CHAPTER 6

U.S.–China “Trade Peace”: Intellectual Property Rights and Textiles

Through detailed case studies, the previous two chapters suggest that U.S. sanction threats are far more credible and effective against countries such as Japan than against countries such as China. Trade structure has been found to be an important determinant of the degree to which interest groups in the United States can maintain a cohesive position with respect to the sanction threats, and hence the variations in threat effectiveness. Since trade structure exerts such a significant impact on the level of domestic unity, which is also a key factor affecting the likelihood that two parties will escalate their dispute to the level of a trade war, it seems reasonable for us to expect a positive causal linkage between trade structure and the probability of trade war. A highly competitive trade relationship is likely to enhance domestic support for sanction threats, thereby producing stronger pressure for brinkmanship and for trade war, while a complementary trade structure is likely to produce the reverse. The importance of this variable is likely to overwhelm the potential effects of regime type that might lead one to expect a “democratic peace” in trade relations.

The two chapters that follow extend the insights gleaned from analyses of the variable degree of threat effectiveness to examine the pattern of trade war, contrasting the overall pattern of “trade peace” between the United States and China, which involves bargaining between a democratic and an authoritarian state, with the frequent occurrences of trade wars between the United States and its democratic trading partners such as Europe and Canada. This comparison will reveal that despite the absence of democratic norms of peaceful dispute resolution that presumably mute conflict, trade disputes between the United States and China have rarely resulted in mutual retaliation. Without disaggregating the impact of trade structure on domestic politics in the sender of threats, it would have been difficult for us to explain this paradoxical outcome.

U.S.–China Trade Disputes over Intellectual Property Rights

Besides the highly acrimonious MFN debate described earlier, the United States and China have also been involved in endless bickering over Beijing's protection of American intellectual property products. Since the early 1990s, the United States has three times (in 1991, 1995, and 1996) threatened to impose sanctions on China under Section 301 should Beijing fail to provide more adequate protection for U.S. intellectual property–related products. However, on all three occasions the United States managed to reach last-minute agreements with Beijing and withdrew the threatened sanctions against Chinese exports.

The extended negotiations between the United States and China over IPR issues lend support to my key contentions. First, as in the other U.S.–China trade disputes described in chapter 4, U.S. pressure on China to provide more adequate protection for American IPR products was at best only partially successful. Although, in the negotiations prior to 1996, Beijing agreed to U.S. demands on paper and also made genuine efforts to transform its legal regime for IPR protection, it repeatedly failed to follow through with enforcement. As a result, the United States had to constantly prod the Chinese to change their policies and practices. In the 1996 negotiations, the United States even withdrew the threat of trade sanctions with no concessions from China. On the whole, it seems fair to say that the United States has by and large failed to achieve its objective of obtaining improved IPR protection for American industries, a pattern that is consistent with the findings reported in chapter 4 about the futility of American pressure against China.

The history of the IPR disputes provides further support to my hypothesis about the relationship between trade structure and the probability of trade war. Despite Washington's deep frustration with China's poor record of IPR protection and its repeated vows to cut off Chinese imports, it has consistently failed to make good on its threats. In each of the negotiation episodes, the United States issued sanction threats, raising the specter of a trade war, but always backed down at the last minute and accepted Chinese promises of enhanced enforcement effort. Why was the United States willing to withdraw sanction threats and to resolve the IPR dispute cooperatively with China? Why did China's repeated failure to abide by the terms of signed agreements fail to provoke a more confrontational U.S. response?

As in previous chapters, the following analysis will draw on the two-level game approach and explain the ability of the United States to stave off trade war with China in these cases by illustrating the divisions in U.S. domestic politics created by trade structure. Some reports and analyses seem to portray the intellectual property industries and the U.S. government as being more united in pursuit of fair trade outcomes in the IPR case than in the MFN case.[1] But while domestic opposition to sanction threats seemed less vociferous in the IPR dispute, it did constrain domestic interests in the United States from emerging as a homogenous entity. As in the MFN debate, highly complementary trade relations between the two countries generated considerable opposition to escalation, in the process undermining the USTR's negotiation position. In this case, American industries adversely affected by Chinese piracy were the only group calling for trade sanctions against China. Instead, much of the U.S. manufacturing community, including both importers of labor-intensive products made in China and exporters seeking expanded market access in China in areas less affected by IPR issues, opposed attempts to close the American market to the Chinese. Furthermore, although certain administrative agencies (notably the USTR) seemed to favor protecting the IPR industries from unfair trade practices, heavy pressure from import-using groups interested in maintaining a steady flow of Chinese imports and other groups with a vested interest in the China trade compromised the USTR's position. The belief that efforts aimed at seeking trade relief for particular industries should not jeopardize American economic and political interests in China also prevented the executive branch from pursuing an overly aggressive trade strategy.

Thus, similar to the MFN debate, the dispute over intellectual property protection exposed a fundamental dilemma in U.S. trade policy toward China: the United States could not punish China for its misbehavior without negatively affecting many powerful and active domestic constituents. The following analysis of the political forces that actively shaped the IPR debate further illustrates this point.

Explaining the U.S.–China IPR "Trade Peace"

As in the MFN debate, American threats to impose sanctions against China for its inadequate protection for IPR products suffered from factional conflict at the domestic level. Due to the complementary trade structure between the United States and China, the prospect of a trade war created a deep schism between American industries that focused on intellectual property as a means of expanding their share in the Chinese market, on the one hand, and American importers and retailers, on the other. Resistance by those industries insisting on market access alone without any concerns about the existing intellectual property practice in China further enhanced the power of the opposition. Although associations of copyright producers such as the Recording Industry Association of America (RIAA), the International Intellectual Property Alliance (IIPA), the Business Software Association (BSA), the Motion Picture Association of America (MPA), and the International Federation of the Phonographic Industry (IFPI) consistently pushed for trade sanctions, they were counterbalanced by other segments of the business community, most notably importers of labor-intensive products who have developed a high degree of reliance on the Chinese market. In this case, manufacturing industries such as automobile and aircraft manufacturers also advocated a position that conflicted with that of the copyright industry. The absence of solid support from the business community not only weakened the hands of the U.S. negotiation team but also impeded American negotiators' ability to escalate the dispute.

U.S. copyright industries were the most forceful proponents of Special 301 investigations against China. For instance, the IIPA, an umbrella organization representing filmmakers, book publishers, the music industry, and computer software manufacturers, pointed to the estimated $1 billion in annual losses the American industries incurred due to Chinese piracy[2] and strongly advocated placing China on the list of priority countries that would face retaliatory actions by the United States. The IFPI, irritated by China's illegal production and export of fake CDs, which had displaced legitimate U.S. CD exports in world markets, also backed the use of Section 301 in order to halt China's illegal CD exports.

Computer software industries were similarly concerned about rampant software piracy in China. The BSA, a trade group in Washington representing large U.S. software publishers, together with organizations such as the Computer and Communications Industry Association, voiced support for strong government action designed to secure adequate IPR protection in China that would provide U.S. firms with genuine access to the huge China market.[3]

But although the motion picture, recording, and software industries waged an impressive lobbying campaign to punish China for its IPR infringement, a greater number of industries protested the United States' threatened sanctions that would likely jeopardize one of their most important sources of imports. Since the Chinese products targeted for sanctions included almost all of the most popular U.S. imports from China, such as textiles, toys, and electronics, American importers and retailers that have become dependent on the Chinese market opposed the imposition of sanctions. In public hearings in January 1995, major U.S. importers, retailers, and manufacturers complained that they would be unfairly harmed by Washington's use of punitive tariffs to force China to crack down on infringement of IPR. For example, the National Retail Federation, representing the largest U.S. retail chains, argued that Washington's pursuit of fair trade should not come at the expense of American consumers.[4] The federation asserted that the punitive tariffs, if imposed, would force U.S. retailers to raise prices to make up for the costs of purchasing the goods from elsewhere. Because some Chinese goods were so inexpensive or they were unavailable elsewhere, U.S. retailers would have to bear the costs of stiff tariffs in order to replenish their stocks. For example, it was estimated that the sanctions, if carried out, would raise the price of children's bicycles by 8 to 29 percent, increase the price of telephone answering machines by 31 percent, and nearly double the cost of a Chinese-made phone.[5] The federation further complained that textiles and apparel had been targeted "for the benefit of Hollywood moguls" and that sanctions would add $100 million to America's clothing bill.

The American Association of Exporters and Importers agreed that USTR Mickey Kantor's proposed sanctions would negatively affect various U.S. business interests, including retailers. The association warned that it would be difficult to reverse trade retaliation once it was in place and urged Washington to give Beijing more time to develop an effective system for IPR protection.[6] In a similar vein, the International Mass Retail Association argued that, since the punitive tariffs targeted kitchenware, lighting supplies, sporting goods, and consumer electronics products, for which China was a major supplier, the threatened sanctions, if implemented, would inflict severe pains on U.S. retailers.[7]

Besides the retailing community, American toy makers actively opposed the sanction threats. Toy manufacturers, who sourced most of their products from China, contended that the proposed trade sanctions would negatively affect the U.S. toy industry. The Toy Manufacturers of America asserted that, since virtually the entire toy industry was based in China, it would be very difficult to replace toy imports from China. Because Chinese toy production accounted for half of the world's total and Chinese toy exports to the United States reached $5.4 billion in 1995, toy makers remained apprehensive that sanctions would invite Chinese retaliation and would shut off America's toy imports from that country.[8]

U.S. footwear manufacturers were concerned about the effects of retaliatory measures as well. Since China was the top supplier of footwear imports to the United States, shoe manufacturers had been campaigning to make sure that footwear would not be included in the U.S. hit list. A group of shoe manufacturers submitted a letter to the White House warning that higher tariffs on footwear imported from China would lead to a steep price hike for U.S. consumers.

In addition, some small U.S. businesses that were targeted by the USTR's sanction threats in 1995 felt particularly vulnerable to a trade war. A number of U.S. greeting card companies and bicycle importers, for example, pleaded with U.S. negotiators to withdraw the sanction threats, arguing that businesses dependent on low-cost imports from China would be hit hardest by a trade war and would have to bear the brunt of the costs of retaliation if it occurred.[9]

Even the electronics industry itself was split about the USTR's choice of trade weapons. Some members of the Electronic Industries Association (EIA) were high-technology companies whose products were being pirated in China. But other companies such as AT&T regularly imported consumer electronics products such as telephone-answering machines, microphones, and magnetic-tape recorders from China. The EIA, therefore, complained that such products had been "disproportionately, if not unfairly, targeted for retaliation," warning that a sharp increase in duties on these products could cause "severe business disruption" and negatively affect U.S. production.[10]

The American Forest and Paper Association and power tool manufacturers, which made extensive use of raw materials from China, voiced similar concerns. For example, power tool manufacturers argued that the threatened sanctions would sharply raise the price of one of its most important inputs, thus giving Japanese competitors an advantage in world markets. Importers of electronic gear from China also opposed sanctions. They argued that, while they could find alternative sources to build their products, the cost would be significant and would have a major impact on U.S. sales.

To be sure, sanction threats did generate some mixed feedbacks from the American textile and apparel industry. While textile and apparel retailers opposed sanction threats, textile manufacturers and labor unions, which were less tied to Chinese production, took the opposite position. On the one hand, some locally based companies that relied heavily on imports from China to fill out their lines pointed out that, since China is the United States' largest source of apparel imports, followed by Hong Kong, the threatened sanctions would lead to higher prices and to scarcity of some goods. Although apparel manufacturers were not the primary victims of China's widespread IPR violations, they expressed fear that the escalation of hostilities would have a very negative effect on U.S.–China textile trade. According to the American Apparel Manufacturers Association, the United States imported $3.5 billion of clothing made in China, or roughly 10 percent of all imported apparel. Certain items could be found only in China. Silk distributors, for example, were almost 100 percent dependent on China. These groups, therefore, argued that the implementation of trade sanctions against Beijing for its failure to protect American copyrights and trademarks would have devastated "hundreds of small American companies and thousands of workers."[11] The National Apparel and Textile Association commented that the association had no interest in waging a battle with China over IPR.[12] The U.S. Association of Importers of Textiles and Apparel also voiced concerns that the threat would be very disruptive to people doing business in China and would make life more uncertain for importers. The association urged the administration to look more carefully at the impact of trade sanctions on the American manufacturing, retailing, and consuming community when making its final decisions.[13]

On the other hand, however, another segment of the American textile industry, which was less dependent on Chinese imports, supported retaliation. Trade groups such as the American Textile Manufacturers Institute and the California Fashion Association, whose members' products competed with cheap Chinese goods to which the punitive tariffs would be applied, welcomed the action that could help them boost their sales by forcing price increases on imports.[14] Textile manufacturers in the American South, including those in key electoral states, have been hurt by imported goods produced in low-income countries. As potential beneficiaries of the threatened sanctions, they adopted a position in favor of the aggressive bargaining strategy.[15]

But, despite textile manufacturers' support for threats to impose sanctions against China, the U.S.–China copyright dispute exposed a fundamental dilemma for U.S. trade relations with China. While the United States would like to have ensured more adequate protection for

American IPR through aggressive market-opening actions, it also was not willing to expose the labor-intensive manufacturing sectors to the effects of countersanctions. Moreover, due to the high level of trade complementarity between the United States and China, there was a particularly large constituency reluctant to see sanctions imposed on China. This import-using constituency's active opposition to sanction threats did not help the U.S. position. It only served to diminish the credibility of American threats in the eyes of the Chinese.

Opposition from American exporters and investors further eroded the American credibility. The three largest automobile manufacturers, for example, were strongly opposed to any measures that would upset the U.S.–China trade relationship. They were worried that sanctions, if carried out, would curtail their investments in joint ventures in the short run and would reduce their access to a potentially lucrative market in the long run. Ford Motor Company, one of the auto manufacturers with extensive investments in China, urged the administration to undertake high-level negotiations with China to find a solution to piracy that would avert sanctions.[16] Similarly, GM, which was negotiating an investment project worth $2 billion in an automobile manufacturing venture in China, expressed the concern that a trade war might jeopardize both current and future investments.[17] The big three auto manufacturers, which feared that they could be frozen out of one of the highest potential markets in the world, thus became outspoken opponents of sanction threats in the IPR dispute.

Aerospace companies, whose main concern was capturing a bigger share of the Chinese aerospace market, which now ranks third behind the United States and Japan, also did not want to see sanctions imposed on China. Aerospace giants with heavy investments in China, such as Boeing, were concerned that they might become the target of counterretaliation in a trade row. These companies argued that, in the event that sanctions were carried out, China could easily turn to competitive European companies, causing a major setback to their own attempt to gain a greater share of the Chinese market. With access to the China market at stake, the aerospace companies vigorously opposed the Clinton administration's sanction threats.[18]

More generally, executives of major U.S. industries expressed concern that the administration's tough approach over Chinese piracy could lead to a wider trade conflict and endanger their ability to compete in the vast Chinese market, especially in view of the Chinese government's threat to suspend U.S. investment projects in China. The U.S.–China Business Council, an organization of chief executives from one hundred of the nation's largest companies, warned the administration that it should not allow differences with Beijing over piracy to poison the broader political and economic relationship between the two countries. Since most American companies saw China as one of their most promising foreign markets, they were worried that a trade confrontation with China would yield market share to European and Japanese competitors. Many company executives argued that imposing sanctions on China could backfire by making it harder for the United States to use its economic influence to bring about commercial, social, and political change in that country.[19] The prevailing view was that in fighting for Hollywood and Silicon Valley the United States would be putting the U.S.–China commercial relationship in jeopardy for a narrow and limited segment of U.S. business in China.

States and regions with heavy trade with China were likewise leery of the sanction threats. In 1992, when the United States threatened to impose sanctions for China's IPR infringement, the Washington State China Relations Council, representing more than one hundred companies in the Northwest that export to China, wrote a letter to USTR Carla Hills warning that "punitive measures imposed by the U.S. government and subsequent Chinese counter-retaliation would cost American companies hundreds of dollars in one fell swoop."[20] The council stated that American companies would emerge as the major victim of trade retaliation, as the Chinese would not find it too difficult to replace exports from Washington State with products from other countries. The council urged American negotiators to reach a compromise settlement with the Chinese through negotiations.

As in the MFN debate, therefore, the Clinton administration was learning that it could not punish China for its misbehavior without encountering opposition from other segments of the business community. Highly mixed feedback from American companies and business associations weakened the position of USTR Mickey Kantor, making it more difficult for him to convince Chinese authorities of the U.S. determination to carry out the threat if China failed to satisfy U.S. demands. Acting on the assumption that the USTR himself was reluctant to impose sanctions, the Chinese delayed most negotiations until the last moment. With the deadline approaching but no agreement in sight, the USTR was placed in the disadvantageous position of having to find a quick solution to the dispute. Having no other alternatives, he had to accept Chinese guarantees of better IPR enforcement.

In terms of the policy preferences of the executive, it seems that the USTR initiated the Special 301 investigations out of a genuine concern about the harm that rampant piracy in China caused to American business interests. At first glance it appears that the administration adopted a sufficiently tough stance on the IPR issue in order to protect American jobs and economic interests. But a more careful analysis would suggest that the White House did not really want to see a trade war with China and that it threatened sanctions on IPR in part to defuse the broader movement in Congress to terminate China's preferential trading status. Indeed, as the negotiations over IPR unfolded, the administration came under strong pressure from large segments of the business community to soften its position. Broader economic and strategic concerns also constrained the administration from adopting an overly punitive measure. Hence, despite its tough rhetoric, the White House had strong incentives to avoid confrontation with China.

In the first place, as various domestic constituencies raised their complaints about trade barriers and other anticompetitive actions they faced in China in the Special 301 petition process, the homogeneity of the U.S. negotiation position was sharply reduced. The increase in the number of interested parties with different views placed a larger set of constraints on the principal negotiators of the United States. The executive was forced to find a compromise deal that could be ratified by all the major constituents involved in the dispute. Unwilling to expose importers and users of labor-intensive manufacturing products made in China to the effects of countersanctions or to see exporters lose out to Japanese and European competitors in the China market, the Clinton administration had to put together a package deal that would advance the agendas of all the groups without satisfying any one completely. The outcome of the IPR negotiations reflected such a package deal: the United States refrained from carrying out the threatened sanctions, much to the relief of the import-using interests in the United States, and China modified its copyright laws, partly satisfying the copyright industries. In each round of the IPR negotiations, the United States obtained concessions from China not large enough to fully satisfy the copyright industries but sufficient to show Congress and the general public that progress was being made and to avoid imposing sanctions.[21]

Considerations for the overall U.S.–China relationship complicated the decision-making process. For example, after the USTR threatened to impose sanctions on China in 1996, a number of Clinton administration officials expressed concern that the imposition of trade sanctions on China could jeopardize other vital U.S. interests. In particular, the State Department, a vocal advocate of a "soft line" toward the

Chinese throughout the IPR dispute, argued that a trade war with China would endanger important U.S. interests such as the security of Taiwan, the termination of the sale of Chinese missile and nuclear weapons technology to Pakistan and the Middle East, and the improvement of China's human rights record.[22] Administration officials were concerned that trade sanctions would merely reinforce Chinese intransigence. Since U.S.–China trade was becoming more important, they were wary of having that relationship disrupted.[23]

Thus, while Chinese piracy of American intellectual property products posed a threat to legitimate American interests, the White House did not consider it worthwhile to compromise broader American economic and strategic interests over a single trade dispute. In the process of addressing different constituency demands, the American negotiating team refrained from carrying out trade sanctions against China and ended up with incomplete solutions to the main problem—better copyright enforcement in China.

Chinese Perceptions

Despite the substantial pressure exerted by American negotiators on the IPR issue, Beijing held out against the American demands in part because it was cognizant of its bargaining leverage vis-à-vis the Americans. On the one hand, as the Chinese learned from media reports and congressional hearings about importers' staunch opposition to sanction threats, they became less apprehensive that the United States would actually impose sanctions and more confident that a trade war would inflict significant damage on both American importing and exporting interests. For example, when the United States threatened to impose import tariffs worth $1.08 billion against Chinese production in 1995, MOFTEC minister Wu Yi responded, "There is nothing terrible [about this threat]. . . . China can simply turn elsewhere. . . . There are countless markets abroad for Chinese products. This is nothing that we cannot deal with." Referring to other partners' willingness to fill any void resulting from the possible disruption in U.S.–China trade, Wu Yi stated even further that "Other countries are happier about this."[24] During the 1996 piracy dispute, Wu Yi again proclaimed that, in the event that the United States imposed sanctions, China would not "be the only victim" and that the Americans "would also have to suffer."[25]

On the other hand, well aware of the importance of the China market for American exports and investments, Chinese negotiators regularly threatened American companies such as AT&T, Boeing, and Chrysler as well as the Midwestern farmers with lost sales and investment if U.S. demands for IPR protection became too stringent. As Zhou Shijian, of China's International Trade Research Institute, explained, "The United States could gain nothing from retaliation" because by imposing sanctions "the United States is risking losing an emerging new market for both U.S. products and capital."[26]

The general perception in Beijing was that the U.S. industry was far more divided than what American negotiators portrayed and that Hollywood and Microsoft could be pitted both against importers eager to maintain their steady supply of labor-intensive products from China and against investors and exporters (such as Boeing, Ford, and GM) wanting to maintain expanded access to the Chinese market. These divisions in American industry were both real and palpable. They help to explain why Beijing's position seemed to stiffen a bit more with each annual cycle of American threats and counterthreats. Indeed, with each Sino-American trade row, the Chinese were becoming increasingly adept in their counterretaliation threats. In 1996, when Washington issued threats of sanctions valued at $2 billion, followed swiftly by Beijing's vows to counterretaliate, Beijing's official newspaper, the *China Daily,* boasted that China's sanctions would be of higher value than the U.S. list because they would affect U.S. imports as well as U.S. investment in China.[27] Confident that the United States would not go so far as to actually implement the threats due to conflicting domestic interests, Beijing was less than enthusiastic in complying with American demands.

Summary

In several rounds of U.S.–China IPR negotiations, U.S. negotiators repeatedly refrained from carrying out the threatened sanctions due to highly contradictory domestic pressure. The IPR negotiations revealed to American negotiators that trade sanctions were essentially a double-edged sword that could not be imposed on Chinese producers without also inflicting pains on this side of the Pacific. The negative repercussions of the sanctions would include increased duties on some U.S. importers, higher prices for consumers, and shortages of goods that could not be easily replaced. Even importers that could find alternative sources of supply would likely face higher prices for those goods. As diverse U.S. business interests voiced their opposition to the sanctions, they not only diminished the credibility of American threats but also reduced the cohesiveness and persuasiveness of the IPR lobby and constrained U.S. negotiators from carrying through the threatened sanctions. In this sense, divided domestic politics created by complementary trade relations proved to be a key factor mitigating the propensity for trade war between the United States and China. In the U.S.–China textile and apparel disputes described in the next section, trade complementarity again spurred textile and apparel importers and retailers into active opposition, reducing the chances for a full-scale textile trade war between the two countries.

The U.S.–China Textile Wrangle

An Overview of U.S.–China Textile and Apparel Trade Disputes

Textiles have been a frequent source of friction in U.S.–China trade since the early 1980s, when the reorientation of China's development strategy away from autarky in favor of the development of labor-intensive, light-manufacturing sectors began to stimulate the rapid growth of China's textile industry. The resulting surge in Chinese textile and apparel exports caused considerable disruption to American manufacturers, resulting in charges that Beijing resorted to unfair and often illegal measures to evade U.S. textile quota restrictions. Although in September 1980 the two sides managed to enter into a formal bilateral textile agreement in which the United States relaxed some quota restrictions, the agreement did not appease Chinese manufacturers, who continued to complain about what they perceived as overly stringent U.S. quota restrictions. Chinese producers' search for export expansion subsequently led to a surge in China's exports of textile products not covered by the agreement.[28] Thus, beginning in 1982, American textile manufacturers pressured the U.S. government to undertake investigations of China's export practices and to strictly enforce U.S. trade laws if Chinese textile manufacturers were found to have violated the agreement. When Beijing refused to accept the 1 percent cap American negotiators sought to place on the growth rate of a greater number of Chinese textile exports, Washington in January 1983 unilaterally imposed rules increasing the number of Chinese textile product categories subject to quantitative restrictions to thirty-two and reducing China's total quota allowances by 16–45 percent, inviting Chinese retaliation against American agricultural products.[29] China did not withdraw these retaliatory measures until July 1983, when the second textile trade agreement went into effect.[30]

Throughout the rest of the 1980s, U.S. textile trade policy toward China became increasingly protectionist. What became particularly frustrating to American officials was China's inability to comply fully with the terms of the bilateral textile agreement, as Chinese textile producers increasingly adopted illegal means, such as forging fraudulent country-of-origin certificates, to bypass U.S. quota restrictions. As illegal transshipment of Chinese textile products via third countries became the focus of U.S.–China textile disputes in the 1990s, the United States has several times (in 1991, 1994, and 1996) threatened to cut back China's textile quotas in retaliation against continued Chinese transshipment of textiles and apparel. However, U.S.–China textile disputes have become less confrontational over time. In each round of negotiations, Beijing protested the U.S. action with its own retaliatory threat but nevertheless backed off right before the threatened deadline with the signing of a new textile agreement in which both sides made compromises. The only exception took place in 1994, when the United States carried through with threats to impose unilateral quota restrictions on Chinese textile exports in retaliation against continued Chinese transshipment of textiles and apparel via Hong Kong.

However, even though the United States did adopt unilateral quota restrictions in the 1994 textile dispute, it is important to note that this measure was primarily intended to correct Chinese practices that clearly violated U.S. trade law. Unlike other U.S.–China cases described in chapter 4 that concerned U.S. exports to the Chinese market, the textile dispute mainly involved U.S. imports from China. In such import-related cases, protectionist forces have generally played a more important role in the policy process. Moreover, the textile restrictions against China took place against the backdrop of tightened U.S. textile import policies from other developing countries in general. Nor did U.S. trade restrictions invite Chinese retaliation. Therefore, the relatively less tranquil history of U.S.–China textile dispute as compared to other trade confrontations between the two countries may need to be viewed in relation to the issue dimension.

Nevertheless, even though they concerned an import-related issue and so were more susceptible to protectionist pressure, the textile trade disputes created divisions among domestic groups in the United States. Although American textile manufacturers had a strong interest in restricting Chinese textile exports to the American market, American importers and retailers of textile and apparel products lined up against the sanction threats. As in other U.S.–China cases, the active opposition of the import-using constituency muted incentives for confrontation. This pattern of domestic interest alignment was easily discernable in the late 1980s and 1990s, after China established its position as America's largest supplier of textiles and apparel. During this period, opposition from textile importers and retailers undercut the effectiveness of textile manufacturers' efforts to obtain trade relief. In the early 1980s, U.S. importers, as they had in the textile wrangle in the subsequent decade, also voiced opposition to the threatened sanctions. However, since Chinese textile exports had not yet achieved the prominence they later attained, U.S. import-using interests were far less powerful and active and hence did not prevent the U.S. government from responding to the powerful, protection-seeking manufacturing interests. The following sections will compare the earlier U.S.–China textile dispute with the negotiations that unfolded in the 1990s, highlighting the importance of a strong import lobby in ameliorating protectionist pressure.

Textile and Apparel Trade Dispute: The Early 1980s

American textile and apparel manufacturers started to press the government to restrict textile imports through various bilateral and multilateral arrangements as early as the 1960s. As textile trade between the United States and China expanded rapidly after the conclusion of the first bilateral textile treaty, threatening the dominance of U.S. textile manufacturers in the domestic market,[31] it drew the immediate attention of American textile producers. Textile and apparel manufacturers were concerned that, as the fastest-growing exporter to the United States, ranking only behind Hong Kong, South Korea, and Taiwan, China's huge export capacity would disturb the existing market balance. As a result, they increasingly sought consultations with China to maintain orderly trade.

In August 1982, U.S. textile producers submitted two petitions to the Commerce Department and the USITC, charging Chinese companies with dumping in the U.S. market and seeking penalty duties on Chinese-made fabrics. The textile industry clearly hoped that the trade complaint would send a clear message to the administration about the growing Chinese threat to the U.S. industry. In both cases, Chinese producers were found to have dumped in the American market. In October 1982, under intense pressure from both textile and apparel producers, American negotiators sought to reduce China's textile export growth in negotiations with Beijing. By the end of 1982, frustrated with the slow progress of bilateral negotiations for a new textile agreement to replace the 1980 treaty, U.S. chief negotiator Peter Murphy threatened to impose unilateral quota reductions against imported Chinese textile products.

Textile producers' attempt to tighten import restrictions on China met with strong resistance from importers of textiles and apparel from the very beginning. In November 1982, textile and apparel importers filed a suit with the United States Court of International Trade against the government's stringent import control program, claiming that the restrictive measures against textile imports, often taken without valid finding of market disruption, had frequently forced importers and retailers to pay higher prices, to face delays and embargoes of goods, and to deal with alternative, less reliable suppliers.[32] While the suit was directed at the government's tight import control policy in general, it specifically challenged the U.S. textile policy toward China.

The Reagan administration, despite its ostensibly free trade rhetoric, insisted on maintaining tight controls on textile imports. One of the key objectives of the Reagan team's textile policy was to peg overall textile imports to the United States from low-cost suppliers to the growth of the domestic market, pursuant to the guidelines of the Multifiber Agreement. But Washington's target of a 1.5 percent annual growth rate, which was far below the 6 percent growth rate called for by Beijing, exacerbated the difficulties of reaching an agreement. In January 1983, when talks failed to reach a successful conclusion, the United States announced the decision to impose unilateral quotas on Chinese textile imports. China reacted to the U.S. restrictions by immediately suspending imports of cotton, synthetic fibers, and soybeans from the United States, items that were among the most important U.S. exports to China.

The outbreak of a U.S.–China "trade war" over textiles presents an anomaly to the overall pattern of "trade peace" between nations with complementary trade relations posited in chapter 3 but is explicable in terms of the United States' overall textile trade policy and of the lower level of China's textile exports to the United States in the early 1980s. In the first place, it should be noted that, while the executive branch of the U.S. government had been traditionally a key advocate of liberal international trade policy, it had afforded special protection to the textile and apparel industry on several occasions to satisfy the large domestic constituency represented by the industry. Although the textile and apparel industry had suffered long-term structural decline and was facing major difficulties in remaining competitive in global markets, it was able to provide critical support in presidential elections because of its size and concentration in key regions. Domestic pressure, reflecting the combination of industrial alliance strength and the degree of institutional access, had in the past forced U.S. policymakers to provide trade relief to textile and apparel manufacturers despite their professed ideological inclination toward free trade.[33]

The Reagan administration, in spite of its endorsement of free trade principles, was not insulated from protectionist pressures. Previous studies of American trade policy found that, in part due to its institutional setup, the Reagan administration had developed a pattern of embracing free trade in principle but tightening protection in practice. Between 1981 and 1984, the Reagan administration in several cases failed to mobilize countervailing interests against the protectionist forces in the early stages of the industry's trade-relief campaign, thus allowing the powerful textile manufacturing interests to define the issue.[34]

In the textile trade dispute with China in the early 1980s, the powerful and organized protection-seeking textile manufacturers enjoyed an advantage over importers and retailers, who were driven by prospects of direct economic losses to oppose the protectionist forces. Since Chinese low-cost exports at that time had not penetrated the U.S. market as extensively as they had by the 1990s, sanction threats did not mobilize as wide a segment of the U.S. importing and retailing community into active and effective opposition. An early study of the relative strengths of the pro- and anti-protection forces in the 1983 textiles case found that the anti-protection potential of importers and retailers, measured by the employment figures of these directly affected sectors, was merely 21 percent of the proprotection potential of textile and apparel manufacturers.[35] As the first group to begin working on textile trade policy toward China, the textile lobby was able to derive significant benefit from the policy process. As a result, resistance by importers and retailers of textiles and apparels, which were not yet organized at this time, did not undermine the ability of textile manufacturers to achieve their political objectives.

Developments in 1983 did nothing to dispel the tension in U.S.–China textile trade disputes. In March 1983, as the United States and China resumed negotiations toward a new textile agreement, textile producers launched a more intensive lobbying effort against liberalizing textile trade with China. In the same month, the International Ladies Garment Workers Union initiated a "spring offensive" against garment imports, calling on Congress to reduce the share of garment imports in the domestic market by 41 percent.[36] Textile producers also released reports emphasizing the need for protection in order to sustain their international competitiveness.

Retailers, meanwhile, protested textile producers' demand for import restrictions. Uncertain about clothing supplies, retailers claimed that the Reagan administration's tight import restrictions would raise retail prices of inexpensive clothing by nearly 20 percent. They argued that the unilateral quotas on Chinese textile imports violated the Multifiber Agreement's provisions regarding quotas for textile-exporting countries. The retail industry further charged that the restrictions constituted "unprecedented . . . protectionist actions" very disruptive to the entire import and retail trade.[37]

Consumers and farm interests entered the debate on the side of importing and retailing interests. Consumer groups complained to their representatives that it would be difficult for a large number of low-income families to find affordable clothing in the absence of inexpensive products from abroad. Agricultural groups, having already suffered more than $500 million in lost sales by mid-1983 because of Chinese retaliation, also started to press the executive to negotiate new quota levels with China. Agricultural producers brought in Senator Robert Dole from Kansas to counter Congressmen Jesse Helms and Strom Thurmond, two major textile industry champions. As a result of these conflicting domestic pressures, the Reagan administration reached an agreement on new quota levels with China in August 1983, allowing Chinese textile exports to increase by 3 percent a year rather than the 1.5 percent originally demanded by the United States.[38] China withdrew the restrictions on American agricultural products shortly after the conclusion of the agreement. The issue was thus reached to the satisfaction of American agricultural interests but left U.S. textile and apparel producers disgruntled. Industry organizations such as the American Fiber, Textile, and Apparel Coalition and the Federation of Apparel Manufacturers reacted particularly strongly against the agreement and the large cumulative increase of Chinese textile imports that it would generate by 1987.[39]

Unwilling to accept the terms of the new agreement, textile manufacturers started another round of concentrated lobbying effort in September 1983. In a surprise move, the ATMI, the International Ladies Garment Workers Union, and the Amalgamated Clothing and Textile Workers Union submitted a petition to the Commerce Department charging that the Chinese government's subsidization of textile and apparel export production had caused substantial material injury to the domestic industry and was actionable under U.S. countervailing duty (CVD) law. The textile manufacturers contended that the Chinese government, by allowing its export-oriented enterprises to enjoy a more favorable exchange rate than the official exchange rate, in effect subsidized its textile exports. They pointed to a number of other Chinese policies such as preferential access to raw materials, foreign-exchange loans, and preferential tax policies as additional evidence of government subsidization. The textile manufacturers argued that, since the U.S. government in the past had levied CVDs against government subsidies by other countries, the Chinese case should be adjudicated according to these precedents.[40] The petition was significant because it was the first time that U.S. textile manufacturers had invoked the CVD statute against exports from nonmarket economies.

Divergent views about the wisdom of applying the CVD law against China were expressed at a public hearing in November 1983. American importers and retailers of Chinese textile and apparel products were the major actors opposing the application of CVD law to a nonmarket economy such as China. Large textile retailers that depended on apparel imports from China, represented by the American Association of Exporters and Importers (AAEI), strongly objected to the textile manufacturers' position. By the early 1980s, China was already the world's largest textile producer and the fourth-largest exporter of textiles and clothing to the United States. Due to the competitive prices of Chinese exports, most major U.S. department stores and specialty stores carried products made in China. Some retailers even had clothing produced in China to their specifications. Swelling Chinese exports, therefore, drove them into action.

Importers and retailers argued that unlike antidumping laws, which contained specific language with regard to application to nonmarket economies, the CVD statute did not incorporate such provisions. Moreover, conceptual and measurement problems would exacerbate the difficulties involved in the application of law. The countervailing duties, if implemented, would also have substantially raised merchandise costs. Applying the CVD law to Chinese textile exports, the importers concluded, would be neither a realistic nor a feasible option. Large retailers such as Sears, Kmart, and J.C. Penney, all members of AAEI, contended that the proposed quota restrictions would disrupt merchandise delivery schedules and increase the price they would have to pay for Chinese products. In addition, they pointed out that, since the data upon which the U.S. quota system depended were obsolete, the import restrictions the U.S. government was trying to negotiate was not entirely reasonable.[41] Also, the Retail Industry Trade Action Coalition (RITAC), another major opponent of the textile lobby representing such companies as Sears and J.C. Penney, went on the offensive, arguing that current import restrictions would cost domestic consumers up to $27 billion a year.

A number of other groups relying on inexpensive Chinese products supported the contention made by the AAEI. The National Retail Merchants Association, Kmart Corporation, Federated Department Stores, the U.S. Wheat Associates, and the National Council on U.S.–China Trade were among the groups that opposed the textile manufacturers' petition. As China's low-cost manufacturing exports to the United States rose, U.S. importers and retailers became increasingly wary of trade sanctions that threatened to cut off their access to an inexpensive import market.

The dividing line in U.S. politics in this case was thus clear. On the one side were U.S. producers of apparel, textiles, and textile fibers and their industry unions, which resolutely sought protection from imports. On the other side were American retailers, which strongly believed that it was in American consumers' interests to have access to inexpensive imports. Producers' and importers' views on the issue were contradictory.

The textile producers' petition elicited heated debate among U.S. policymakers. Commerce Secretary Malcolm Baldrige and White House advisors Edwin Meese and James Baker, with an eye to the upcoming elections, supported going ahead with the sanctions. However, Secretary of State George Shultz, due to his concern about the broader U.S.–China relationship, and USTR Bill Brock, out of a reluctance to provide protection to a fading domestic industry at the expense of exporting interests, opposed the action. President Reagan—faced with substantial pressure from an industry considered by some to be "the most aggressive, vicious, demanding lobby in the country" and following the pattern of bilateral textile negotiations established by previous negotiations[42]—eventually opted to overrule the majority of his cabinet and in December 1983 announced decisions to enforce strict controls on Chinese textile imports through executive order.[43] Under the executive order, the interagency Committee for the Implementation of Textile Agreements (CITA) was authorized to engage in bilateral consultations with the Chinese government with regard to textiles and apparel products and to implement new restrictions if Chinese import penetration reached a certain level. China allegedly failed to comply with the terms of the 1983 agreement. This not only hampered the ability of CITA to fully implement the executive order but also left textile trade a major contentious issue throughout the rest of the 1980s and well into the 1990s.

U.S.–China Textile Trade Dispute in the 1990s

Chinese textile and apparel exports to the United States remained a focus of disagreement in the 1990s as American textile and apparel makers increasingly shifted their concern to illegal Chinese transshipment of textile products through third countries with extra quota allowances (such as Hong Kong and New Zealand) in order to increase sales of Chinese textiles to the American market. American textile manufacturers alleged that illegal Chinese transshipment in the early 1990s far exceeded the $4.5 billion specified in the bilateral agreement, amounting to $2 billion annually and costing more than fifty thousand American jobs.[44] To ensure U.S. producers' share of the American market, the United States threatened to substantially reduce China's textile quotas unless the Chinese government took measures to address the problem.

For its part, Beijing acknowledged the existence of the transshipment problem but questioned the U.S. estimate of the amount of illegal transshipment, contending that the lack of effective control over the behavior of nonstate enterprises and trading companies accounted for the difficulties of eliminating the problem. It was against this backdrop that the United States in 1994 and 1996 twice again threatened to restrict unilaterally Chinese textile and apparel imports. However, as mentioned earlier, the two rounds of negotiations that followed did not spark a trade war, as the two sides managed to conclude eleventh-hour agreements. The ability of the two sides to avert the trade war outcome could be explained by vociferous opposition from American textile importers and retailers that substantially weakened the case of textile producers, making it more difficult for U.S. negotiators to carry out the threat.

For example, when USTR Mickey Kantor announced on January 6, 1994, that the United States would cut China's textile quotas by 25–35 percent if a new bilateral agreement could not be signed by January 17, reaction from domestic interest groups was highly contradictory. Apparel manufacturers naturally supported the action, which in their view would help to lessen the impact of competition they faced from Chinese products and would preserve some American jobs. Textile manufacturers and unions, having lost market share due to swelling exports from China and other developing countries and disgruntled over the Clinton administration's failure to win them the long-term protection they had sought in the recently concluded global trade talks, also welcomed threats to limit the imports of clothing and fabric from China. Protectionist pressure from the U.S. textile industry and some members of Congress thus bolstered the case for a more confrontational approach to trade.

But the Clinton administration's toughened stance also encountered criticism from American textile retailers, which were becoming progressively more dependent on China's low-cost textile output. Retailers urged the administration to reach a negotiated settlement with Beijing on the grounds that sanctions would substantially raise the prices of their goods in the United States. The share of Chinese textile products in the U.S. market had increased substantially by the early 1990s. While in 1988 China was still the fourth-largest supplier to the United States, by 1993 it had become the largest supplier to the American market. Chinese textile exports to the United States increased from $1 billion in 1983 to $7.3 billion in 1994, supplying 20–25 percent of all the textiles and apparel sold in the United States.[45] The threatened cuts, if carried out, would have cost U.S. importers and retailers $300 million in Chinese-made clothing. The textile dispute, therefore, pitted the politically influential textile industry against major U.S. retailers such as J.C. Penney, Gap, Sears, and Wal-Mart, all of which relied on low-cost Chinese textile products.

U.S. importing and retailing associations spearheaded the lobby effort against trade sanctions. AAEI, a main protagonist in the 1983 dispute, once again emerged as one of the most forceful opponents to the sanction threats. The association criticized the administration for exaggerating the magnitude of the transshipment problem, contending that most textile importers would suffer directly in the event of a trade war, as they would be forced to absorb the losses incurred from trade restrictions and the resulting political uncertainty. According to importers, although sanctions may not be devastating to most wholesalers, which had diversified sources of supply, they would force them to search for alternative sources of supply in other textile-producing countries and regions, where labor rates would be much higher or where U.S. importers would be required to make long-term commitments.[46]

The National Federation of Retailers further charged that evidence on the scope of the transshipment problem was inconclusive. The federation warned that, if the United States made good on its threats, it would restrict its access to an "important supplier of moderate-priced consumer apparel."[47] The federation pointed out that American consumers would be the real losers in such an event. It further commented that, although American makers could theoretically fill the gap, they would not be able to do so "at the same quality and price."[48]

USTR Mickey Kantor's threat of trade sanctions brought cries of outrage from a number of other organizations and companies as well. The National Apparel and Textile Association, a Seattle-based organization representing a fair number of textile importers, argued that big retailers that depended heavily on China would suffer heavy losses if the sanctions were carried out. The U.S. Association of Importers of Textiles and Apparel, based in New York, made the familiar allegation that the United States had not offered sufficient evidence to back up its claims about the transshipment problem and criticized the Clinton administration for "playing with fire" through the threatened sanctions. Companies such as Gap cautioned that the cutback would strain the production capacity of apparel factories in other Asian countries and would raise the prices for American consumers, particularly low-income consumers.[49]

Business associations directly involved in U.S.–China trade joined textile manufacturers and retailers in the battle against the quota reductions. The U.S.–China Business Council cautioned that, since textiles accounted for a large portion of U.S.–China trade, a major trade confrontation in this area would have far-reaching implications for overall economic and trade relations between the two countries. Echoing the concerns of export-oriented groups, the council stressed that U.S. brinkmanship might also induce Chinese retaliation against leading U.S. exports to China such as aircraft, computer, telecommunications, and grain exports.[50]

A senior U.S. Treasury official reportedly commented on the 1993–94 textile negotiations that "one of the things the Chinese need to understand is that for the first time in seven years, Washington is speaking with one voice."[51] But even with one voice, it was sending highly contradictory messages. With importers and retailers calling positively for an amicable settlement of the dispute, the USTR was placed in the middle of a dispute involving two politically active groups and had difficulty justifying the decision to impose the sanctions.

This pattern of interest group alignment repeated itself in 1996 when the United States again threatened to impose sanctions on Chinese textile and electronic goods for China's violation of the 1994 textile agreement. On the one hand, the ATMI, representing textile manufacturers, whose market share had undergone a steady erosion due to the huge inflow of Chinese goods, charged that China had counterfeited textile designs and trademarks, illegally transshipped $2–4 billion of textile and apparel products to the United States each year, and kept its market closed to American products. On the other hand, American importers and retailers had mounted a strong counteroffensive against the textile producers' position. The U.S. Association of Importers of Textiles and Apparel, for example, questioned the government's estimate of the magnitude of the transshipment problem and criticized the Clinton administration for targeting textile imports to appeal to the powerful textile interests in a presidential election year. Importers asserted that the sanctions would make life more uncertain for them and urged the administration to more fully take into account the impact of the sanctions on the American manufacturing, retailing, and consuming community.[52] Although the U.S. government claimed that most of the sanctions would be imposed on goods available from sources other than China and therefore would incur minimal costs, importers pointed out that the sanctions would cause considerable difficulties to small manufacturers that simply could not afford to shift production. Particular sectors of the apparel industry (such as the silk apparel sector) were especially worried about the possibility of Chinese retaliation due to their high vulnerability to restrictions on Chinese silk exports. The industry moved quickly to publicize its vulnerability to Congress and the USTR, emphasizing in particular the importance of a steady silk supply to the maintenance of jobs and stable price.[53]

While the sanction threats brought importers into the fray, they energized export-oriented interests (including auto, wheat, and aircraft producers), who also feared the consequences of Chinese retaliation. As in the 1994 disputes, export interests argued that sanction threats might provoke Chinese retaliation, placing major U.S. exporting items to China in jeopardy. Given the prospect of a rapidly expanding China market, exporters urged U.S. negotiators to be more prudent in their choice of trade weapon. These countervailing forces in U.S. domestic politics, stemming from importers' and exporters' concerns about potential economic losses, therefore placed a major constraint on American negotiators' actions.

Chinese Negotiation Strategy

The Chinese detected the divisions among domestic actors in the United States early on and adroitly manipulated these divisions to advance their own negotiation objectives. Beijing's threat to target

TABLE 6.1. Profiles of Main Actors Involved in U.S.–China Negotiations over Intellectual Property Rights and Textiles

	Companies and Associations	Position	Impact
U.S.–China Intellectual Property Rights			
Directly Affected Exporters	International Intellectual Property Alliance; Business Software Association; Recording Industry Association of America; Motion Picture Association of America; International Federation of the Phonographic Industry	Alleged that rampant piracy in China impeded American industry's attempt to gain genuine market access.	Successfully brought the issue of IPR protection onto the policy agenda.
Exporters Not Directly Affected	Automobile and aircraft manufacturers; U.S.–China Business Council; Washington State China Relations Council	Concerned that sanctions would curtail American manufacturers' investments in the short run and reduce their access to a potentially lucrative market in the long run.	Joined import-using interests to oppose sanction threats; very influential.
Import-Competing Interests	—	—	—
Import-Using Interests	National Retail Federation; American Association of Exporters and Importers; International Mass Retail Association; American Apparel Manufacturers Association; National Apparel and Textile Association; U.S. Association of Importers of Textiles and Apparel; Toy Manufacturers of America; footwear manufacturers; Electronic Industries Association; American Forest & Paper Association; power tool manufacturers	Argued that Washington's pursuit of fair trade should not come at the expense of the American importing and retailing community. Sanctions would increase the price they pay for imports.	Very influential in opposing sanction threats; provided an important counterbalance to the IPR industries.

U.S.–China Textiles			
Directly Affected Exporters	—	—	—
Exporters Not Directly Involved	National Council on U.S.–China Trade; U.S. Wheat Associates; auto, wheat, and aircraft manufacturers	Argued that sanction threats might provoke Chinese retaliation, placing major U.S. exporting items in jeopardy. Urged U.S. negotiators to be more prudent in their choice of trade weapon.	Were one of the most outspoken opponents of sanction threats. Their active opposition in the early 1980s played an important role in removing the sanctions.
Import-Competing Interests	American Textile Manufacturers Institute; International Ladies Garment Workers Union; Amalgamated Clothing and Textile Workers Union	Argued that China's rapid textile export growth and illegal quota evasions caused market disruption. Advocated more stringent quota restrictions.	Supported highly protectionist policies; exerted considerable influence in the textile trade dispute.
Import-Using Interests	American Association of Exporters and Importers; National Retail Merchants Association; Kmart Corporation; Federated Department Stores; National Federation of Retailers; National Apparel and Textile Association; U.S. Association of Importers of Textiles and Apparel	Called for policies that would guarantee their continued access to inexpensive imports.	Actively opposed textile manufacturers' attempt to impose quota restrictions on Chinese imports.

businesses that desired either cheap imports from China or access to the Chinese market reflects Beijing's savvy about how to take advantage of the opportunities created by its complementary trade relationship with the United States so as to exploit the different policy preferences of interest groups within America. Consequently, the well-financed, politically powerful U.S. apparel retailers and agricultural interests became the most reliable partners of China in the 1983 textile dispute. Their opposition to the retaliatory measures soon forced Washington to reverse its decision and to withdraw the sanctions being imposed on China.

In June 1995, in response to the U.S. quota "charge back" decision, Li Dongsheng, director of the Trade Administration of the Ministry of Foreign Trade and Economic Cooperation, stated that the U.S. quota "charge backs" against China caused the United States nearly $100 million in losses and "great economic losses to U.S. importers, retail dealers and consumers."[54] During the negotiations over textiles in September 1996, Li again announced that U.S. plans to reduce Chinese textile quotas not only "seriously violated the Sino-U.S. textile agreement" but also "met opposition from American businessmen who are engaged in U.S.–China trade, according to American press reports." He further opined that some Americans have criticized the charging move as "politicising trade issues and political maneuvering in a presidential election year."[55] These comments by the Chinese negotiator reflected Beijing's expectation that domestic divisions within the United States might still help to reverse the decisions of the U.S. government and that latent support within the United States for its own case obviated the need for taking American demands seriously. Such perceptions allowed Beijing to continue to flout American pressure without having to make substantial changes in its practices in the textile sector.

Conclusion

In both U.S.–China intellectual property and textile trade negotiations, American negotiators failed to make good on threats to impose sanctions on Chinese products primarily because of opposition from the U.S. importing and retailing community. Some analysts may contend that, unlike in the MFN debate, U.S. business interests enjoy a much higher level of unity in both of these cases. But while opposition interests in these cases were far less vocal and prominent than in the

MFN case, they nevertheless influenced the policy orientation and position of the executive in a way that made an open trade confrontation less likely. Despite efforts by U.S. IPR-related industries and textile manufacturers to penalize China for its trade infringements, active opposition from a large constituency dependent on low-cost, labor-intensive products made it far more difficult for these industries to achieve their negotiation objectives in China. U.S. importers and retailers of such products as footwear, toys, apparel, and consumer electronics made the familiar argument that they would suffer severely if restrictions were placed on these Chinese imports, in effect constraining the IPR industries and textile manufacturers from escalating the conflict to a trade war. Table 6.1 presents a profile of the major U.S. interest groups involved in the U.S.–China negotiations over IPR and textiles.

The mutual imposition of sanctions in the textile case in the early 1980s constitutes an exception to the general pattern described here. But it can be explained in terms of the relatively low level of Chinese textile and apparel exports to the United States and hence the absence of organized political opposition on the part of textile importers and retailers during that period. As the volume of Chinese textile exports to the United States rose rapidly in the 1990s, textile importers and retailers became a more active political force in opposing the threats against China. In a context of generally protectionist U.S. textile policy, such opposition at least prevented U.S. negotiators from pursuing overly aggressive trade policies, lessening the chances of trade war between the United States and China. Due to these domestic divisions generated by trade complementarity, U.S.–China trade disputes have preserved a degree of cooperativeness.

The finding that U.S.–China trade disputes have not evolved into bruising trade wars is particularly salient in view of the fact that trade conflicts between the United States and China were not governed by democratic norms of conflict resolution, which, from the perspective of the "democratic peace" theory, would likely aggravate misunderstandings or otherwise increase the risk of a trade war. That the exact opposite of the pattern predicted by the democratic peace thesis has come to characterize U.S.–China trade negotiations suggests that institutional qualities of states, such as whether they are democracies or not, are not as relevant to trade bargaining outcomes as some analysts have assumed. Even in the absence of democratic institutions and norms, states' trading relationships can be considerably resilient if they are structured in a way that cushions the influence of domestic rent-seeking groups.