (2012) advances a similar argument in the context of the European Union (EU). According to him, the EU agencies often must align themselves with the goals and interests of international institutions in order to be able to act as a partner of these institutions. In other words, on occasions the influence of the MER agencies seems to be, in part, a function of the attempt by China to establish itself as an actor before them. Yet, the increase in policy powers induced by the decision to adopt policies and norms derived from the MER agencies should not cross a certain (probably issue-specific) threshold. If the increase is perceived as too large, then (reluctant) bureaucratic polities will be more likely to oppose it.

8.2.5 *Does the MERs' strength matter?*

In the debate on institutional influence, Oriol Costa and Knud Erik Jorgenson (2012) point to the strength (i.e., the stringency of the constraints it imposed on China and the robustness and endurance of its organisational setting) of the MERs as an indicator of the extent to which they can affect preference formation. Can institutional design affect the resilience of the MER influence in light of the road blocks? The empirical findings of this study suggest that strong MERs, despite their strength, can be insignificant (i.e., the WTO); and comparatively weaker MERs (i.e., the UNFCCC) can have an important effect. These findings accord well with the growing scholarship on the effects of international institutions, and especially studies that highlight the power of weak international institutions (Dai, 2007). In this context, a broad conclusion on the strength of the MERs can be made: *the comparatively stronger MERs do not necessarily generate greater degrees of influence on China.*

Even when they seem to impact China's preference formation and negotiation approach, it is often not through their coercive power. The WTO is a strong MER with relatively robust enforcement mechanisms. Agreements through the WTO are legally binding. States sign and ratify these treaties holding them accountable to the obligations endorsed in these agreements. If a state violates these obligations, other states may file a case against the state within the WTO's dispute resolution process. With the WTO's approval, other states may legally sanction the violator. These are powerful mechanisms that give strength to the WTO. However, in the case-pair examined in *Chapter Five*, the evidence did not reveal any *real* apparent correlation between the *strength* of the WTO and a strong degree of influence on China's preference formation. Clearly, the WTO does not always have domestic influence, and when they do, it is not necessarily through the coercive mediums. This study certainly did not find any domestic actors that were mobilised or changed their preferences due to the WTO rulings. Just as well,

the WTO did not attempt to do so in any case. So despite the strength of the WTO, the MER does not necessarily stem more significant influences.

By comparison, the degree of policy and attitude changes in the UNFCCC – a non-binding MER – negotiations were comparatively higher than those in the WTO despite the latter's more stringent legal framework. The research on the CDM and the mitigation negotiations show how some of the stronger influences are generated by the MERs that are only loosely formalised, have few (or no) substantive binding commitments, and contain no (or only toothless) compliance mechanisms. In this vein, the UNFCCC has proven to be influential even before the relevant international treaties are adopted. On the other hand, the WTO's formalised and legalised rules on trade in services are a case of imposing a comparatively weaker influence on China. Moreover, the research interviews suggest that China is less likely to feel any constraint stemmed from the strength of the MERs given that it is a rule-setter.²⁸³

Thus, international rules embedded in strongly legalised organisations equipped with compelling compliance mechanisms (i.e., WTO) do not seem to be systematically more influential on China than the MERs consisting of non-binding treaties (i.e., UNFCCC). Obviously, the limited number of cases considered in this study makes generalisation a challenge. What the research demonstrates, however, is that the stronger MERs are not always able to have domestic influence. It also reveals the importance of domestic factors and the role of government agencies, and even industrial actors, in transferring the influence of the MERs. Without the support of domestic actors, the MERs will find it much more difficult to impose influence.

However, Alastair Iain Johnston (2008) lends strong support to the proposition that the institutional design of the MERs do matter, especially when concerning channelling influence through cognitive mechanisms such as information dissemination or sociological ones such as proximity talks and INPs. With this said, the MERs that are

²⁸³ Interview with an expert from the Chinese Academy of Social Sciences, Beijing, 8 November 2012.

weakly institutionalised and make decisions by consensus (i.e., G20) can be ideal for persuasion efforts. By contrast, contracting strategies involving back-patting and opprobrium are more influential under a large audience, such as the World Bank and the UNFCCC (Johnston, 2008). This implies that it is not necessarily a case of institutional strength; rather this feature is contingent on the issue of concern. The MERs with small membership are well suited for persuasion strategies, while the MERs with large memberships is preferred for social influence. Johnston's analysis suggests that the notions of "efficient" institutional design employed in a rationalist sense must be complemented by analyses of the sociological processes by which institutions shape actor preferences. Consistent with his constructivist approach, he recognises that institutions vary not only according to formal design features but also in terms of the less tangible processes, internal cultures, and working philosophies. In other words, they are social environments as well as incentive structures.

Based on this analysis, it is fair to say that the rationalist's contracting strategy is usually most effectively done by the more formal and bureaucratic organisations such as the WTO and UN because commitments to such organisations are more explicit and difficult to reverse. Among the cognitive persuasion strategies, if the intention is only to legitimise a policy with an external endorsement, a politically independent MER with a large and diverse membership represent the best avenue for channelling its actions. On the other hand, if the purpose is to change interests or values of competing domestic agencies, then a more functionally focused institution with expertise and authority in a particular issue-area is perhaps more effective.

8.3 A Revisit to the Theoretical Brickworks

The arguments made in this thesis contribute to a growing body of theoretically informed empirical works that crosses geographical boundaries to look at a long-

neglected source of actor motivations and preferences in economic diplomacy, namely the social context in which agents find themselves when they are supposed to be representing or constructing the interests of a national government. Such arguments do not replace or necessarily even subsume the theories applied for this study – namely rationalism, cognitivism, and contractualism – about how the MER agencies influence the nation-states in shaping preferences and approaches to multilateral economic negotiations. But as realised through the empirical findings, this study does believe these three theories by and large neglects attention on the social context and the psychologically-driven factors of motivation in political behaviour. This dismissal makes the assumptions of these theories incomplete and less-than-optimal in their explanatory powers. The three theories would benefit from more consideration of the social and psychological arguments about actor motivation and motivational change in the standard list of independent variables used to explain the domestic-international relationship. As seen in the China case, such assumption not only rules out the plausible alternative motives of political behaviour, but also hinders thinking about motivation, behaviour and social context in the endogenous interactive fashion.

In an effort to contribute to the theoretical debate, a revised inclusive and integrative agenda for understanding Chinese preference formation is presented in this section. The framework builds from the approaches adopted in this thesis, and further incorporates the new variables identified in the empirical research, notably the situational factors and the social instigators. The agenda additionally integrates all the independently assessed processes into one interrelated system. The study is a step forward in the works on the source of actor motivations and preferences in IR and IPE, especially regarding the social context in the construction of economic diplomacy. Of course, the arguments made in this thesis by no means replace or even subsume more mainstream assumptions about influence, motivation (i.e., material power preservation

or maximisation), and state-MER relations in the study of IR and IPE. But it does suggest that the current literature embody thin underpinnings about the developing country context, and the corresponding social and individual motivations in political behaviour are incomplete. The IR and IPE fields need to consider including social psychological arguments about actor motivation and motivational change alongside the rationalist, cognitive, and contractualist ensemble of standard independent variables used for explaining the ways the MER agencies influence economic diplomacy preference formation. The integrative analysis of the present study also underscores the risks of starting one's analysis by assuming fixed preferences and systems. Such an assumption not only rules out plausible alternative mechanisms and contingencies, including motivation, behaviour, and social or political contexts in an endogenous, interactive fashion to which defines economic diplomacy.

8.3.1 The China-MER engagement

The relationship between China and MERs are shaped by the cyclical interactions of actors that administer the two polities. The interactions occur over time, either in a face-to-face context or through virtual communication technologies. For Beijing, policy actors and decision-makers are concerned with designing preferences that serve their national interests while preventing adverse consequences on their multilateral developments. In the doing so, meso-level policymakers seek to expand their share of the decision-making power by forming informal allegiances within the bureaucracy. On the other side of the chessboard, the MER agencies seek to encourage the Chinese decision-makers to adopt preferences that complement their own visions of an international agreement and interests. The MER agencies strive to satisfy the pressures of its member-states and other concerned parties, while minimising the adverse effects

and costs on China. In the end, the China-MER cyclical interactions serve to solve policy and negotiation problems.

MERs engage with China at different stages of decision-making. Possible mechanisms of influence at the policy drafting stage (in Beijing) include the costs-and-benefits calculus, information dissemination, and reputation reinforcement. In the later stages of decision-making that takes place simultaneous to the multilateral negotiations, the MER agencies may act as mediators of shuttle diplomacy proximity talks, facilitators of INPs, and instigators of side-payment bargaining to shape China's negotiation approach.

Through each of these mechanisms, the MER agencies participate in four general stages of preference formation: *discovery*, *definition*, *determination*, and *deliberation*.²⁸⁴ Through this iterative process, the MER agencies seek to develop a shared sense of purpose (i.e., an agreement on tackling climate change) and a shared plan of action for achieving that purpose. This shared action plan includes a common understanding of the size of the problem or challenge in need of addressing, and the scope and scale of the chosen activities or interventions (Koontz et al., 2004; Leach and Pelkey, 2001).

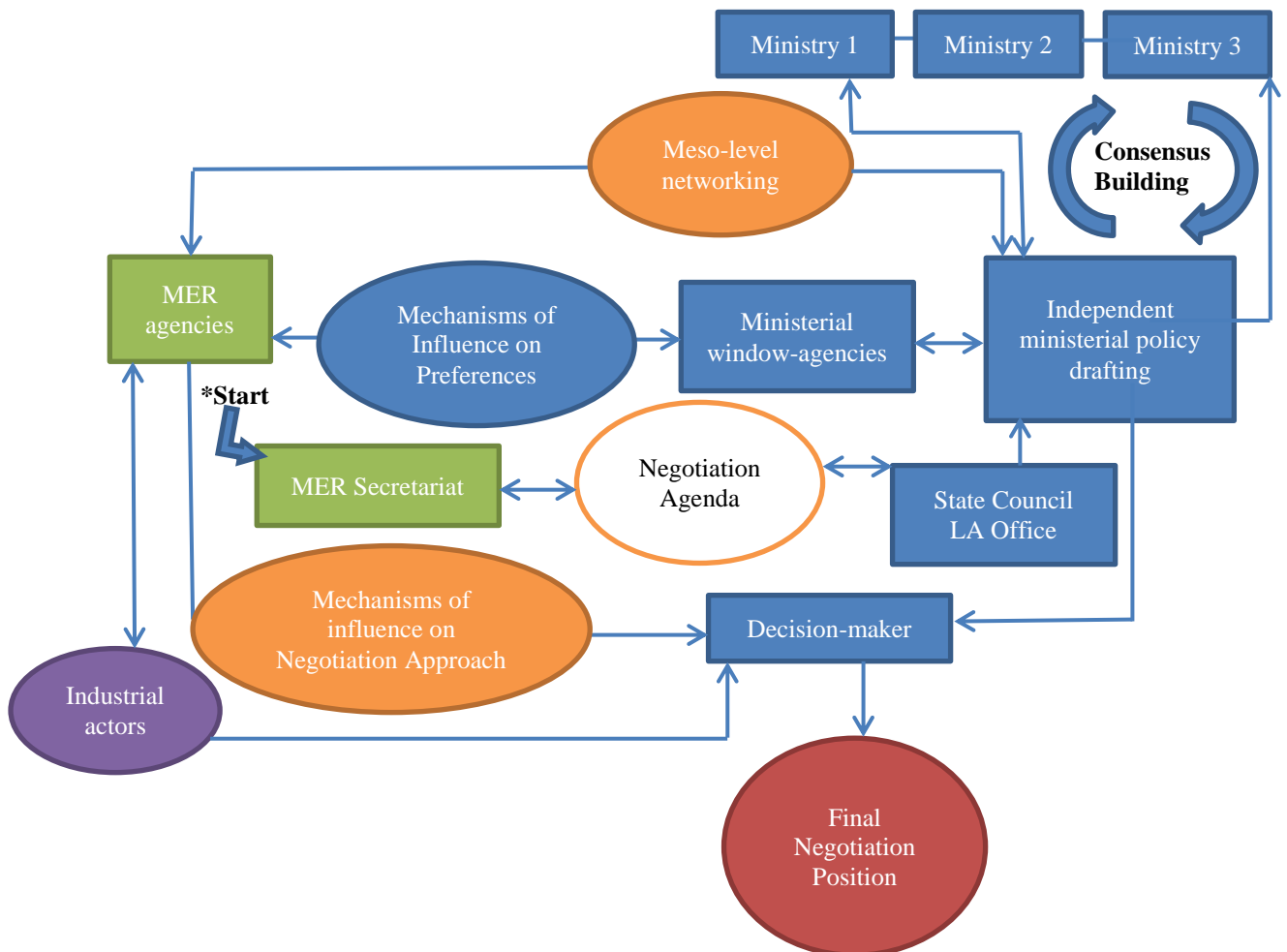
At the policy *discovery* stage, the MER agencies attempt to identify shared interests, concerns, and values between China and the multilateral community. Such are done through the identification and analysis of relevant and pertinent information and their implications that are communicated through the mechanism of information dissemination. In the policy *definition* stage, the MER agencies attempt to build shared meaning with China by articulating common purposes and objectives; agreeing on the concepts and terminologies used to describe and discuss problems and opportunities; clarify and adjust tasks and expectations of one another; and set forth shared criteria

²⁸⁴ For more information about the stages of decision-making, see Kirk Emerson, Tina Nabatchi and Stephen Balogh (2011).

with which to assess information and alternatives. These efforts are possibly carried out through the costs-and-benefits calculus and information dissemination.

The MER agencies play a role in the joint *determination* of the procedural decision-making process (e.g., agenda-setting, tabling a discussion, assigning a working group) and more substantive determinations (e.g., reaching agreements on action items or final recommendations). Although substantive determination can be an end product, in the interaction between the MER agencies and Beijing, it is also made over time and is integrated in the framework as a reiterating element of their engagement. The most likely mechanisms used here to transfer the influence of the MER agencies include the proximity talks and the INPs.

Figure 8.2 *China's Economic Diplomacy Decision-Making and the China-MER Engagements*



Finally, the MER agencies play a role in the *deliberation* of China's negotiation policy. Through proximity talks and INPs, the MER actors thoughtfully examine and listen to Chinese decision-makers and their perspectives on negotiated issues, and thereafter derive judgements about what represents the *common good*, advocate the global interests, and establish effective strategies for conflict resolution. Included in this process are MER actors participating in hard conversations, constructive self-assertion, asking and answering challenging questions, and expressing honest disagreements. Here, the MER agencies may also constrain preference formation by reinforcing the nation-state's reputation through institutional assessments of their performance or media pressures. These stages are summarised in *figure 8.1*. *Figure 8.2* depicts the general inter-agency coordination process and the MER agencies' respective participation.

It is important to note is that in between the four general stages of decision-making are probable intervening stages. An example is the semi-ministerial negotiation stage, which are the meetings with foreign delegations before the formal joint sessions. At this stage, the MER agencies seek to bridge a consensus regarding an agenda for negotiation, mediate inter-governmental tensions, and provide logistic support to its member-states. As such, they are likely to channel influence through a costs-and-benefits calculus and the INPs. Another probable intervening stage is *policy revision*. This usually follows the semi-ministerial meetings whereby the decision-makers would have encountered new information about the underpinnings of other parties, their intentions and about their own posture, expectations and perceptions about the forthcoming joint session negotiations. With the new information, China is likely to revise their initial national preferences and negotiation approach. At the same time, the MER agencies may exercise proximity talks in their continual efforts to shape Chinese economic diplomacy preference formation.

8.3.2 *The contingencies: situational factors and social instigators*

In most situations, however, the China-MER engagements occur within a multi-layered context of domestic constraints and contingencies that come in two forms: the *situational factors* and the *consequential incentives*. The *situational factors* generate opportunities and constraints not just on the outcome but also on the dynamics of the China-MER engagement at the outset, and over time. Researchers have recognised several chief elements that may determine the nature of the MER agencies' influence (i.e., Ansell and Gash, 2008; Bingham, 2008; Thomson and Perry, 2006; Radin, 1996; Selin and Chavez, 1995; Ostrom, 1990). This study finds four primary factors as most relevant: *policy settings*, *policy instruments*, *policy goals*, and *national objectives*. *Policy setting* refers to the policy framework (i.e., administrative and regulatory); the political dynamics and power relations within and across levels of the government; the degree of connectedness within and across existing policy networks; and the historic levels of conflict among recognised bureaucratic and sectoral interests and the resulting levels of trusts and impact on working relationships. *Policy instruments* are internal and external operational mechanisms and tools used to deliberate policy options; and the resource conditions needed to reach a policy outcome. Here, policy instruments can be those in Beijing and/or from the MER systems.

Policy goals are the short- to medium-term ambitions of the national government which may include targets and aims from five-year development plans or global commitments, among others. As such, it pre-sets the boundaries and parameters of preference formation. Similarly, *national objective* regards the ultimate interest and aim of the government to which defines their (business) model of governance and justification for their political legitimacy. Like policy goals, this factor sets the general boundaries of preference formation. But unlike policy goals, these boundaries are more expansive in coverage as it concerns the government's long-term ambitions. In any case, the decision-makers are concerned about whether a policy initiative is of the interest to

the country; i.e., does it serve its goals or objectives? Is the proposed preference or negotiation approach costly or beneficial to its goals or objectives? Important to note that the situational factors are not fixed as starting conditions; rather, they are broader ulterior contexts to which external conditions (i.e., economic downturn, or newly enacted regulation) may influence the dynamics not only at the outset but at any time during the engagements, thus opening up new possibilities or posing unanticipated challenges. The offshoot implication is that situational factors circumscribe the China-MER engagement and affects the level of influence the MER agencies can assert.

The *social instigators* constitute the second set of contingencies. The social instigators refer to the internal drivers that are behavioural and psychological by nature, and can either enhance or undermine the impact of the China-MER engagements, especially the influence of the MER agencies. The drivers include the ability of the MER agencies to build *trust* with the Chinese decision-makers, enhance their *expectations* on the norm of reciprocity, and promote the *personal reputation* of the Chinese decision-makers and negotiators in the multilateral arena. In an ideal world, where Chinese decision-makers have high expectations that other negotiation parties will adopt the norm of reciprocity, there is an incentive for the Chinese negotiators and decision-makers alike to acquire positive and respectable personal reputations as promise-keeping and action-performing global actors. Thus, trustworthy individual decision-makers who trust policymakers of other countries with a reputation for being trustworthy can engage in mutually productive negotiated exchanges, so long as they limit their dealings primarily to those with a reputation for keeping promises. As such, a personal reputation for being trustworthy becomes a valuable asset. Similarly, developing trust in an environment where others are expected to be trustworthy is also an asset. Trust is the expectation of one person about the actions of others that affects the first person's choice, when an action must be taken before the actions of others are

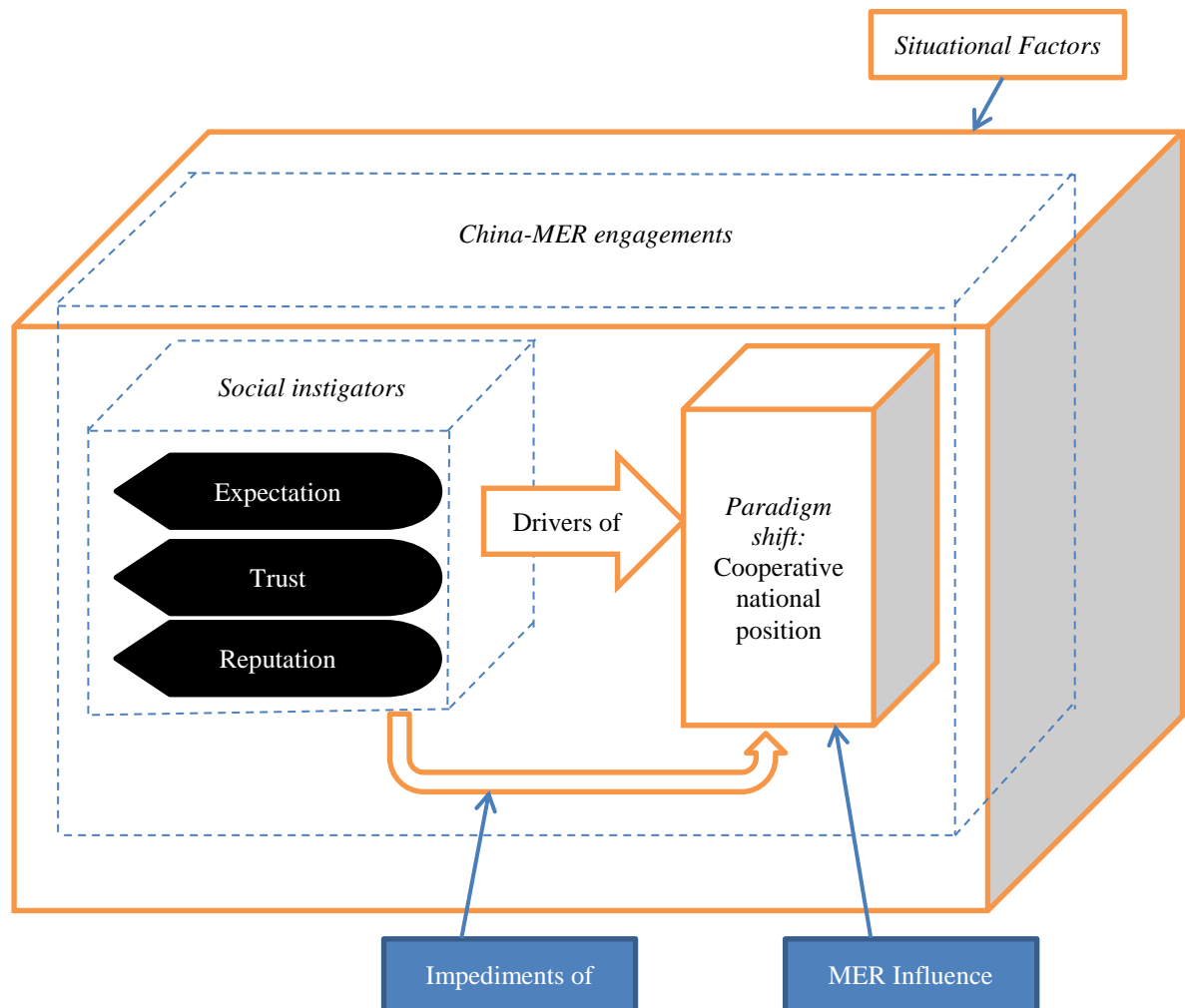
known (Dasgupta, 1997: 5). In this context, trust affects whether China is willing to initiate cooperation based on the expectation that it will be reciprocated by its negotiating counterpart nation-states. Thus, the trust in other countries, the investment in a trustworthy reputation of the individual decision-makers, and the expected probability that other countries will use reciprocity are intricately interlinked. This mutually reinforcing core is affected by structural variables as well as the past experiences of the Chinese decision-makers.

In reality, the level of expectation and trust held by the Chinese decision-makers are typically low because of unpleasant past experiences. For this reason, individual decision-makers, when abroad, can lack in confidence about their perceived reputation by the international community. Through soft mediatory mechanisms like proximity talks and INPs, the MER agencies have the capacity to improve Beijing's confidence in these three regards and produce outcomes including improved clarity on key issues and concerns; effective management of the differences and negotiation conflicts; enhance trust and mutual respect between the parties; increase social, operational, and decision-making capacities; improve the integration of relevant knowledge into deliberations and decisions; and greater perceived legitimacy within and outside the multilateral processes. Some scholars went a step further to combine these outcomes dynamically with engagement processes, whereby a "virtuous cycle" is set in motion (i.e., Ansell and Gash, 2008; Imperial 2005; Huxham 2003). Upon achieving these outcomes, it is probable that the MER agencies will kindle a reformation in China's negotiation approach from prudent resistance to active cooperation.

The claims of this section are depicted in *figure 8.3*. The diagram has three nested dimensions, shown as boxes, representing the general systemic context. The outermost box, depicted by solid lines, represents the surrounding *situational factors* which are the national objectives, policy goals, policy settings, and policy instruments.

These situational factors generate opportunities and constraints for the MER agencies' influence. From the outset, and over time, situational factors affect the dynamics of the China-MER engagements, represented by the first dashed-line box within the situational factors systemic context. Within this box entails the interactions and decision-making processes as depicted in *figure 8.2*. From the China-MER engagements emerge the *consequential incentive drivers*, including expectation, trust, and reputation, which either drive a paradigm shift instigated by the China-MER engagements or impede a cooperative negotiation approach from China.

Figure 8.3 *The Causal Effects of Contingencies*



8.3.3 Implication on policymaking structure

Generally speaking, the process China-MER engagements are expected to influence a decentralisation of the decision-making structure. The thesis holds that regular interactions not only pluralises the range of policy actors and issues involved in the preference formation process, it also alter the government's inter-agency distribution of power by empowering certain individuals and/or bureaucratic entities over others. The thought process is that regular engagements provide the MER agencies the opportunity to build close allegiances with Chinese government agencies. In a decentralised policymaking environment with numerous veto points, the MER agencies become useful empowerment to the related government agencies in the inter-agency bargaining process given their new access to external support, leverage and resources. Thus, through the process of empowerment, the MER agencies weaken the traditional distribution of power and elevate the agencies and actors that are supportive of international initiatives.

Furthermore, the MER agencies promote shifts in domestic policies by promoting change processes, such as the advent of new political agencies, the internal adaptation to the MER systems, and venue change for building expectation, trust, and personal reputation, while undermining stability factors including path dependencies and closed networks. The new actors and ideas that come to dominate the policy system in this phase promote further changes by increasing the potential for new systemic spill-overs and venue changes. This outcome is augmented by the new policy processes set in motion by direct engagements with the MER agencies. In this evolving process, however, two characteristics remain constant. The first is the consensus-based decision-making culture that involves inter-agency discussion and bargaining between the ministerial actors involved. The second is informal politics, which are the inter-bureaucratic allegiances between political actors and their interests. Thus, the suggested

influence is only feasible under the following conditions: (i) when the decision-maker(s) or ministry/commission already wield a level of authority or autonomy in preference formation; (ii) when a bureaucratic entity is in a privileged relation with one or more MER agencies compared to other agencies; and (iii) when a permissive consensus exist in favour of the policies endorsed by the decision-maker of concern.

8.4 Some Further Implications

Besides the theoretical implications, it is important to recognise practical implications of this study. To this end, and based on the findings of the present thesis, some thoughts on China's economic diplomacy decision-making characteristics under the new era of political governance are shared in this section. This is followed by the researcher's views on the most effective ways the MER agencies can assert influence in the future. Additionally, this section examines the relevance and applicability of the findings to understanding the economic diplomacy preference formation of other emerging market economies.

8.4.1 Economic diplomacy with Chinese characteristics

Although it is both tricky and risky to predict the characteristics of China's economic diplomacy in the future, it is expected that China will reinvent itself as an active governor and rule-setter of future multilateral economic negotiations. The philosophies of modernisation and nationalisation are likely to continue in the post-Hu Jintao and Wen Jiabao era. That is, any future national preference and negotiation approach will be designed to serve Beijing's commitment to modernise China, and this is more than likely to remain as its first priority and national objective. Such is already highlighted in the country's 12th Five Year Plan (2011-2015), and emphasised by the new generation of leaders at the 18th Party Congress in early-2013. To this end, China's international

objective will remain with the pragmatic quest for a stable environment needed for effective modernisation and development. In this way, China's economic diplomacy will remain pragmatic, economically-oriented, independent and yet generally disposed toward trying to fit-in with the multilateral economic system. That is why Beijing is likely to continue experiencing institutional adaptation in order to converge with the multilateral processes by transforming their decision-making system from a vertical to a horizontal system, and to ensure that all possible political inputs and interests are considered in the formulation of China's economic diplomacy.

Worthy to note is that national reputation is likely to continue to be in the minds of decision-makers in the future. As William A. Callahan (2010) claims, there is a combination of national pride and national humiliation in the Chinese dual identity that has affected the mind-set of Chinese decision-makers and the wider public. With China's rise, the government has boosted its national pride, but national humiliation has always affected its decision-making. In this respect, China's pride and humiliation are interwoven. While China does promote a positive and proud image of itself, it also presents a very negative view of its relationship with the world based on the history of its national humiliation. China's view of the world and dealings with its neighbours present two images of itself: China as a victim state and China as a great power. Some China scholars (i.e., Guo, 2013) look at the dual identity as contradictions constraining Chinese foreign economic policymaking; i.e., China views itself as a major power and wants to play a global role accordingly, while lacking adequate power to do so. China wants to be fully integrated into the multilateral economic system, while strong concerns over sovereignty makes it difficult for Beijing to embrace some of the mainstream international values born out of Western philosophy. China agrees on a set of principles embedded in the multilateral economic negotiations, while considerations of its national interests cause Beijing to make a pragmatic compromise from time to

time. Beijing has long been accustomed to dealing with foreign counterparts in bilateral settings, but the post-Cold War era is witnessing a rise of multilateralism that challenges China's traditional concepts of diplomacy. In general, Beijing will continue to emphasise reputation-building in the future given its centrality and importance to Chinese politics and its people.

Where there are continuities lies changes. The fact that the government plans to implement administrative reforms indicate several changes that could effectively transform China's future national preferences and negotiation approaches. The first regards changes in the symbolic macrostructure (i.e., ideology) which may have a decisive impact on the decision-makers' interpretation of the internal and external environments at the micro level. Many foreign policy analysts have found a decline or irrelevance of ideology in Chinese foreign policymaking (Guo, 2013). But the qualitative data of this study finds that ideology continues to play an important role in the decision-making process of Chinese economic diplomacy, especially for setting out the principles and policy guidelines. Concepts and slogans are often symbols of ideological orientation and representation of those principles and guidelines. These concepts and slogans are also used by the government to educate the world about itself, establish its international reputation, and justify its negotiation approaches. China have traditionally declaimed to the world that its foreign policy decisions are based on the "Five Principles of Peaceful Coexistence" (和平共处五项原则).²⁸⁵ More recently, "peaceful development" (和平发展) and "harmonious world" (和谐世界) have become slogans under Hu Jintao to guide China's integration with the world. As well, it has offered the world an alternative for a new world order in which all nation-states perceive the value of peaceful development, respect the internal affairs of other nations,

²⁸⁵ This principle refers to mutual respect for sovereignty and territorial integrity, mutual nonaggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence. These principles were originally adopted in 1954 in Mao's China, but have continued to serve the guiding principle of Chinese foreign policy and negotiation behaviour.

and cooperate to create a harmonious relationship with one another (Guo, 2013). At the 2013 18th Party Congress, the new leader, Xi Jinping has further introduced new development strategies and outlook. It is expected that under his leadership, the ideological framework will further evolve. In particular, it will bring about changes in China's foreign policy priorities. It is likely that ideas will serve as the road maps in the future design China's economic diplomacy. As Bernard Giesen (1987: 351) claims, "The symbolic macrostructure can have explanatory emergence in relation to micro-social processes of interaction, whereas practical macrostructure cannot." And as Quansheng Zhao (1996) argues, major orientation changes in the symbolic macrostructure are likely to bring about fundamental and strategic changes in Chinese foreign policy, such as the shift from a "closed" policy under Mao to an "open" one under Deng. Under Xi Jinping, the ideas of "proactivity" away from "modesty and transparent social democracy" away from "asymmetric transparency" are ever more apparent. It is probable that these macro-structural shifts will cause a new policy focus, new national preferences, and a new negotiation approach in the near future.

Second, tactical changes in Chinese economic diplomacy are likely to be governed by the dynamics of a new internal-plus-external institutional macrostructure. That is to say, external agencies such as the Secretariat bodies and Working Groups of MERs are gradually becoming integral policy instruments for the Chinese government. This trend has a direct influence on the rules and norms of political actions and mechanisms in the policymaking processes of Beijing. Furthermore, the institutional macrostructure is also influenced by changes at the symbolic macro-structural level. For example, the enlarged scope of participants in the formulation of China's negotiation positions is not simply an institutional arrangement, but also reflects the changes of basic beliefs in China's political system.

Third, concerns about the Communist Party of China's (CPC) political legitimacy and internal power politics will continue to be a central element in the formation of national preferences. As China transitions away from "strong man" politics to "collective leadership," Chinese decision-making in economic diplomacy is will be evermore influenced by formal and informal channels. Bureaucratic institutions are formal channels by which officials in different sectors within the government have striven to influence the top leadership's decision-making. At the same time, other emerging actors since China's reform have also maneuverer to influence the preference formation process through informal channels. These new actors operate outside the official realm of the decision-making establishment and include not just ministerial actors but also industrial and business actors, financial institutions, energy companies, local governments, research institutions, the media and netizens. These new actors have emerged from the process of professionalisation of the expert-based bureaucratic elite with a higher level of specialised knowledge in world economic affairs; corporate pluralisation with the proliferation of social organisations; the decentralisation of the authority to local authority and local actors in cross-border economic exchanges; and the economic and information globalisation with increased interdependence and pressure on Chinese cooperation and conformity with the international norms. All these actors seek to assert influence on decisions in international economic affairs, which increases the diversity of views and interests in the preference formation processes and makes for an increasing amount of coordination in policy implementation. As a result, the central leadership has been forced to consult more broadly, and consider different views, which puts the formal preference formation process in a position of reacting to issues and challenges imposed by the bureaucratic elites, local governments, society, and global actors, especially when dealing with multilateral economic issues and challenges. This makes establishing robust relations and meso-level networks with

Chinese decision-makers all-the-more important for the MER agencies, given that informal politics tend to affect, sometimes invisibly, the formation of China's national preferences.

Finally, the intertwined picture of the three dimensions of the macro reality opens up the possibility of more alternative and different channels through which decision-makers can consider their preferences and make choices. The growing engagements with MER agencies play a key role in this trend. One of the primary tasks before international economic policy specialists is therefore to explore and examine the opportunities and channels faced by the Chinese decision-makers. These available choices are situational and case contingent, and thereby creating never-ending exercises in the study of Chinese economic diplomacy.

8.4.2 Shuttle diplomacy and INPs as the way forward

In the long-run, it is expected that shuttle diplomacy proximity talks and the INPs will facilitate much more sustainable mediums for the MER agencies to influence Chinese economic diplomacy. As the global nature of economic issues have forcibly entered the international arena, and debates and discussions on economic issues have transpired to greater and more global levels, these mechanisms of influence presents the MER agencies the most relevant and effective roles and mediums to manage and guide future national preference formation and multilateral negotiation approaches. This is due to three reasons. First, future multilateral economic agreements will be determined largely by the nature of the North-South relationship. Whether agreements can be reached largely depends on whether the MER administering the negotiations can coordinate between the polarised camps and construct a common interest. This task generally requires much mediatory efforts of which the relevant tools and settings are typically available from the practices of informal negotiation and proximity talks. In doing so, the

MER agencies will shape the interests and policy directions of China, as it does for other countries, and the best perceived policy option for the common public good.

The second reason regards the social dilemma that characterises China's relationship with the United States (US). The US is the most powerful and the largest developed country with a strong capacity to influence multilateral economic negotiations. Yet, the US is not immune to the changing world order and American policymakers are now influenced by a wide array of forces external to Washington, D.C. These include the rise of the emerging market economies, including China, rising requirements emanating from international treaty obligations, pressures from transnational interests groups and multinational corporations, global civil society, and so forth. In light of the changing world system, the US has begun to propose that other rising powers should also take on the burden of leadership. This kind of argument runs unfavourably in Beijing, a government that considers itself as a developing country. A parallel dilemma can be found in numerous economic negotiations, where the Chinese and American delegations constantly eye each other for their next move. The significance of this mutual tactic was emphasised by numerous interviewed delegates from both countries. The Sino-US prisoner's dilemma has typically been at the centre of negotiation impasse across different arenas. Hence, it is of imperative that the MER agencies play a stronger mediatory role through the mechanisms of proximity talks and the INPs to break the ice between the world's largest and second largest economies. The potential of these mechanisms is concentrated on their ability to improve national expectations for reciprocity, trust, and reputation – factors that have caused negotiation stalemates.

Third, China's perception of the MERs has, for the most part, been characterised with distrust. This is not least because Beijing did not participate in the initial design of the multilateral architectures; and that it is to the present day still characterised by the

values, interests, and norms of the major developed countries. Therefore, Beijing has consistently held onto its scepticism towards the MERs despite its harmonious and encouraging rhetoric. The mediatory roles of these mechanisms have the ability to establish new trust between China and the MERs and demonstrate the interest of these systems to renew their governance in an integrative and incorporated way that also supports Chinese interests and professional culture. As well, these mechanisms enhance the perceived personal and national reputations of China and its decision-makers. For these three reasons, proximity talks and the INPs are likely to enable stronger future impacts. Of course, the activities through the costs-and-benefits calculus, information dissemination, and reputation reinforcements are also likely to have effects but their level of impact is expected to be comparatively less defined than proximity talks and the INPs.

8.4.3 Relevance to other nations

From the policy and methodological standpoints, the findings of this research are useful for developing a more nuanced understanding of the policy effects the MER agencies have on the emerging market economies than is currently found in the literature. For instance, the United Nations Conference on Environment and Development have, through the costs-and-benefits mechanism, played a part in reforming Brazil's traditional resistant climate change attitude to embrace. The traditional attitude in Brazil concerning climate change issues was that sovereignty is the sole defining factor for preference formation. Of course, this position was adopted by all the emerging market economies, especially in the fore-years of negotiations. However, this attitude changed after the United Nations Conference on Environment and Development (Rio 92). Evidence from the meeting suggest that the Negotiation Committee emphasised that Brazil's autonomy could be strengthened if it integrated with the multilateral

environmental regime – the legitimacy mainstream, not by repudiating the social and international pressures to cooperate (Fonseca, 2011). The political benefit was welcomed by Brazil at the time as it undergoes political regime changes from the former military government. Hence, the external force was perceived as a useful leverage for tackling their domestic challenges. As a result, Brazil's former resistance evolved to one that admitted to international cooperation. It hosted the 1992 Rio Earth Summit and became a signatory of the Kyoto Protocol. Moreover, the UN discourse has significantly shaped Brazil's multilateral diplomacy outlook thereafter. This was indicated when the Brazilian government claimed the UN to be at the core of their multilateral ideology (Fonseca, 2011). While it may not be unique to Brazil, it is nevertheless a key to understanding Brazil's multilateral diplomacy. The international discourse, in this respect, have, not only informed, but reformed Brazil's national preferences to a willingness to accept greater responsibilities for the costs of attenuating the effects of climate change, for instance, without abandoning the need to find a balanced and just solution for developing countries.

This leads us to the point that the MER agencies have engaged with the emerging market economies through activities of information dissemination. For example, South Africa has had a history of resource deficiency from human to economic capitals. The South African government often struggled to retain good staff, and in June 2005, the Department of Foreign Affairs was the most understaffed agency within the government. There was a lack of capable personnel for managing global economic affairs; and due to poor information distribution, many ministerial agencies and missions abroad lacked sufficient information flow, and they often had to rely on old information when formulating policies (Landsberg, 2005). Circumstances as such caused the South African government to face difficult challenges in the preference formation process for multilateral economic negotiations. According to an interview

with a former South African diplomat, the MER agencies played very important, though informal, roles in this respect. The decision-makers that had personal contacts with MER agencies had better access to more and new information – the quality of their works was therefore naturally better and more liberal compared to those without similar connections.²⁸⁶ Moreover, it was indicated that the World Bank, for instance, worked closely with members of the policy unit in the presidency, and the Policy Research and Analysis Unit in the Department of Foreign Affairs. These engagements were relatively effective in raising awareness among the policy actors.

The International Monetary Fund (IMF) also enjoyed remarkable influence in the early-1990s disseminated information and policy recommendations to Argentina following the manifesto of a hyperinflation crisis after their transitions to democracy. The IMF succeeded in impressing upon the new government that overcoming hyperinflation required drastic macroeconomic policy corrections. This recommendation prompted the Argentinian President, Carlos Menem, to turn the economic portfolio over to Domingo Cavallo, a technocrat and former central banker, whom he knew held considerably more orthodox economic views that are more in line with the IMF's. After discussions with the IMF agencies, the country decided to opt for exchange-rate based stabilisation, which included a Convertibility Law which established a currency board regime, and fixed the peso at parity with the dollar – a short-term solution that was supported by the IMF agencies for slowing down inflation during a transition (Fang and Stone, 2012).

Brazil and South Africa both attach particular weight to reputation and each has a respective special unit in the office of the Minister of Foreign Relations to oversee reputation-related activities. Brazil's emphasis on international reputation is particularly important in decision-making because of the regime change in the mid-1980s. As Igor F. Fonseca (2011: 387-388) observed, Brazil's "new and essential objective was to

²⁸⁶ Interview with a South African diplomat, Durban, 18 December 2011.

recover its international status and, to achieve this goal, an assertive multilateral attitude would be crucial.” Thus, the country sought to achieve two distinct challenges. First, it sought to transform its negative image – a legacy of the authoritarian years. For many years, Brazilians were viewed as enemies of the environment, and timid in commitments to multilateralism. In response, the Brazilian government began to change its internal institutions and its international conducts for the purpose of bringing itself closer to the principles of international legitimacy in environmental matters. Furthermore, arguments were made by members of the UN that commitments to the multilateral environmental framework will contribute to its reputation-building as it demonstrates Brazil’s awareness of environmental problems and show that the country was open to international cooperation in this area (Fonseca, 2011). Thus, it is imaginable that the MER agencies can have much impact on Brazil’s preference formation through a reputation reinforcement mechanism.

Of course, these mechanisms of influence, when applied to the emerging economies, are not without contingencies. A key reason the costs-and-benefits mechanism worked well in Brazil was because it served their national objectives. That is, it was perceived to serve Brazil’s national development. In his inaugural speech, former President Lula stated that “Foreign policy would reflect the aspirations for change seen on the streets, guided by humanistic perspectives and as an instrument for national development” (cited in Landsberg, 2006). Similarly, the national objective contingency was compatible with the information disseminated by the MER agencies to South Africa. As a country also concerned about development, the African National Congress-led government has since 2000 infused heavy emphasis on multilateral agencies as a strategy for development due to its huge import and positive implications for development.

Meanwhile, Argentina in the late-1990s demonstrates a case where the policy goal contingency undermined the influence of the IMF through information dissemination. By the late-1990s, the domestic economic circumstances shifted in that a policy of exchange-rate based stabilisation was no longer a necessary radical reform proposal. Elections had been waged and won on the basis of the fixed exchange rate, a policy that the IMF criticised as unsustainable in the long-run. The clash of opinions triggered by their incongruent policy goals therefore had the IMF's leverage deteriorate markedly, and its staff found it harder to convince the Argentinian policy actors to change their views (Fang and Stone, 2010).

The South African case projects the significance of the policy setting contingency. While the information dissemination mechanism raised political awareness, the fragmented policymaking structure and processes in the South African system undermined the MER agencies' actual influence as its information were often not disseminated to all the relevant and imminent government agencies with veto power. This goes to show that the fragmented political setting to which information flows can undermine the ultimate impact of the MER agencies. This is also a reflection of the road blocks of path dependency and closed network whereby the Department of Foreign Affairs have demonstrated tendencies to monopolise the policy space, refusing to let new actors enter into the process. Of course, this kind of behaviour is the product of past political legacies to which the Department of Foreign Affairs merely inherited. Other emerging market economies like India reveal similar shortcomings.

In India, institutional disharmony is a major weakness of their preference formation, particularly in the shape of turf battle between the Ministry of External Affairs and the ministries with an economic focus. For instance, the Ministry of External Affairs sometimes swaps posts abroad with the Ministry of Commerce in exchange for placements in that ministry for its officials. As a result, those holding

commercial assignments abroad are answerable to both ministries. The permanent secretary that heads the Ministry of Commerce serves on the Ministry of External Affairs personnel board, which selects officials for sub-ambassador level assignments abroad. But all MER-related issues such as those concerning the WTO are handled primarily by the Ministry of Commerce, which also appoints the envoy handling this subject in Geneva. The Economics Division under the Ministry of External Affairs receives less than fulsome cooperation from the Ministries of Commerce and Industry. The Finance Ministry's Department of Economic Affairs, which handles inbound aid as well as the interface with the World Bank and the IMF, has even less to do with the Ministry of External Affairs. Hence, the Ministry of External Affairs essentially works on closed-shop policies, with no placement among the economic ministries.²⁸⁷ In corollary, India's negotiation postures at the WTO, for instance, are not often sufficiently backed with matching advocacy at the key bilateral capitals; nor is investment promotion activity sufficiently harmonised, producing the "approved-but-not-implemented" limbo. India does not have, as yet, a diplomacy board where the foreign ministry takes the lead in suggesting cohesive actions to autonomous agencies. Instead, actors have to seek harmonisation with their sectoral interests and national priorities through reaching out. Such coordination cannot impose or dictate. Hence, the inter-ministry coordination has been uneven, and sometimes notably absent. In these circumstances, it is hard to imagine the MER agencies holding much capacity to influence these nation-states through information dissemination.

Brazil's diplomatic behaviour often also rests on the policy instrument contingency which serves their national development. The main tools for national development include the promotion of multilateral trade, the building-up of capacities through advanced technologies including alternative energy ones, and the search for productive investments, global and regional integration, and negotiations with other

²⁸⁷ Interview with a retired Indian diplomat, London, 1 February 2013.

blocs and countries (Visentini and Silva, 2010: 55). However, the policy instruments that the MER agencies use to contribute to those tools and the grandeur national objective has at times caused doubts among Brazilian decision-makers. One case in point is the competence of the WTO to manage and oversee the Chair of a DDA panel. For instance, former Brazilian Ambassador, Clodoaldo Hugueneu Filho, secretary-general for Economic and Technological Affairs of the Ministry of Foreign Affairs and main negotiator for the country in the WTO, has criticised various Chairs of the meetings, including the Uruguayan candidature, Perez del Castillo, for steering the 2003 Cancun negotiations to its failure; and finger-pointed at the WTO Secretariat for their inabilities to drive the process with professionalism. The South African government likewise has doubts in the managerial instrument of the MERs and their capacity to adequately manage the multilateral system. These governments are further critical of the MERs' capacity to ensure the major industrial countries, especially, the US, will come to respect the multilateral rules more than they have done so in the past. These concerns were suggested to have prompted hesitation from the South African decision-makers to formulate cooperative national preferences for numerous economic negotiations.²⁸⁸

These uncertainties reflect the salience and importance of the social instigators. The empirical evidence suggests that the MER agencies produced better results in addressing national uncertainties through proximity talks and the INPs. In December 2003, the former WTO Director-General, Supachai Panitchpakdi, travelled to Brazil as special guests and met with Brazilian leaders and ministers. On that occasion, they held proximity talks and discussed issues such as national and international goals, namely the elimination of distorted trade and agricultural practices along with food security. The Minister reiterated the need to preserve the whole of the DDA and emphasised that any reinterpretation or dilution of the mandate would affect the delicate balance among the various negotiation fronts, compromising the focus of the work program. They also

²⁸⁸ Interview with a South African diplomat, Durban, 18 December 2011.

affirmed that an effective liberalisation and reform of agricultural trade would largely contribute to the development goals in the DDA (Visentini and Silva, 2010: 59).

Evidence of the INPs were identified when the WTO Secretariat oversaw numerous technical and political consultations with the G20 group as a means to make the negotiation process more dynamic in light of the stalemate after the Cancun meeting in 2003. These consultations took place in Brasilia (December 2003), Sao Paulo (June 2004), New Delhi (March 2005), Durban (September 2005), and Geneva (October and November 2005). During these meetings, specific proposals were asked to be discussed regarding the WTO negotiations on agriculture, for instance. The results include greater understandings about the intents of other nation-states – hence, new levels of trust, expectation, and personal reputations were established – and an agreement for the way forward (Visentini and Silva, 2010: 58). Using the same indicators for measuring influence, the preceding discussion shows that, in general, due to the constraint of the situational factors, the mechanisms for influencing national preference formation have an *absorption* level of influence. Meanwhile, the proximity talks and the INPs measure slightly above. These outcomes essentially reinforce that of the China case.

As for the long-term consequence of the MER agencies' influence on decision-making structure, the Brazil example suffices evidence that the consequential impact of the Brazil-MER engagements on their decision-making structure is, like China, a pluralisation of actors and a reshaping of the internal distribution of power. For instance, the Ministry of External Relations (or *Itamaraty*) had to accommodate to the entry of new subjects in the international dialogue by establishing new departments (Lampreia and da Cruz, 2005: 108). The increasing technicality of subjects has prompted the *Itamaraty* to hand over some responsibilities to the Ministry of Commerce's specialists and shift its economic diplomacy management to a multi-agency mode where a Trade Council based in the Presidency carries out the inter-

agency coordination process. In the Argentina case, it was also found that the IMF's insistence on the severity of the hyperinflation crisis and the need for radical policy change lent crucial credibility to the domestic policy teams' calls for economic austerity (Fang and Stone, 2010). This is a further illustration of the impact the MER agencies have on the national distribution of power structure.

Although the countries discussed above share a common nickname as the emerging market economies, their political regimes are nonetheless different from that of China's; and their economic structures and governing cultures are in and among themselves deviant. Yet, the level of applicability of the findings based on a study of China is relevant to the other emerging market economies. In the brief discussion here, all country cases showed that the mechanisms of influencing national preference had an absorption-level of influence due to a series of contingencies similar to that of the situational factor taxonomy. Meanwhile, the mechanisms for influencing the national negotiation approaches produced accommodating outcomes because of its ability to embrace and address the social instigators. And as the Brazil example showed, despite its different political system as a democracy – while China's is a socialist model – engagements with the MER agencies triggered the same consequences on Brazil's decision-making structure as was found in the China case. Therefore, the findings and theoretical assumptions yielded in this study significantly embody much resonance and applicability to a range of emerging market economies across the continents of the world.

8.5 Limitations of Study

One key limitation to the present study is a methodological one. Since much of the evidence for and against the primary and secondary hypotheses are spawned from evidence on the micro-processes of the MER agencies' influence on China's economic

diplomacy preference formation, the more access to the details of China's decision-making and the internal operations of the MERs, the better. However, the China case makes this difficult compared to other national focuses such as the US and Europe, where political realities are less conditioned by asymmetric transparency. For this reason, the findings of this research should be taken as relative rather than absolute generalisations.

With this said, and by necessity, the data for the case studies did come from an eclectic mix of sources for the purpose of achieving the closest possible accuracies. The primary basis for the arguments is interviews with climate change and international trade practitioners and specialists from the Chinese government, foreign governments, international organisations, and non-governmental entities (including think tanks, universities, industries, civil society, and journalists). Most of the interviewees have been involved in the policy processes, the interagency discussions, and/or the multilateral negotiations. Generally speaking, the IR and IPE fields of study have undervalued interviews. There are a number of reasons for this, but a primary explanation is a distrust that agents are willing or able to accurately report on their intentions behind an action or the reality of a process. Such reporting may be deliberately deceptive, or exaggerated, or overly modest due to the personality or cognitive abilities of the interviewee. Often, to overcome this challenge, researchers have preferred to face the interpretive uncertainties to deduce intentions from prior theoretical assumptions about the organisational affiliation of the actor, or about his or her material interest (Johnston, 2008: 42). But this is problematic on empirical grounds. In particular, it biases the search for the effects of the MER agencies on the policy interests and preferences of Chinese decision-makers from the outset. True, intentions of appropriateness are difficult to observe regardless of research tactic. But if interviewing is done carefully with attention paid to where the interviewee fits into the

decision processes, with follow-ups, with careful wording of questions, with sensitivity to the interpersonal dynamics between the interviewer and interviewee, with careful observation of the interviewees' body language as indications of honesty, and with triangulation interviews with others, it is possible to reduce some of the measurement error that inheres in using face-to-face self-reporting of events and intentions behind actions.

Still, to be sure, the interview data were cross-checked with information found from personal first-hand observations at a multilateral climate change negotiation (COP17) and the international trade talks (WTO in December 2011). In addition, open-sourced documents and information circulated by Chinese government staff were used. Some are internal circulation analyses and documents, not secret information in theory but nonetheless on average likely to reflect more authoritative views and arguments than official government statements. As well, open-source analyses appearing in specialists' articles in journals or newspapers written for a range of non-governmental and international conferences were used. On the whole, given the limited access to China's policymaking process, the study has accumulated numerous relevant sources to reflect the closest-possible realities that serve the current research puzzle.

8.6 Future Research Directions

The implication of this study and its case studies is a clear understanding about Chinese economic diplomacy in a multilateral setting. Bearing in mind the risks of generalisation about a country with asymmetric transparency, this study keeps its claims modest. Nevertheless, this thesis adds value to the minimal understanding about Chinese economic diplomacy decision-making. Although there is growing literature on China's involvement in MERs, there is still limited insight into China's participation in multilateral economic negotiations. Except for a handful of research, most work on

Chinese political economy focuses on China's relationships with major powers and regional blocs, or the historical perspective of China's integration with the world systems. For instance, Samuel Kim (1998) was the first to alert the field to the importance of examining China's behaviour in international institutions, and have added critical insights into Beijing's worldviews. Elizabeth Economy (1997) and Margaret Pearson (2001) are pioneers in providing evidence about empirical behaviour to test hypotheses and assumptions about how the international institutions may affect what China does. Undeniably, these contributions are critical parts of understanding Chinese political economy. But they are also limited semi-equilibriums in the broader studies of China in the international political economy.

This study follows on the tremendous scholarly efforts of Kim (1998), Harold Jacobson and Michael Oksenberg (1992), Economy (1997), Pearson (2001), among others. But unlike these studies, it focuses primarily on the application of a combination of convention and unorthodox analytical tools from a variety of theories to so-called hard cases of MERs. This thesis highlights four dimensions on which the economic diplomacy field in China studies has generally lacked attention. The first is the processes by which China's international economic policy's ideational base and its interests may change as a result of engagements with external actors (i.e., through costs-and-benefits calculation, information dissemination, reputation reinforcement, proximity talks, INPs, and side-payment bargaining). Second, the interests that are hard to observe but appear critical for Chinese leaders when they calculate trade-offs from cooperation (i.e., national and personal reputation). Third, the internal and external motives that are contextual, instrumental, and psychological by nature and that weigh the plausibility of cooperation from the Chinese decision-makers. Fourth, the causal relationship between the China-MER engagement and the evolution of China's decision-making processes and the actors and issues that becomes integral structural

assets. The hope of this study is that future policy actors and China enthusiasts alike can apply the thought processes and theoretical logics introduced in this study to predict future strategies for cooperation with the Chinese government as part of the international efforts to establish new public goods critical to the development of the international economic system.

This study, of course, only looked at a relatively small part of the totality of Chinese economic diplomacy and its transformation over the recent decades and in the years ahead. Can the cases examined in this thesis explain anymore more general about other areas of Chinese economic diplomacy not just at the multilateral level but on a bilateral or regional level? Are the cooperative tendencies and the related contingencies examined in this study representative of China's cooperation in other areas? And how applicable and relevant is the model developed in this research to other developing and transition countries beyond the emerging market economies, such as that of the African and the Central American countries? These are pertinent topics for future research.

Further efforts should also be made to the social psychological factors that drive or undermine cooperative policy outcomes in China. Are there identifiable institutions, be it international or domestic, which could help hypothesise the influence of the social psychological factors as new definitions of interest and policy tools for economic diplomacy? Are there identifiable policy processes that allow these factors to impact China's external negotiation behaviours? Can one also identify the domestic institutions that contribute to the hypothesisation of the MER agencies, as agents of enhancing the social psychological factors, in shaping the attitudes of the Chinese decision-makers that might be resistant or enhancing to the mechanisms of influence? Can one hypothesise about the kind of hybridity and/or level of resistance that these competing mechanisms produce in the Chinese economic diplomacy decision-making? These questions constitute a research agenda for future testing, and its contribution will

be critical to the theorisation of Chinese economic diplomacy as well as that of other (especially developing) countries.

Finally, the integrative agenda introduced in this chapter raises future areas of theoretical research for the study of Chinese economic diplomacy. New attention should be paid to the structural and substance aspects of the model to increase its applicability to policy realities. Here, it is important, to acknowledge again the limit of this study – that there is not yet sufficient access to empirical micro-level material to cover a thorough application of this model, to fully cover the interactions between different levels with regard to diplomatic policy choices, or the impact of the China-MER engagements. In the future, it will be beneficial for China scholars to further build on this theoretical agenda through similar research.

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