CHAPTER 4

American Threats and U.S.–China Negotiations over Most-Favored-Nation Status and Market Access

This chapter assesses the influence of complementary trade structure on negotiation outcomes by examining trade disputes between the United States and China over MFN status and market access issues. While the primary focus of this chapter is on U.S.–China negotiations, I also supplement the China cases with a brief discussion of U.S.–Brazil negotiations over informatics in the mid-1980s to show that the pattern of interest group coalition generated by complementary trade structure is not restricted to a country such as China, which not only has a large internal market but is also undergoing a transition from a closed economy to a market system, which tends to produce greater uncertainty dampening American businesses' opposition to the sanctions strategy. All of these cases lend support to my argument that complementary trade can give rise to a powerful import lobby opposed to trade sanctions, thus reducing the credibility and effectiveness of American pressure.

Since the late 1980s, the question of whether to renew China's MFN status has occupied center stage in U.S.–China economic relations. Given the tremendous pressure exerted by Congress and various domestic constituents to get China to adjust both its economic and human rights policies seen as detrimental to American interests, and in view of the power asymmetries between the two countries, one would expect that the United States should have had considerable success securing Chinese compromises. But has it? Has Beijing made substantial modifications in its trade practices in response to American pressure?

If we examine the period when the United States threatened to revoke China's MFN status to obtain *unilateral* concessions in such issue areas as human rights, trade, and weapons proliferation, the compromises won by the United States over many years, measured against the original American demands, have been paltry. In each of these issue areas mentioned, the United States has by and large failed to obtain the desired concessions. While the Chinese were perhaps most unyielding on the human rights issue, their responses to the other *economic* demands that Washington made under threats of MFN revocation (including providing better protection for IPR and removing trade barriers) were equally disappointing. Although, with the conclusion of the U.S.–China bilateral agreement on terms for China's accession to the WTO in November 1999 the United States does seem to have won a significant market opening in exchange for Chinese firms' greater access to the American market,[1] it seems fair to say that America's unilateral sanction threats against China have yielded only suboptimal results. As one China scholar summarizes the MFN debate:

> The process has produced virtually no discernible change in Beijing's policies and has weakened the elite and popular base of those in China most inclined toward genuine reform; it has locked successive administrations and Congress in unproductive debate annually for eight years; it has encouraged presidents to make commitments they cannot keep; and all this has made U.S. administrations look impotent to Beijing and dangerously unpredictable to allies and friends in the region and throughout the world. In short, the MFN debate has been the poorest imaginable way to make coherent policy or to be credible to Beijing.[2]

America's attempt to tackle pervasive market access barriers in the Chinese market in the early 1990s through threats of retaliation under Section 301 of U.S. trade law has similarly encountered a fair amount of Chinese resistance. In 1991, to exert more focused pressure on the Chinese on market access issues, the United States initiated a Section 301 negotiation, separate from the MFN process, and threatened sanctions against Chinese exports unless Beijing agreed to relax various quantitative restrictions, dismantle technical barriers to trade, and improve the transparency of its trade regulation. Although Beijing agreed to make its trade regulations more transparent and to cut tariffs on a wide range of U.S. goods in a bilateral market access accord in 1992, the agreement signified the beginning, rather than the completion, of the process of moving China's foreign trade regime closer to international norms and practices. Later China threatened to halt the implementation of the 1992 agreement for alleged U.S. failure to keep its commitments, instead charging the Americans with impeding the development of bilateral trade relations by keeping in place the post-1989 sanctions and by failing to keep its commitment to support China's bid for WTO membership.[3] In the end, Washington had to once again threaten sanctions to get Beijing to honor its promises and was unable to achieve concrete results in the market access talks. Partly because of the continued existence of trade barriers, American trade deficits with China continued to soar in the 1990s.

In view of the inability of American trade pressure to effect change in China, it is intriguing to ask why the United States, as the world's largest economy and as the country that provides most of China's hard currency, has encountered so much resistance from Beijing? The following empirical study finds answers to this question in the realm of domestic politics: trade complementarity between the two nations structured political forces in the United States in a way that prevented the emergence of a unified and coherent *American* position credible to Beijing. Whenever human rights advocates, groups concerned about China's protectionist trade policies, or the intellectual property industry tried to strike out against China, they met uniform resistance from other business groups that favored continued normal relations with China. The existence of a large import-using constituency consisting of American importers and retailers of such Chinese products as footwear, toys, and apparel provided a powerful counterbalance to forces supporting MFN revocation. Moreover, the executive branch, due to its institutional prerogatives and priorities, tended to emphasize the importance of a viable commercial relationship with China and thus opposed the tough approach advocated by Congress. These divisions in American politics sent highly mixed and confusing messages to the Chinese, sharply reducing the credibility of American threats.

The U.S.–Brazil informatics dispute similarly demonstrates how complementary trade structure between the two nations created a strong import lobby that eroded U.S. credibility. In this case, resistance by importers of such Brazilian products as footwear, orange juice concentrates, and auto parts aggravated the divisions that exporters with different market positions held with respect to the Brazilian market, contributing to the difficulties of getting Brasília to modify its restrictive informatics program. In the case studies that follow, I will employ the process-tracing method to illuminate these competing interests and pressures in American politics. By weighing my argument against other competing explanations, I will try to show that there exists a causal relationship, not simply a statistical correlation, between trade structure and threat credibility.

American Threats and China's MFN Status

Tiananmen and the Initiation of the MFN Debate

Up until the advent of the Tiananmen incident in 1989, China had been able to secure the annual renewal of its MFN status on the basis of a presidential waiver of the freedom of emigration requirements and of subsequent congressional consent, as required of all communist countries, under the Jackson-Vanik amendment of the Trade Act of 1974.[4] It was only in 1989, when the Tiananmen incident shattered a decade of consensus on China policy in the United States, allowing a wider array of domestic interests access to the decision-making process, that the U.S. Congress turned to the annual renewal of China's MFN status as the key to influencing the general direction of U.S.–China policy.[5] Each year between 1990 and 1994, the U.S. Congress attempted dozens of pieces of legislation that would have made the continuation of China's MFN status contingent upon presidential certification in the areas of human rights, trade, and arms proliferation.[6]

However, none of these threats has been materialized. Nor did China's performance in the targeted areas of trade, human rights, and weapons proliferation live up to American expectations. Although President George H. W. Bush repeatedly vetoed legislation seeking to revoke or to attach conditions to China's MFN renewal, by the end of his administration Chinese performance in the targeted issue areas remained far from satisfactory.[7] Even the coming to power of Bill Clinton, who had accused President Bush of "coddling the dictators" in Beijing during his presidential campaign, did nothing to reverse this situation. Clinton soon backed off from his campaign promises and, on May 28, 1993, signed an executive order linking trade preferences granted by the United States to China's human rights behavior. While the executive order was intended to be sufficiently tough on Beijing without breaking the back of U.S.–China relations, it again proved ineffectual. In the face of continued Chinese resistance, Clinton had to acknowledge the futility of attempts to force changes in China through the leverage provided by MFN status, signing an executive order in 1994 "delinking" China's

MFN status with its domestic practices. In the executive order, Clinton acknowledged that

> The Chinese did not achieve overall significant progress in all the areas outlined in the executive order relating to human rights, even though clearly there was some progress made in important areas. . . . I believe . . . that we have reached the end of the usefulness of that policy, and it is time to take a new path toward the achievement of our constant objectives. We need to place our relationship into a larger and more productive framework.[8]

That the MFN sanction threats against China were so ineffective was not surprising if we take into consideration the divisions in American politics on the MFN issue. First, since the United States was no longer a major producer of such goods as apparel, toys, shoes, and consumer electronics, there was a large constituency in America heavily dependent on imports of these materials. These import-using interests strongly opposed MFN conditionality or withdrawal, arguing that such a measure would impose significant costs on American consumers and retailers. Second, there existed considerable differences between the policy preferences of the executive and legislative branches. President Bush, for example, had consistently opposed efforts to attach any conditions to China's MFN renewal. His repeated assertion that he would veto any legislation denying or placing further conditions on China's MFN eligibility made any potential legislative action on conditionality appear more symbolic than substantive. Moreover, even though President Clinton had initially taken a tough stance on MFN, he was soon forced by the reality of U.S.–China relations to reverse course and to pursue a more realistic policy with China. That China did not pose a competitive challenge to American industries prompted the executive branch to accord higher priority to America's overall economic and strategic relationship with the Chinese.

The net effect of these competing forces in American politics—the trade lobby's campaign for normal trade relations and the different policy orientations of the executive and legislative branches—was to substantially reduce the effectiveness of U.S. threats against China. They contributed to Beijing's perception that it was highly unlikely that the United States would carry out its threats and that therefore China did not need to kowtow to American pressure. In the end, Washington was forced to acknowledge that China had made only minimal concessions.

The China Trade Lobby

An important factor weakening the credibility of American threats was the business community's active support for continued MFN tariff treatment for China. As the debate over MFN status unfolded, affected interest groups rushed to Capitol Hill to make their cases. While human rights advocates, trade unions, and groups concerned with China's unfair trade practices lashed out at China, a large pro-MFN coalition had been formed to push for unconditional renewal of China's trade status. The pro-MFN forces, composed of toy makers, apparel manufacturers, farmers, and aircraft manufacturers, as well as businesses in Hong Kong, launched a massive campaign defending U.S. trade with China, swamping Capitol Hill with letters and position papers detailing the damage that denial of MFN status or its equivalent—conditional MFN—might inflict on the U.S. economy.

What was most distinctive about this pro-MFN coalition was that it united both American exporters and importers behind a major trade expansion. Because the United States exported to China very different commodities from what it imported from that country (see figure 4.1, which depicts the lack of overlap between the top five commodities the United States exports to and imports from China),[9] American importers of toys, apparel, footwear, electronics, and other consumer goods coalesced into a major political force actively opposing the imposition of sanctions that could adversely affect their sales in the United States. At the same time, American investors and some exporters with no direct stakes in using MFN to open the Chinese market opposed the MFN linkage, a linkage that, they worried, could hurt both their exports to and their investment in China by creating more uncertainty in the business environment. As a result, importers and many businesses with an interest in the China market mobilized early in defense of China's trade status.

In 1991, large companies and leading trade groups—including the Emergency Committee for American Trade (ECAT); the U.S. Chamber of Commerce; the five-hundred-member National Foreign Trade Council; and the U.S.–China Business Council, a Washington-based group representing the interests of companies doing business with China—formed an umbrella organization, the Business Coalition for U.S.–China Trade, in support of President Bush's position for unconditional extension of MFN status. By 1996, the coalition had expanded to include over eight hundred member companies and trade associations heavily involved in trade with China. The composition of the

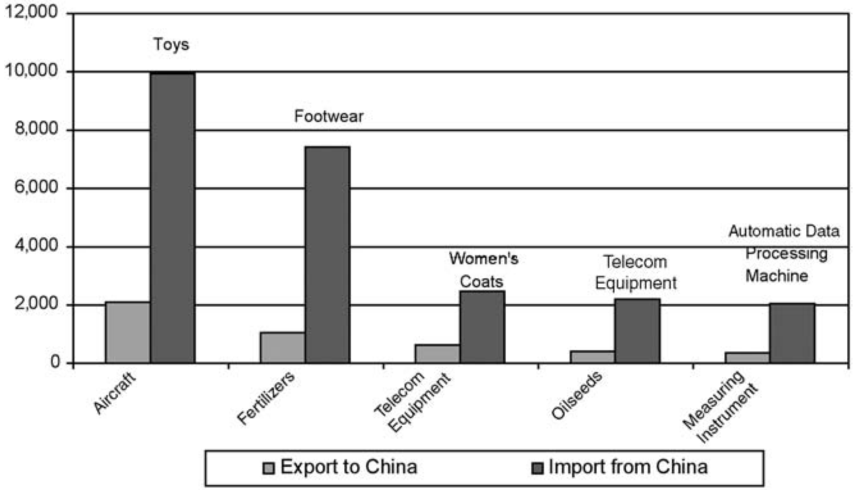

FIGURE 4.1. Top five commodities in U.S. trade with China (SITC-3), 1997–2001 (in millions of dollars). Data from U.S. Department of Commerce, International Trade Administration, *U.S. Foreign Trade Highlights.*

association ranged from firms importing labor-intensive manufactured goods made in China to exporters of high-tech, agricultural, aviation, telecommunications, and transportation goods.[10] Also outspoken on the MFN issue were business groups representing both American exporters and importers doing business with China, such as the American Association of Exporters and Importers, the National Association of Wheat Growers, the North American Export Grain Association, and the Toy Manufacturers of America.[11]

In dollar terms, U.S. companies importing from China had a higher stake in the battle over MFN status than did firms exporting to China. For the three years before 1991, American exports to China held at roughly $5 billion a year, while Chinese exports to the United States increased rapidly during the same period, reaching a record high of $15 billion in 1990.[12] For American importers, MFN status could be a crucial competitive advantage. If MFN status were revoked, U.S. tariffs on Chinese-made toys, footwear, apparel, and other goods would soar to prohibitive levels. For example, in the absence of MFN status, the tariff on imported toys would soar from 6.8 percent to 70 percent.[13] Terminating MFN status would therefore require a vast number of U.S. importers and retailers to find new sources for goods upon which many low-income consumers had come to rely. For many smaller manufacturers that simply could not find sources elsewhere, the effects of MFN revocation would simply be devastating. Even large manufacturers and retailers that could shift some of their manufacturing to other countries would have to bear added costs of production as new factories would have to be reconfigured for new lines and increased output.

Toy makers and apparel manufacturers argued along these lines. For example, at an economic conference held in Little Rock in December 1992, soon before Clinton's swearing-in, Jill Barad, the president and chief executive officer of the American toy company Mattel, explicitly warned Clinton of the repercussions of MFN withdrawal on American toy makers. She argued that the sanctions would cost companies such as Mattel significant market shares as they would raise tariffs on toys imported from China to a prohibitive 70 percent level. It was further asserted that the damage of MFN withdrawal would not be limited to toy manufacturers but would also extend to American shoe companies, which acquired 60 percent of their products from China, and textile importers, which imported nearly $4 billion of textile and apparel from China each year.[14] In addition, retailers such as Toys "R" Us and J.C. Penney contended that trade restrictions would hurt American consumers by driving up the cost of Chinese goods and that low-income consumers in particular would bear a disproportionate burden in such an event.[15]

Footwear distributors echoed these concerns, pointing out that China was the biggest supplier of imported footwear to the United States, accounting for 38 percent of all shoes sold in the United States in 1990 and 63 percent of all low-priced shoe imports.[16] China's share of the American footwear market increased further in the early 1990s so that by 1994 China accounted for one of every two pairs of shoes sold in the United States.[17] Footwear Distributors and Retailers of America argued that, since it was difficult to find competitive alternatives for footwear outside of China, American consumers, particularly low- and middle-income families who depended on China-produced shoes, would be the real losers should China lose its MFN status.[18] Athletic footwear companies such as Nike shared this view, as the company sourced about one-third of its shoes in China.

While importers emphasized the costs of MFN denial to American consumers, exporters, especially those that faced no market impediments in China, focused on the consequences of a closed Chinese market to the United States. While some exporters such as the IPR industry made a successful case for applying the leverage of MFN to secure Chinese agreement to provide more adequate protection for American IPR, many other exporters with no direct stakes involved instead focused on the consequences of a closed Chinese market to American interests. They emphasized that, since China had become one of the fastest growing American markets, rescinding MFN status and the subsequent Chinese retaliation would result not only in lost sales over the short term but also in lost markets to European and Japanese competitors, forcing a cut in U.S. production and employment.[19] Importantly, if the United States made good on its promises to impose sanctions, likely Chinese retaliation would only limit American firms' access to the Chinese market.

U.S. aircraft manufacturers, which held 76 percent of the huge Chinese market, would face severe losses if China's trade status were revoked. Since the late 1980s, companies such as Boeing and McDonnell Douglas had been courting Chinese authorities, bidding to supply China's domestic route airplanes well into the next century. By 1993, China was already Boeing's biggest overseas market next to Japan, with one of every six aircrafts produced by Boeing going to China.[20] Both companies were worried that withdrawal of MFN status and subsequent Chinese retaliation would undercut their competitive advantage, forcing them to cede market shares and suffer an estimated loss of $41 billion in deliveries to European aerospace companies at a time when transatlantic competition in the aerospace industry was heating up. In light of these potential costs, the aerospace industry began early to urge Congress to renew China's MFN status, arguing that denying MFN status to China would not only close off the opportunity to cut lucrative deals with the Chinese but also cost jobs at home.

Telecommunications and consumer electronics companies such as AT&T, General Electric (GE), IBM, General Motors (GM), and Motorola all made China their top international goal. Companies such as GE were on the outlook for increased sales in a wide range of products, including aircraft engines, power-generation equipment, locomotives, medical equipment, plastics, and electric lighting.[21] GM's joint venture in northern China expected to be assembling fifty thousand trucks by 1998. For Motorola, China already was its biggest market outside the United States by 1993 and was expected to deliver a 20 to 30 percent annual growth rate in phone sales for the next decade.[22]

Similarly, AT&T, which had been locked out of the Chinese market for years, was able to conclude a landmark deal in 1993 to help upgrade China's overburdened telecommunications system. The deal represented an important breakthrough in the company's plan to tap into a Chinese market projected to expand tenfold by the year 2000. Furthermore, the increase in Chinese purchasing power following the implementation of reform led to drastically expanded opportunities for U.S. consumer-product companies, substantially raising their expectations about the China market.[23]

In short, U.S.–China trade relations had expanded so rapidly that by the early 1990s a broad spectrum of American business had developed a huge stake in the China trade. This pro-MFN coalition maintained that ending MFN status would inaugurate a trade war with China that would increase the price of Chinese imports to American consumers, reduce American exports, yield market shares to foreign competitors, and threaten the viability of American investment in China. As outlined in a position paper prepared by the U.S.–China Business Council, revoking or conditioning MFN status would likely increase consumer prices and the U.S. trade deficit, lead to the loss of a major export market and over one hundred thousand American jobs, dampen the nearly $5 billion investment in China, and seriously harm Hong Kong and the semi-private sector in South China.[24] In light of the cost of revoking China's MFN status, business groups strongly urged the government to adopt alternative measures to influence Chinese behavior and focused in particular on influencing votes in the Senate to help sustain Bush's veto on conditioning MFN status.[25]

While business groups were relatively restrained in their campaign for unconditional MFN status under Bush by strongly negative media coverage of developments in China and by unfavorable popular opinion in the United States, they became increasingly assertive and vocal in pressing their demands during the Clinton administration. In 1992, following Deng Xiaoping's visit to southern China, Beijing abandoned the austerity measures adopted in the aftermath of Tiananmen in favor of a more open, liberal economic policy. This reorientation of economic policy brought the Chinese economy out of the recession toward a period of more sustained economic growth. China's phenomenal annual growth rates of 12 to 13 percent between 1993 and 1994 produced a spurt in U.S. business activity in China. This development reinforced U.S. business's perception of the importance of the Chinese market,[26] causing business lobby to intensify during the Clinton administration.

Business strategy between 1993 and 1994 focused on exposing the electoral consequences of the MFN issue to elected officials. In 1993, with the election for the entire House of Representatives (and one-third of the Senate) approaching, more than four hundred California companies in the Business Coalition for U.S.–China Trade wrote to President Clinton reminding him that MFN revocation would put at risk California's $1.7 billion in exports to China and the thirty-five thousand jobs generated by the China trade.[27] In April 1994, nearly eight hundred representatives of large and small businesses, trade associations, and consumer groups wrote to Clinton reminding him that a failure to renew MFN status to China would "jeopardize over 180,000 high-wage jobs."[28]

The National Association of Manufacturers (NAM), an organization representing 1,250 American manufacturers that account for roughly 90 percent of U.S. industrial output, maintained that Clinton's decision would have a "profound impact" on U.S. firms, workers, and industrial competitiveness. The organization released a statement calling MFN "the minimum requirement of meaningful economic exchanges between the two countries." Since MFN was the "*sine qua non* of the U.S.–China commercial relationship," NAM argued, "it cannot be the basis for the exercise of U.S. leverage within that relationship."[29] NAM's active opposition to sanction threats against China contrasted sharply with its attitude toward U.S. trade disputes with Japan. As we will see in the next chapter, when the United States threatened trade sanctions against the Japanese for their protectionist practices concerning supercomputers and satellites under Super 301 provision of the U.S. trade law, NAM turned out to be one of the foremost advocates of threats to impose sanctions against the Japanese. Since many of its member companies representing a broad range of industrial sectors were confronted with stiff Japanese competition, NAM supported the threatened sanctions, which, if carried out, would help to bring down the level of competition that NAM members faced in both the Japanese and U.S. domestic markets.

Similarly, U.S.–China Business Council president Donald Anderson, whose association represents about 200 American businesses in China, testified before a panel of the House Foreign Affairs Committee that withdrawing or conditioning MFN status "would be a recipe for disaster for U.S. workers, consumers and employers."[30] In May 1993, the business community sent Clinton a letter signed by 298 companies and 37 trade associations opposing any conditioning or compromising of MFN status. Prominent were firms such as Boeing, GM, AT&T, Coca-Cola, Caterpillar, and IBM, which feared loss of current and future export markets. Also active were wheat growers and footwear retailers. The latter, which "flooded the White House with letters from thousands of shoe store managers," argued that they simply did not "have any leverage" with China, since few companies had the luxury of pulling out of China or of having trade with China cut off.[31]

Business interests were careful to supplement their lobbying campaign with efforts to influence public opinion. For example, when Chinese president Jiang Zeming attended the Asia-Pacific Economic Cooperation (APEC) leaders' meeting in Seattle in November 1993, his visits to the Boeing aircraft production facility and to a working family's home received extra media coverage. Following Jiang's visit, Representative Jim McDermott, whose district is home to thousands of Boeing employees, submitted a letter to President Clinton signed by 106 congressional colleagues in May 1994.[32]

At this time, forces that favored revoking or placing conditions on China's MFN status were mainly to be found in a small number of U.S. industries hurt by the China trade (e.g., the textile and IPR industries), human rights and religious groups, conservative-leaning organizations, and some Chinese dissidents. While these groups held considerable sway in the early stages of the debate, their influence soon vanished because of the lack of financial strength and organizational cohesion. Importantly, even though these groups shared a common concern with China's offensive domestic policies, they often had different policy preferences due to their different ideologies and worldviews, which severely undermined the coalition's effectiveness and strength.[33]

On the whole, the China trade lobby achieved a considerable amount of success in pushing for its policy agenda. The coalition had been trying to reiterate to the White House the importance of maintaining a strong U.S. commercial relationship with China, to convince members of Congress to support an executive branch–led China policy that would not pivot on the MFN issue, and to urge the Chinese government to continue talks with the United States on the three key issue areas. Their active lobby not only helped to influence a number of congressional members' position on the MFN issue but also contributed to Beijing's perception that it had active supporters within the United States. Knowing that there was a large constituency in the United States that had vested interests in preserving China's MFN status, Beijing could afford to resist American demands. The Chinese government capitalized on its leverage on several occasions, explicitly warning that U.S. businesses would suffer in the event of MFN withdrawal. Beijing's threats turned out to be entirely credible to the American business community. Given the business groups' divergent views on the MFN issue, there is little wonder that America's high-profile threats to revoke China's MFN status did so little to induce Chinese concessions.

Institutional Divisions under the Bush Administration

Differences between the executive and legislative branches over China policy goals and priorities further complicated the task of using aggressive negotiation tactics to elicit change in Chinese policies. While Congress repeatedly pushed for measures to punish China, the Bush administration consistently demonstrated a strong willingness to preserve China's normal trade status. The differences between executive and legislative preferences began to surface soon after Tiananmen. In the wake of Tiananmen, President Bush and his aides played a leading role in designing U.S. policy response toward the crisis. Essentially, Bush pursued a two-pronged strategy for dealing with the Chinese government: at the same time as he sought to avoid imposing what he saw as overly stringent measures on China demanded by Congress, interest groups, and the media, he privately pressed the Chinese authorities to take actions to improve the strained U.S.–China relationship.[34] Throughout the year, the administration adopted a considerably "lenient" China policy, as reflected by his decision to send two secret delegations to Beijing in the immediate aftermath of Tiananmen, to lift a number of sanctions soon after they were imposed on Beijing, to veto the Emergency Chinese Immigration Relief Act, and to adopt a low public profile on the issue.

In late 1990, when Congress refocused its attention on China's trade status following the conclusion of the Gulf War, the Bush administration became more attuned to the need to take tougher actions to address the three key issues in order to mollify congressional frustration and to avoid legislative restrictions on Chinese exports. But this modus vivendi did not in any way diminish the importance of continuation of China's MFN status and the policy of engagement as the centerpiece of Bush's China policy.[35] At the same time as Bush made public announcements enunciating both the economic and political reasons for preserving China's preferential trade status,[36] the Bush administration adopted a series of carefully orchestrated actions designed to demonstrate its resolve to deal with China's offensive policies in an attempt to send a clear signal to Congress and the public that the three targeted issue areas were at the top of the administration's agenda and that the executive was pursuing a vigorous dialogue with

Beijing on these questions.[37] Furthermore, to defeat congressional legislative attempt at conditional MFN status, the Bush team both mobilized societal groups interested in preserving U.S.–China trade to press congressional members for unconditional MFN status and went out of its way to persuade Republican senators to vote in line with the president's position. Due in large part to its active defense of China's unconditional MFN status, the White House in the end managed to garner enough support in the Senate to sustain a presidential veto.

The tug of war between the president and Congress intensified in 1992. As Congress became increasingly impatient with the Chinese government and approved two bills that would have attached conditions to China's MFN status renewal in 1993, the Bush administration tapped all available resources to muster enough support to sustain presidential vetoes of the bills. The Bush administration's opposition to congressionally mandated conditions was above all rooted in its perception of the significance of a viable U.S.–China commercial relationship to long-term U.S. interests. From the Bush team's point of view, revoking or conditioning MFN status would have reduced the volume of bilateral trade, cost the United States a major overseas market, and damaged the reputation of the United States as a reliable trading partner. If MFN status were withdrawn, Chinese goods would be subject to tariffs five to ten times as high as when the status was retained, significantly reducing Chinese exports to the United States and imposing substantial costs on American importers, retailers, and consumers, particularly those who relied on China's low-end products. The Chinese retaliation provoked by the U.S. sanctions would in turn significantly reduce American exports to China, costing the United States a good number of jobs and large export contracts to its European and Japanese competitors. This reduction in bilateral trade and the resulting downward spiral in bilateral economic relations would likely exacerbate America's overall trade deficit, reduce further the flow of U.S. foreign direct investment into China, and negatively affect the most economically dynamic areas in southern China.[38]

In addition to voicing these economic considerations, administration officials repeatedly affirmed that a comprehensive and institutionalized economic relationship with China would contribute to the stabilization of Asian affairs as well as a balanced global strategic posture. Bush judged that, even though the end of the Cold War might have reduced China's importance as a lever against the Soviet Union, China remained important to the U.S. leadership role in the emerging world order because of its size, location, and potential impact on world developments.[39] In other words, the Bush team believed that the deterioration in bilateral economic and political relationships that would result from conditioning China's MFN status would significantly affect the ability of the United States to develop strategic cooperation with Beijing at both the regional and the global level. Since administration officials did not view China's trade practices as directly threatening the viability and survival of American industries, considerations for the overall economic and political costs of disrupting trade with China prevailed in the Bush administration's decision to extend MFN status to China without any conditions.

Hence, throughout 1990–92, the Bush administration and Congress had displayed widely divergent policy preferences with respect to China's MFN status. Indeed, Congress and the Bush administration were perhaps more at loggerheads on China than on any other foreign policy issue. The White House's repeated assertion that it did not want to see MFN status for China withdrawn, its firm stance, and its willingness to use the last resort of presidential veto strengthened Beijing's belief that the threat to cut off its MFN status was mere bluff. The White House's willingness to come to the defense of China's preferential trade status, which was rooted in the executive's consideration for broad, long-term American economic and political interests, effectively served as a check on Congress's more hawkish position. Such institutional divisions characteristic of many democratic polities constrained the proclivity of an aggressive legislature to take the dispute to the next level by imposing punitive tariff barriers. Reinforced by the sharply divergent interests held by interest groups, these divisions sent highly mixed signals to the Chinese and substantially reduced the effectiveness of America threats. Thus although the pressure on China to change various domestic politics was greater than any other time since the normalization of U.S.–China relations, in the end Beijing made no fundamental changes in its policies and only offered a few symbolic concessions to appease critics of the executive branch's "soft" approach.[40] As a result, Congress and China critics remained deeply dissatisfied with Beijing's performance in the areas of human rights, trade, and weapons proliferation. They elevated their hope that the coming to power of a new president who had promised during his presidential campaign to get tough with Beijing could help to orchestrate a more unified policy that could exert sufficient pressure on Beijing. The extent to which the United States was able to influence the direction of Beijing's policies under the new Clinton team will be the focus of the next section.

The Clinton Administration and MFN Status: 1993–94

Between his election in 1992 and 1994, President Clinton's approach toward China had undergone a series of modifications such that, by 1994, the Bill Clinton who had accused President Bush of "coddling the dictators" in Beijing during his presidential campaign had gone so far as to abandon the MFN linkage. From hindsight, it appears that Clinton's linkage approach was undermined by internal disagreements. Not only did the China trade advocates campaign aggressively to oppose the linkage policy, but many of those in the administration who had publicly indicated approval of the president's executive order worked diligently to overturn the policy once it came into existence.[41] Domestic opposition not only forced Clinton to reorient his China policy but also contributed to Beijing's belief that the president was not serious about his threat to terminate MFN status for China. The Chinese were able to infer, from what they learned from the American media, that Clinton simply could not get his threats ratified by domestic business groups and his own economic team and that, even in the highly unlikely event that Clinton implemented the threat, the divisions within American society would soon reverse his policy. For example, a week after Secretary of State Warren Christopher's visit to Beijing in March 1994, Chinese foreign minister Qian Qichen reportedly recalled Christopher's meeting with representatives of major U.S. corporations in Beijing, where all the American business representatives "voiced their strong opposition to the revoking of China's trade status."[42] Beijing's calculations turned out to be right. Therefore, despite a temporary toughening of policy, Clinton was soon forced to reorient his China policy. The following section will examine in detail Clinton's China policy and the process leading to his policy reversal to show how highly conflicting forces in the U.S. government undermined the credibility of the MFN threat.

Clinton's views concerning MFN tariff treatment for China underwent a fundamental metamorphosis between June 1992 and May 1993. While Clinton had vehemently attacked Bush's China policy for its brazen "indifference to democracy"[43] and indicated his support for the *legislative imposition* of a broad range of conditions on the extension of MFN status for China during his presidential campaign, the conflicting pressure on his China policy became more intense once he was sworn into office. On the one hand, some congressional members implied that, should the administration's policy fail to satisfy them, they would insist on availing of the opportunity provided by the annual renewal of China's MFN status to moderate Chinese behavior. On the other hand, the business community and many members of the Clinton team emphasized China's economic and strategic significance and positively called for unconditional MFN status. Clinton then began to tread a middle course between these two polar opinions.

By the spring of 1993, President Clinton had come to believe that administratively imposed conditions on future MFN renewal was a suitable compromise between the rhetoric of the campaign and the realities of growing U.S. economic interests in China. On May 28, 1993, Clinton officially informed Congress that he planned to renew China's MFN status. In response to congressional insistence on some form of MFN conditions, however, he signed an executive order making the next renewal of China's performance contingent on evidence of "overall, significant progress" made by China in seven areas related to human rights.[44] In opting for administratively imposed conditions, Clinton adopted an approach that was a notch higher than that of the Bush administration, which repeatedly resisted all efforts by a Democratic Congress to attach any conditions to the annual renewal of China's trade benefits. But by avoiding legislatively imposed sanctions and by relaxing the criteria set for Beijing in the executive order, such an approach also represented a significant moderation of the one advocated by Congress over the past three years.

Events during the following year transpired to undermine the very intent of the executive order. In the first place, much of the business community organized to articulate their interests more effectively to congressional members and to the administration. While corporate America refrained from arguing vigorously and publicly for unconditional MFN status for China in light of highly critical media reports about Chinese policies in the past, the announcement of the executive order left them with no choice but to take a proactive stance on MFN policy and to launch a better orchestrated campaign in order to influence the government's China policy.

Equally important was that President Clinton and many in the administration soon began to realize that the executive order had given insufficient weight to economic interests. In the summer of 1993, in view of the downward slide in U.S.–China relations, Winston Lord, assistant secretary of state for East Asian and Pacific Affairs, began to advocate "comprehensive engagement" with China, a policy that would form the basis for a series of high-level exchanges during the next year. Even President Clinton himself began to have doubts about the executive order soon after its release. For example, through his participation in the APEC meeting and his talks with President Jiang Zemin in Seattle in November 1993, the president came to realize that China was "too big to punish and too important to isolate."[45] The president's doubts deepened with Secretary Christopher's March 1994 visit to Beijing, when Christopher received a reception "as frigid as the winter wind blowing down from Mongolia" while trying to educate the Chinese on the need to improve their record on human rights.[46]

A changing mood within the executive branch further compelled Clinton to modify his position. Following the release of the executive order, a growing number of administration officials, in particular many members of Clinton's economic team, felt that the executive order overemphasized human rights at the expense of economic opportunity and subsequently articulated these economic interests more forcefully when China's preferential trade status came up for renewal in 1994. At the Treasury Department, Secretary Lloyd Bentsen, who came back from a January 1994 trip to China with a favorable assessment of America's stake in China's economic growth, cautioned strongly against unilateral economic sanctions.[47] At the Commerce Department, Undersecretary for International Trade Jeffery Garten called on the administration to more fully incorporate economic analysis into decision making in a classified economic report titled "U.S. Commercial Interest in China to the Year 2000."[48] With China being placed on the top of the Commerce Department's "Big Emerging Markets" list,[49] Commerce Secretary Ron Brown made a strong case that the pursuit of better human rights performance in China should not come at the expense of economic growth in America.[50]

The newly established National Economic Council (NEC), led by Robert E. Rubin, also played a positive role in the campaign for the unconditional renewal of China's trade status. Feeling that the president's executive order had attached excessive weight to the views of agencies such as the National Security Council (NSC), Rubin and his deputy, Bowman Cutter, urged the Clinton administration to ultimately sever the MFN linkage. The NEC turned out to be the strongest advocate of renewal in the MFN debate in both 1993 and 1994.[51] The increasingly prevalent view at agencies such as the Treasury Department, Commerce Department, and the USTR was that Winston Lord still was placing excessive conditions on human rights and security issues at the expense of trade and economics. After these agencies relayed their concerns to the NEC and the NSC, further adjustments in the policy process were made to better reflect the preferences of the economic officials.

As a result, the president's views on China had changed 180 degrees so that by May 1994 he renewed China's favorable trade status without any conditions and announced that he would abandon his effort to use trade as a lever to force Beijing to make progress on human rights, even though plainly acknowledging that China had fallen short. In making the announcement, Clinton offered perhaps the most eloquent defense of the Bush administration's China policy ever uttered at the White House: "To those who argue that in view of China's human rights abuses we should revoke MFN status, let me ask you the same question that I have asked myself: Will we do more to advance the cause of human rights if China is isolated, or if our nations are engaged in a growing web of political cooperation and contacts?"[52] In adopting such an approach, Clinton was acknowledging the growing importance of economic concerns in foreign affairs. It seems justified to say that it was the economic officials and the China trade lobby that had prevailed in the decision to delink.

Chinese Perceptions and Strategy

The intense conflict between various domestic actors in the United States over the appropriate China policy substantially reduced the credibility of American threats to terminate China's MFN status. In particular, as various bureaucracies and individuals expressed their views about China's trade status both in private and in public forums in the process leading up to Clinton's decision to delink, they diminished the credibility of the administration's position in the eyes of the Chinese government.[53] A series of visits by high-ranking Chinese officials to the United States further confirmed Beijing's belief that the United States wanted good relations with Beijing, that there were serious divisions within the Clinton administration with respect to U.S. policy toward China and, importantly, that there was latent support in corporate America, both in the importing and in the exporting and investing community, for good economic relations with China.[54]

For instance, before President Clinton was to make a decision on the renewal of China's MFN status in 1994, Chinese officials warned that cancellation of China's MFN status would cripple access for American importers as well as for U.S. businesses investing in China.[55] During a visit to San Francisco in April 1993, Hu Ding Yi, secretary-general of the All China Federation of Industry and Commerce hinted that MFN was a mutually beneficial financial arrangement and that U.S. businesses would forgo considerable economic benefits in the event that the United States withdrew MFN status from China.[56] Also, during another trip to Washington, Zheng Hongye, chairman of the China Council for the Promotion of International Trade, cautioned that withdrawal of MFN status for China would negatively impinge on the interests of American firms that either imported from or exported to China, in addition to inflicting considerable costs on Hong Kong businesses because so much two-way trade went through Hong Kong.[57] With the firm belief that loss of MFN status would hurt the United States more than it would hurt China, China's minister in charge of foreign trade, Wu Yi, who had gained the reputation as China's "iron lady" due to her uncompromising and aggressive negotiation style, stated that China was not "afraid of losing it [MFN status]," as the United States "would also have to suffer" if MFN status for China were rescinded.[58]

Well aware that both American importers and exporters were actively lobbying for China's MFN status and confident that "it is the view of U.S. business to solve this issue once and for all," Beijing simply could not believe that Washington would revoke MFN status and was thus able to avoid making any major adjustments in its domestic policies.[59] By early 1994 Beijing seemed to have come to believe that it could simply defy American pressure and that the administration would back down even in the absence of significant concessions.

Indeed, Beijing had adopted its own policy for dealing with American pressure. The "four nots" policy (not to desire confrontation, not to provoke confrontation, not to dodge confrontation, and not to be afraid of sanctions and to resist them) was based on the premises that the United States still needed China's cooperation and that Clinton's domestic and foreign policies reflected considerations for conflicts at the domestic level.[60]

In short, Beijing's leaders appeared to be convinced that American politics was fundamentally driven by economic interests and that it would be difficult for President Clinton, who had placed so much emphasis on stimulating economic growth and improving competitiveness, to change his mind and cut off America's ties with one of its most important trading partners.[61] As a result, Beijing felt it could mobilize the economically oriented segment of the American polity in the battle over MFN status. The active cooperation that Beijing was able to forge with the American business community led some Clinton administration officials, including Winston Lord, to complain that business executives "were not only not supporting us, but they were undercutting us with the Chinese."[62] An important strategy adopted by Beijing toward that end was to carry out a series of high-level trips to the United States, sometimes shopping trips carefully timed to coincide with major decisions on MFN status, to showcase China's importance to America. For example, in April 1994, Chinese trade minister Wu Yi led "the largest Chinese trade initiative ever to the U.S."[63] Another part of Beijing's strategy was to show Washington that it was alone in threatening to impose sanctions on China and that market shares would go to its competitors if MFN status were withdrawn. Beijing on several occasions awarded business deals to the Europeans and to the Japanese ostensibly in retaliation for the United States' tough stance on the MFN issue.[64]

The result, therefore, was that Beijing ended up giving President Clinton just enough face by making a number of symbolic concessions so that he could reverse his earlier decision. As Secretary Christopher candidly conceded in his recommendations to President Clinton, the Chinese concessions "cannot be said to meet the expectations set forth in the EO [executive order]."[65] The Chinese were right to see the realism in Clinton's China policy: "The U.S. is rather pragmatic when it sees its policies aren't working, so the Clinton administration will become more pragmatic."[66]

United States–China: Market Access Negotiations

As the U.S. trade deficit with China began to climb steadily in the early 1990s, from $6 billion in 1989 to $13 billion in 1991, the United States resorted to pressure tactics to address high tariff and nontariff barriers limiting the expansion of American sales in the Chinese market. Failing to secure greater market access for American businesses by applying the leverage of MFN status, the Bush administration on October 10, 1991, initiated a regular Section 301 case to address a wide range of import impediments in China that have effectively kept American products out of the Chinese market, including QRs, import licensing requirements, internal (*neibu*) trade barriers, and other nontariff barriers.[67] Instead of targeting any specific industry, the investigation sought to tackle the web of import barriers embedded in China's existing trade regime. American negotiators stressed that the trade barriers being singled out not only seriously impeded American exports to China but also would most likely violate the multilateral trading principles enshrined in the GATT were China to become a member of that regime.

While the USTR sought to narrow the differences with the Chinese on a variety of tariff- and nontariff-related issues, a year of negotiations failed to get the Chinese to commit to a specific timetable for phasing out their quantitative restrictions, as the Chinese negotiators insisted that many infant industries in China would face extinctions absent QRs and other trade restrictions.[68] In light of this stalemate, the USTR on August 21, 1992, threatened to impose retaliatory tariffs on $3.9 billion of Chinese products to the United States if no satisfactory settlement could be reached on the market access issue by the October 10 deadline. Beijing reacted swiftly by threatening to counterretaliate against $4 billion of U.S. exports should Washington implement the threatened sanctions.[69]

The Section 301 threat and China's counterthreat immediately brought American businesses into the fray. Although the dispute was not initiated over any specific industry complaint, a range of American exporters that were expecting to benefit from China's import liberalization rallied behind the sanction threat. Producers of aircraft, computers, industrial machinery, fertilizer, and chemicals stood to gain the most from a market-opening agreement with China. Through their representative associations such as the U.S.–China Business Council, these producers expressed their support for an aggressive negotiation approach that promised to knock down the myriad of nontariff barriers that existed in China.[70] Textile manufacturers, under the lead of the powerful American Textile Manufacturers Institute (ATMI), called on the government to impose retaliatory tariffs on Chinese products to compensate for the losses that China's trade barriers inflicted on American producers. The organization even urged the U.S. government to target those products considered as high-priority export items by Beijing to get the Chinese leadership to back down in the confrontation.[71]

But even though exporters were eager to open the Chinese market, they again found themselves caught in a tug of war with the American importing and retailing community. The American threat negatively impinged upon the interests of importers, whose stake in the China market had grown substantially in the past decade. These importers protested against the threat under Section 301, which, if implemented, would have disrupted the supply of low-cost imports from that country. In early 1991, when the USTR called for public comment to determine which Chinese products to target for retaliation should Beijing refuse to comply with American demands to remove trade barriers, most of the trade groups and companies that responded emphasized that it was important for the government to defuse the trade row by reaching a fair trade agreement with Beijing instead of resorting to punitive action. In the worst case scenario that retaliation had to be carried out against China, these groups scrambled to urge the USTR to exclude their own products from the list of Chinese goods to be included in the hit list.

The Toy Manufacturers of America, for example, pointed out that the toy industry was being placed in a very vulnerable dependent position, as imports from China accounted for more than 40 percent of all the toys sold in the United States. The organization further explained that, even though toy manufacturers had undertaken efforts to spread sourcing to other parts of the world, including some Asian and Latin American countries, the toy industry's commitment to China was already too substantial and specific to permit any drastic changes. In the words of one of the representatives of the association, it would be extremely difficult to "turn your back on an infrastructure that has taken 10 years to build."[72]

Footwear importers, fearing a full-blown U.S.–China trade war, undertook a two-pronged strategy designed to minimize the damage of potential retaliatory measures. While undertaking a serious effort to impress upon government officials the cost of disrupting trade with China, they began to more consciously reduce their dependence on Chinese imports. But while the latter strategy was feasible for large companies with worldwide operations, it was more difficult for the greater number of importers who were constrained by world quotas and by China's attractive low production costs to look for alternative sources of supply. Even large athletic shoe manufacturers, such as Nike, felt the effect. Nike, which sourced between 12 and 15 million pairs of shoes from China each year, or roughly 15 percent of the company's total production, complained that if punitive tariffs were imposed the company would have no other option but to sharply raise prices or to shut down its entire operation in China. The latter course of action would have seriously hurt the company's regional headquarter in Hong Kong as well. Together with Adidas, another major industry player, Nike sought to drive home the point that trade retaliation would seriously undermine the position of the footwear and athletic equipment industry, including their affiliates in Hong Kong.[73]

Leather luggage importers faced the same dilemma. Since China supplied the U.S. market with nearly 90 percent of all attaché cases priced under two hundred dollars, many leather goods importers found that locating new sources of supply would not only be time-consuming but also would likely increase costs substantially. Leather goods importers such as Kingport International therefore joined other importers in urging moderation.[74]

Importers found an unusual ally in the market access negotiations in Hong Kong. Since nearly two-thirds of the Chinese products on the U.S. hit list valued at $2.4 billion were reexports via the territory, Hong Kong businesses, which were becoming increasingly agitated about the prospect of a trade war, appeared before hearings held in Washington strongly against trade retaliation. The Hong Kong Electronics Association, the Hong Kong General Chamber of Commerce, and the Chinese Manufacturers' Association argued that, since nearly two-thirds of the commodities targeted for trade sanctions (such as footwear, electrical appliances, telecommunications gear, and parts and plastic items) were reexports via Hong Kong and over half of Hong Kong's manufacturing was undertaken in China, sanctions could greatly hurt Hong Kong's economy.[75] Furthermore, as 95 percent of China's toy exports to the United States were produced by Hong Kong firms on the mainland, the Hong Kong Toys Council warned the USTR that retaliation against China would "critically threaten" Hong Kong's toy manufacturers. The Hong Kong Watch Manufacturers Association also pleaded against retaliation, warning that such action could result in hundreds of thousands of job losses. Many of the associations mentioned here, together with the Federation of Hong Kong Industries, urged U.S. officials to exclude from the hit list "those items which in your opinion might damage HK industry" in the event that retaliation had to be carried out.[76]

Importers' plea for moderation reduced the level of domestic cohesion that the Bush administration would have wanted to project over the market access issue. It should be noted that administration officials initiated the market access talks at the urging of congressional members, in the absence of substantial industry input. An important motivation for the Bush administration's decision to initiate separate, more targeted talks over market access was to relieve congressional pressure on the annual debate over China's MFN status. Thus it was in response to a letter from Senator Max Baucus and several other senators encouraging administrative action that President Bush promised to launch Section 301 investigations in the summer of 1991. In justifying the administration's position, President Bush stated that China's protectionist policies "undoubtedly contributed to a 17 percent decline in U.S. sales to China in 1990."[77] Thus, the Bush administration did adopt a position closer to that of Congress on the market access issue than on the MFN issue both to address congressional concerns about China's pervasive market access barriers, which were by then starting to pose an increasingly formidable challenge for American businesses in the late 1980s, and to alleviate their worries about the bilateral trade deficit, which doubled again from $13 billion in 1991 to $23 billion in 1993, a figure that placed China as the country with the second largest trade surplus with the United States.

Yet even with this greater executive resolve for a positive outcome, the negotiations fell short of U.S. expectations. While Beijing promised to undertake a series of liberalization measures under U.S. retaliatory threats in a Memorandum of Understanding (MOU) signed on October 10, 1992, Beijing's willingness to compromise proved to be a tactical temporization as subsequent Chinese practices failed to fulfill the expectations of the United States, prompting Deputy USTR Charlene Barshefsky on October 25, 1993, to again set a deadline for China to comply with the MOU. To relieve American pressure, China dismantled quotas and import licenses on 283 products and reduced tariffs on 234 products on January 1, 1994. These positive developments notwithstanding, China simultaneously tightened import controls on a wide range of other products, some of which already enjoyed protection through unpublished quotas. Furthermore, Beijing imposed international bidding procedures on a list of 171 products to ensure that Chinese products could successfully compete with imports. On the whole, although the agreement on paper suggests quite substantial liberalization by China, implementation problems suggest that the U.S. market access initiative against China in the early 1990s produced rather limited results.

One reason that the market access talks were so unsuccessful in changing Chinese behavior had to do with the fact that the tariff regime constituted an important component of China's plan for industrial development and, as a result, was supported by various industrial ministries and the enterprises under their control. Thus, the Chinese leadership might agree to modifications in its tariff regime as a quid pro quo to avoid the imposition of sanctions, yet eventually proved unwilling to introduce any fundamental changes that would threaten the relationship between the state and the industries under its control. Once tensions receded and it became clear that Washington was backtracking on its pledge to support China's bid for the GATT, Beijing quickly reverted back to the old methods of protecting domestic industries behind high tariff walls.

But an equally plausible explanation for Beijing's unyielding posture was that the Chinese leadership was confident that, even if Beijing failed to abide by its commitments, countervailing pressure from import-using industries in the United States would minimize the chances that the United States really would carry out the threatened sanctions against China. In response to Washington's threat tactics during the market access negotiations, Tong Zhiguang, China's vice minister of foreign economic relations and trade (MOFERT) several times stated that "China is not afraid of a trade war, especially if the opposite side is using trade retaliation as a threat."[78] A MOFERT official explained the rationale behind the announcement: "China has a large domestic market and our exports are needed in many other countries. The United States will need to do business with China. In the worst case scenario of a trade war, we can always find other alternatives."[79] In other words, there did exist sentiments in Beijing that the United States faced internal constraints. Once the Americans left and once it became clear that Washington was backtracking on its pledge to support China's GATT bid, the incentive for Beijing to honor the agreement was substantially reduced.

United States–Brazil: Informatics

In September 1985 the United States initiated a Section 301 investigation into Brazil's informatics program, which, from the point of view of American computer manufacturers, promoted the development of a national computer industry at the expense of American and other multinational firms. Brazil was chosen as a Section 301 target in part to avoid the exclusive geographic focus of Section 301 actions on Asian countries such as Japan and South Korea. Negotiations over this issue lasted for over three years but failed to produce a lasting agreement leading to market liberalization in favor of U.S. commercial interests. As Odell's account of the informatics dispute suggests, the contrasting views of American computer companies with different market positions in Brazil was a main reason why American pressure did so little to alter the status quo.[80] But equally important to explaining dispute outcome was resistance by importers of Brazilian-made low-end and intermediary products to a retaliatory strategy that threatened to disrupt their supplies. Importers' and retailers' opposition to the sanctions strategy reinforced the ambivalence of computer manufacturers and eroded the credibility of American negotiators vis-à-vis Brasília.

In the first place, American computer manufacturers could not reach a consensus among themselves with respect to the Reagan administration's decision to cite Brazil's informatics program under the Section 301 threat. Companies favoring a more aggressive bargaining strategy were mainly ones like Tektronix that were interested in Brazil but had nevertheless been hindered by the market reserve program's restrictions from gaining a greater foothold in the Brazilian market. Associations such as the American Electronics Association (AEA), which represented electronics manufacturers, were also in favor of a firm negotiation approach so as to showcase the U.S. resolve for a fair trade outcome both in Brazil and in the global market. In August 1985, even before the initiation of the informatics dispute, the AEA had served as a lead actor in urging the Reagan administration to remove the zero-duty treatment that Brazil, along with several other developing countries, enjoyed under the Generalized System of Preferences (GSP) unless they promised enhanced protection for IPR. The AEA's support for the Section 301 designation of Brazil likewise stemmed from a desire to negotiate market opening globally.

Other than these firms and associations just cited, however, many other U.S. computer manufacturers were at best lukewarm about the decision to designate Brazil as an unfair trader. A fair number of AEA members were indifferent to the case, as they had neither exposure nor investment in that country. More importantly, some companies that had managed to develop a market niche in Brazil were themselves benefactors of the market reserve program that was the focus of the Reagan administration's attack. Not only were these firms less than enthusiastic about the designation, but they sought to constrain the Reagan administration in its trade offensive. IBM was a case in point. As a company highly dependent on global production and having developed a substantial presence in the office machines market in Brazil, IBM did not seem to see any reason for change. In particular, as the market reserve program had assisted the company in fending off competition from its commercial rivals such as Digital Equipment, Japanese mainframe manufacturers, and other minicomputer makers, IBM actually viewed the informatics law as codifying long-standing practices rather than as signifying any fundamental change.

A few other large multinational companies shared the same attitude as IBM. For instance, both Hewlett-Packard and Burroughs had investment exposure in Brazil; and, just like IBM, Burroughs was heavily dependent on world markets. With the capital and wherewithal to weather the storm and reap long-term gains, these companies actually opposed imposing sanctions on Brazil. At a hearing held in Washington in October 1985, the organization representing the interests of these large firms, the Computer and Business Equipment Manufacturers Association (CBEMA), testified against attempts to modify the informatics law, instead advocating a negotiation approach aimed at preventing the expansion of the restrictive scope of the market reserve program, improving enforcement and implementation of the law, and ensuring the eventual abolition of the program. In other words, the priority of the CBEMA was to cushion the impact of Reagan's blow for long-term commercial benefits. In the absence of active industry lobbying, reaction to the initiation of the informatics case had been mixed. For example, when the Reagan administration notified industry representatives of the decision to slap Brazil's informatics policy a day before the announcement was made, industry representatives were reportedly shocked. One industry representative even stated that "There was *never* any enthusiasm for the case from those who knew Brazil."[81] In a private symposium held in Washington a few days after Reagan made his announcement, IBM and Burroughs officials, even in the presence of Brazilian officials, directly challenged Reagan's actions as inopportune.

In addition to the different positions U.S. computer manufacturers held regarding the informatics dispute, U.S. importers and retailers had been lobbying against imposing restrictions on Brazilian exports on which they depended. Although by the mid-1980s Brazil had acquired the ability to produce and export intermediary industrial products such as automobile and aircraft parts and components, a sizable portion of Brazil's exports to the United States still consisted of labor-intensive products such as footwear and orange juice concentrates.[82] Thus when USTR officials sought to draw up a retaliation list against Brazil in the summer of 1986 and then again in 1987, American businesses likely to be negatively impacted by the retaliation spoke out against the move, in the process complicating the task of forging a credible negotiation stance toward the Brazilians. Indeed, the decision to restrict Brazilian products had triggered a storm of protest from a fair number of American firms that did not want to see an increase in the price of Brazilian products. For example, as Brazilian citrus growers supplied about 40 percent of the U.S. orange juice market, companies such as Coca-Cola, Procter and Gamble, and Beatrice Foods, which were highly dependent on orange juice concentrate imported from Brazil, lobbied against placing that item on the retaliation list.[83] The American Heritage Trading Corporation and its affiliates, which specialized in food and beverage containers and ingredients, went even further to argue that they would be forced out of business if sanctions had to be imposed on Brazilian products upon which they relied heavily. Automobile manufacturers, particularly those based in Detroit, likewise were averse to the idea of placing restrictions on imports of auto components from Brazil, a move that would threaten to disrupt their integrated global production system. The U.S. footwear industry was divided over the possibility of placing restrictions against imports of footwear from Brazil as well. While footwear producers supported the inclusion of footwear on the retaliation list, shoe retailers spoke out against the proposal. Moreover, since American negotiators had very recently vetoed the idea of placing quotas on footwear, they did not want to see the U.S. industry launch a second comeback and try to use the leverage provided by Section 301 to combat unfair foreign competition.

Resistance to the sanctions strategy could also be found among aircraft manufacturers. In particular, as Brazil had acquired the ability to produce and export airplanes, a number of smaller airlines in the United States that purchased Brazil's planes resisted any move to impose restrictions against imports from Brazil. As an unlikely opponent to trade sanctions, a Midwestern convention center argued that imposing higher duties on Brazil's Embauer 120 aircraft could hold back regional airline companies' plans to expand commuter services, thus reducing the number of conventions that could be held in an area that already lagged behind economically.[84] Even cosmetics companies such as Avon lodged a complaint against the proposed tariffs on ceramic mugs, for which Brazil was a major supplier.

In short, as a trade war with Brazil was looming, a good number of American companies rushed to lobby the administration to exempt the products on which they were dependent. Some firms cautioned that they faced extinction should Washington proceed with plans to levy punitive tariffs on Brazilian products. Other firms couched their pitches with a view to the administration's desire to reduce U.S. trade deficits with Asian nations, emphasizing that they could find no cost-effective alternative to imports from Brazil other than Asian countries such as Taiwan, South Korea, and Hong Kong. The barrage of complaints from American importers left USTR officials with little leeway in selecting the products they could hit, prompting a USTR staff member to lament that "we were down to porcelain toilet bowl covers."[85]

These divisions in American politics by no means lost the Brazilians. Importantly, judging from the reaction of U.S. computer manufacturers in discussion involving Brazilian representatives, Brazilian negotiators were able to come to the conclusion that American computer manufacturers themselves were divided. According to one Brazilian negotiator, "The U.S. companies were divided. IBM was neutral. They passed the word that they had not asked for the 301; it was really government inspired. The companies knew better than the U.S. government how difficult it would be in Brazil."[86]

Equally important was that many business interests in Brazil were well aware of the importance of Brazil to the United States as an export market. For example, the organization representing Brazilian exporting interests, the Brazilian Association of Commercial Exporters, reportedly responded to the U.S. sanction threat by claiming that "coordinated action by Brazilian importers of U.S. goods could force the U.S. to withdraw its reprisals without forcing a general revision of the new software bill."[87] Brazilian business interests were also prepared to undertake counterretaliatory moves against U.S. products (such as canceling orders for Boeing aircrafts) in the worst case scenario that the United States followed through with its threats.[88] Other Brazilian exporters focused on the reliance of the United States on Brazilian consumer products. One of Brazil's largest footwear exporters noted that U.S. sanctions against footwear would result in increased prices for American consumers and the substitution of plastic for leather in lower-priced lines.[89] Given these perceptions, it was only natural that Brazil would have offered only token concessions to American demands.

Conclusion

The analyses presented here should make it clear why heavy-handed American pressure has failed to extract significant concessions from Beijing and Brasília. In the MFN and market access negotiations with China, the messages the United States sent to Beijing were so mixed and confusing that China simply did not find it necessary to make any concessions. As we have seen, due to the complementary trade relationship between the United States and China, a great number of business groups voiced their opposition to threats to put restrictions on Chinese exports. In particular, American importers and retailers of toys, apparel, footwear, and consumer electronics, goods that the United States no longer produced itself, staunchly opposed trade sanctions, arguing that they could not always acquire these goods from other countries at competitive prices. Furthermore, in the MFN case, American manufacturers of aircraft, autos, and telecommunications equipment also actively lobbied against the imposition of sanctions, a measure that would cut off their access to the world's fastest growing economy and largest market. Thus, whenever the United States tried to strike out at China for its offensive domestic policies, it almost always was hamstrung by strong opposition from the business community for doing so. While supporters of a sanctions strategy in the MFN case—the human rights lobby and other conservative groups—had aggressively pushed for MFN revocation at the outset, they simply could not match the China trade lobby in terms of organizational cohesion and financial strength. Since they did not have a policy alternative other than one that would result in Chinese retaliation and international isolation, these groups eventually lost ground to the MFN advocates.

The short discussion of the U.S.–Brazil informatics dispute illustrates a similar dynamic. Importantly, importers of Brazilian products such as footwear, orange juice concentrates, and auto components had lodged complaints against the decision to retaliate against Brazilian products. Their opposition reinforced the different opinions held by software manufacturers with different market positions in Brazil, thus undercutting the credibility of USTR officials. Table 4.1 summarizes the position and impact of each of the groups involved in the negotiations.

These divergent domestic interests were exacerbated by the divisions within the U.S. government. The cases involving China most vividly demonstrate this dynamic. In the debate over MFN status, the legislative branch, more sensitive to issues with strong domestic implications, was determined to punish China's perceived intransigence through existing trade laws. In contrast, the executive branch, considering conflicting domestic pressures and long-term American economic and strategic interests in China, was more inclined to maintain the status quo. As we have seen, the Bush administration consistently opted to oppose efforts to attach legislative conditions to MFN status for China. It was committed to its own perspectives on U.S.–China relations and devoted considerable resources to deflecting congressional pressure. The president even used the last resort of a presidential veto to preserve China's normal trade status. Later, President Clinton, even though he had initially confronted China on human rights issues, was compelled by the realities of U.S.–China relations to temper his rhetoric and to repudiate pressure tactics that have proved to be both futile and counterproductive. Clinton's about-face in part reflected intense pressure from the trade lobby, but it also stemmed from his

TABLE 4.1. Profiles of Main Actors Involved in U.S.–China and U.S.–Brazil Negotiations

	Companies and Associations	Position	Impact
U.S.–China: MFN Directly Affected Exporters	—	—	—
Exporters Not Directly Affected	Emergency Committee for American Trade; U.S. Chamber of Commerce; National Foreign Trade Council; U.S.–China Business Council; Business Coalition for U.S.–China Trade; American Association of Exporters & Importers; National Association of Wheat Growers; North American Export Grain Association; Aircraft manufacturers: Boeing; AT&T; GE; IBM; GM; Motorola; NAM	Sanctions would reduce American exports, yield market shares to foreign competitors, threaten the viability of American investment in China, jeopardize U.S. jobs, and lead to the loss of a major export market	Very influential in opposing sanction threats.
Import-Competing Interests	Textile industry	Argued that Chinese textile imports hurt the American industry. Joined human rights and religious groups, conservative-leaning organizations, and other critics of China in pushing for trade sanctions.	Relatively visible in the early stage of the debate; eventually lost ground to the pro-MFN interests.
Import-Using Interests	Importers of toy, apparel, footwear, and consumer electronics; Toys “R” Us; J.C. Penney; Footwear Distributors & Retailers of America; Nike	Trade restrictions would hurt American consumers, particularly low- and middle-income families. It would be difficult to find alternative sources for many low-cost products outside of China.	Very influential; launched intensive campaign against sanction threats.

U.S.–China Market Access Negotiations			
Directly Affected Exporters	U.S.-China Business Council, representing producers of aircraft, computers, industrial machinery, fertilizer, and chemicals; American Textile Manufacturers Institute	Supported the administration's efforts to liberalize the Chinese market.	Provided some support for the administration's negotiation strategy.
Exporters Not Directly Affected	—	—	—
Import-Competing Interests	—	—	—
Import-Using Interests	Toy Manufacturers of America; footwear importers; importers of leather luggage; and businesses in Hong Kong	Argued that trade sanctions would force importers to bear substantially increased prices and significant adjustment costs.	Their strong resistance to the sanctions strategy reduced the homogeneity of the U.S. negotiation position.
U.S.–Brazil Informatics Dispute			
Directly Affected Exporters	IBM; Hewlett-Packard; Burroughs; Tektronix; American Electronics Association; Computer and Business Equipment Manufacturers Association	While companies that were hindered by the market access provisions of the informatics program supported the designation, businesses that were dependent on global production and had benefited from the restrictions of the informatics program opposed the retaliatory move.	Divisions among American computer manufacturers reduced the credibility of American threat to the Brazilians.

TABLE 4.1.—*Continued*

	Companies and Associations	Position	Impact
Exporters Not Directly Affected	—	—	—
Import-Competing Interests	—	—	—
Import-Using Interests	Coca-Cola; Procter & Gamble; Beatrice Foods; footwear retailers; American Heritage Trading Corporation; automobile manufacturers	Argued that, by increasing the price of Brazilian goods on which they depended, sanctions would either cause some American firms to go out of business or exacerbate U.S. trade deficits with Asian countries, which offered the only cost-effective alternative source of supply.	Import users' opposition exacerbated the division among exporters, further reducing the cohesion of the U.S. negotiation position.

economic team's determination to move toward positive bilateral economic cooperation. Since it knew MFN revocation or conditionality would adversely affect a broad sector of the American economy as well as the overall competitiveness of American industry, it was difficult for the executive to forge a long-lasting consensus with Congress on the need to terminate China's MFN tariff treatment. Moreover, even in the negotiations over market access, where the executive branch seems to have adopted a position closer to that preferred by Congress both to deflect congressional pressure on the MFN issue and to address the growing U.S. trade deficit with China, the coherence of the U.S. negotiation stance had nevertheless been undermined by dissenting voices in the U.S. business community.

Given these divisions in American politics, it is hardly surprising that American threats have failed to extract any meaningful concessions from China. Although the United States was seriously interested in finding solutions to its trade problems, it was constrained by the structure of U.S.–China trade relations from obtaining a favorable outcome. Once the Chinese figured out that they had nothing to lose, threat tactics lost much of their utility. With intense conflict among U.S. domestic constituencies and with MFN status for China down on the executive's foreign policy priority list, it was extremely difficult for the United States to carry out a credible threat. In the end, it was Beijing who was able to adopt a coherent strategy because it was a critical foreign policy issue and there was virtually no domestic constituency opposed to its policy. Ironically, as an authoritarian regime, Beijing turned out to be in a better position to play with American politics than vice versa. Because the United States is a democracy, the Chinese could see exactly what was going on in the United States by reading the editorial pages and listening to the debates. And because Beijing is an authoritarian regime, it could implement coherent policies, such as awarding contracts to the Japanese and European firms, to exacerbate the divisions in American society. There is little wonder, then, why American threats against China to modify its domestic practices have been so futile.

Before closing this chapter, a caveat is in order. The two cases in this chapter involve China and Brazil, two countries that, by dint of their large internal markets, were able to dangle the carrot of substantial export opportunities for American businesses and hence better co-opt American exporting interests. For instance, in the MFN debate, many non–directly involved export-oriented industries opposed sanctions due to both their current reliance on the Chinese market and their expectations of even greater profits in the future. In the informatics dispute with Brazil, American software companies wishing to maintain or expand their investments in the Brazilian market similarly objected to the Reagan administration's plans to impose sanctions against Brazilian products. While my argument about the conditions under which trade pressure will be most effective in opening foreign markets centers primarily on the role of import users in counterbalancing the sanctions strategy, exporters worried about counterretaliatory moves that would likely shut them out of the target market nevertheless frequently join import users against the imposition of sanctions. Participation by these non–directly involved exporters in the anti-sanctions coalition may make U.S. threats particularly ineffective vis-à-vis those complementary trading partners with large internal markets. Future studies could more specifically examine cases involving the United States and its complementary trading partners with smaller domestic markets to tease out the role of non–directly involved exporters in negotiations between these trading partners.