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EU's Strategy in its Trilateral Relationships with China and the US

China's Accession to the WTO

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Abstract

China's accession to the WTO was perceived as the West integrating the East into the international economy with market economy reforming the planned economy. The major actors, the United States (US) and the European Union (EU), with similar economic structures and ideologies were expected to cooperate and bargain the best offers from China. However, while the US adopted a confrontational approach, the EU was cooperational and constructive. The aim of this thesis is to explain why the EU behaved differently and how such move gives us hints about the future global economic structure and the corresponding interactions between actors. Realism perspective is used to analyse the EU's strategy in this trilateral relationships. I argue the EU started to perceive the US as a potential threat due to the US's dominance and aggressive intentions reflected by its practice of using economic sanctions for political objectives. Meanwhile, China was growing as a trade power. Under this changing power structure, China's accession came as an opportunity for both the US and the EU to influence the process. The EU, in order to balance and to contain its dependence on the US, chose to build partnership with China and to aggregate their economic capabilities, working as soft balancing. This case study is largely based on the official reports published by the European Commission in 1995 and 1998 and other secondary materials to support my theoretical arguments. In those reports, the EU explicitly stated that it had to make its own genuine European policy to China and considered building partnership with China was the only way to make its voices heard. I conclude that through engaging China into the global economy, the EU functioned as a bridge-builder, largely enhancing its strategic importance in the WTO and in the world economy.

Keywords: China's Accession to the WTO, EU, US, Realism, Alliance/ Partnership, Balance of Threat, Interdependence, Soft Balancing, Bridge-Builder

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List of Abbreviations

DSP	Disputes Settlement System/ Procedure
EU	European Union
GATT	General Agreements on Tariffs and Trade
MFN	Most Favoured Nation
PNTR	Permanent Normal Trade Relations
SEA	Single European Act
US	United States
WTO	World Trade Organization

1. Introduction

1.1. Subject of Study

The World Trade Organization (WTO) has been established since 1995, succeeding the General Agreement on Tariffs and Trade (GATT) System. For more than half a century, the GATT/ WTO has functioned as a platform for states to negotiate matters concerning freer trade and lower tariffs. It acts both as a force and a result of liberalization and increasing interdependence in the world economy.¹

China became a member of the WTO in 2001. Its accession had significant impacts and implications to both itself and the whole world. Economically, this could boost and help guarantee China's reform process till a mature market economy was established. Such a healthy economic market in China which had the largest population and potential market in the world was of every state's interests especially in the increasingly interdependent world. Meanwhile, China could enjoy an open access to export markets around the world. These economic influences would generate severe political impacts domestically and internationally. Because of such significant impacts, the implication of accepting China as a member of the WTO was huge. Politically, China's accession could be read as a seal of approval from the rest of the world about China's future role in shaping the world economy. (Eglin, 1997, p.489; COM (1995) 279/ final) Or to say that the world could no longer deny the significance of China's trading power. It might also be expected that there would be a change in the distribution of decision-making and world economy shaping power. China's accession implied there were more choices for states to ally with this growing trade power, to form influential strategic alliance or partnership in the world trade game in the future.

Though China had been developing as a key player in the world trade area, its accession negotiation was never smooth. Being described as a marathon negotiation, China took 15 years to reach final agreements with WTO members on the accession terms and conditions. It applied for GATT membership in 1986 and hoped to regain its status as a contracting party to the GATT. However, its entry status and human right standards were always the stumbling blocks. The United States (US), as the major and

¹ In the WTO, there are two primary norms which help liberalize trade. First, all members agree to extend unconditional most-favored-nation (MFN) to one another so that any benefits acquired by one state are automatically extended to all MFN partners. Second, any state which enjoys tariff reduction from another member should reciprocate to an equivalent extent. These two norms together serve to reinforce downward spiral of tariffs initiated by the actions of any one state. To make sure such liberalization is in a stable manner, however, 'safeguards' measures can also be adopted by state under special situations like severe market disruptions from increased imports. (Frieden, J A & Lake D A, 2000, p.299-300)

leading actor in the WTO negotiation, insisted that China should be considered as a developed country because of its powerful export capability and that had a significant impact on the international economy. (Lieberthal, 1997, p.24) On the other hand, China insisted to join the WTO as a developing country, because developing country status entailed a more lenient admission requirement with longer phase-in periods to bring the trade measures into conformity with WTO rules. Such a debate was agitated and intensified by the poor human right records that came into light after 1989 Tiananmen Event, and the annual grant of normal trade relations status by the US towards China. Consequently, entry status with its implied terms and conditions, and the most favoured nation (MFN) treatment linked to the human right issues, became the critical issues and major stumbling blocks in the accession negotiation. Meanwhile, after the Single European Act (SEA), the Maastricht Treaty and the Amsterdam Treaty, the European Union (EU) was becoming more and more consolidated and influential in world trade which had the power to act as leverage to the US, though the latter still dominated in the WTO negotiation.

1.2. The Purpose of the Study

In the 15-year-long accession negotiation, the US's approach was confrontational and driven by short-term commercial interests. Its strategy was a search for solutions through bilateral agreements with one agreement being made conditional upon fulfilment of another. (Eglin, 1997, p.493) With the concern of the US soaring trade deficit with China, increasing more than six times from 10,431 millions US dollar in 1990 to 68,677.1 millions US dollar in 1999, the US considered a growing China as a threat which needed the imposition of tougher conditions or approval procedures than those applied to other WTO members. Add to that the disappointment over China's human right record which thus legitimized such confrontational approach. (Tyson, 1997, p.37) Therefore, US's insistence on China's entry status as a developed country which required China to comply with all the WTO rules and norms immediately after accession was the most favourable and logical option for the US. And it is not surprising that the US required China to improve its human rights standards before it could be a member of the WTO.

For the EU, it could have been expected that its strategy would be in parallel with that of the US for a number of reasons. First, EU's economic structure was not dissimilar to that of the US: both are developed economies which specialized in high-end products, focusing on technology and service with low-skilled labour hitting the unemployment records. Second, the EU had similar ideology as the US. Both had developed market economy and mature democracy with large concern on human rights. Third, it was reasonable to assume that the US, with its strong power and dominant role in the WTO, could bargain the most favourable terms from China and get what the EU could not get in the negotiation. So following the main stream led by the US should not only be harmless for the EU but also in line with its own interests. After all, the EU might bury potential

conflicts into its relationship with the US if behaving differently or even in opposition to the latter. Therefore, it seemed rational for the EU to adopt and follow the US's confrontational approach on China's accession to the WTO.

Interestingly, however, the EU had taken a more positive stance and its position had consistently been based on stressing cooperation rather than confrontation. The EU emerged as a counterweight to US negotiating influence, progressively altering the course of China's accession proceedings, by proposing transitional membership as the entry status for China's accession. (Eglin, 1997, p.493-4) On human rights issues, the US preferred to punish by using economic sanctions, strict requirements on China's accession to the WTO, while the EU pursued an engagement policy to let China get in (the WTO) first and get it right later. (Guay, 2001, p.79; *The Economist*, 22/4/1995.Vol.335, Iss. 7911; p.33-4) To conclude, the EU has never been confrontational and strict in request of China entering the WTO as a developed country and/or using WTO accession as a stick to improve China's human rights standard.

Is it rational for the EU to behave differently and in opposition to the US? Is it in the EU's long-term interests? The purpose of this study is to depict how and explain why the EU acted cooperationally and softly in China's accession negotiation.

There are two main questions raised in this thesis:

- In China's accession negotiation, how did the EU behave differently when compared to the US?
- Why did the EU behave like that? More specifically, what could the EU possibly gain through acting differently especially softly, in contrast to the US's strong-arm tactic?

1.3. The Argument

I will use realist perspective and focus on the interactions between power structure and process to explain the EU's behaviours. Power structure refers to the distribution of power while process refers to the patterns and types of interactions between units. (Nye, 2005, p.36) It is believed that power structure will shape process and which in turn may change the power structure. In this thesis, balancing will be considered as a policy responding the power structure.

Balancing will be firstly elaborated in terms of power and then supplemented with Walt's balance of threat theory (Walt, 1990) to give a more comprehensive and accurate picture of balancing. Also, I will develop Keohane and Nye's interdependence concept (Keohane and Nye, 2001) to enrich the understanding of threat and balancing. All these theoretical concepts will be integrated and applied to explain EU's behaviours in responding the changing trading power structure. Needless to say, economic relations can

generate broader political implications. EU's behaviours can definitely give us useful insights about the overall power structure.

1.3.1. Power Structure: (Re)distribution of Power

After the Cold War, the US, which seemed to emerge as the sole superpower with no realistic rivals in the political and security spheres and with a renewed economic vitality, was likely to undermine the view of the EU and Asia as potential superpower rivals and so behaved more unilaterally and strongly. (Smith, 2004, p.237) On the other hand, in the absence of immediate threat from the Soviet Union, the economic disputes became more drawn out, complex and damaging to the transatlantic relationships. The EU, which attempted to become a more influential actor in international political affairs, was getting more and more frustrated about the US's unilateral behaviours. (Guay, 2001, p.73) This difficult US-EU relationship was also shown in the GATT/WTO trade disputes over agricultural issues, audiovisual production, banana trade and treated food. The EU used its *1999 Report on United States Barriers to Trade and Investment* to criticise the US's trade and investment barriers. One of the major criticisms was accusing the US's unilateralism.

Meanwhile, China's share of world trade has been increased from 1% to 3% over the last quarter century and the World Bank projects that it will triple again by 2020, making it the world's second largest trader. (Martin, 1997) Evidently, China has been developing as a trade power. It is expected that there is a change in trade power distribution which may induce change in overall power structure. Whereas power structure is undergoing redistribution due to the significant economic growth of China, China's accession to the WTO just came in at the right time to provide the major actors, the EU and the US, with opportunities to influence the redistribution.

To sum up, after the Cold War, the US was the only superpower which tended to behave unilaterally. On the other hand, the EU had more and more economic disputes with the US and began to object the US's unilateralism. At the same time, China has been growing as an influential trade power which together with the changing EU-US relationships has subtly induced a redistribution of power in the economic power structure. Therefore, China's accession to the WTO was just a good chance for the EU and the US to shape the changing power structure. In particular, if we take China's growing market into concern, its WTO membership means much more than just giving her a vote. Rather, it gives China a pair of economic shaping hands. So the accession negotiation became an arena, for the EU, the US and China (though China could only react quite passively), on which terms and conditions were set and through which power structure was influenced.

1.3.2. Balancing as the responding policy

In this thesis, I try to find out how these three major actors in the world, in particular the EU, react and behave accordingly and trace whether there is any pattern or tendency for them to cooperate and form a kind of partnership or even alliance with each other as a mean of balancing to respond to this new power structure. Especially, getting China into the WTO meant there would be one more influential player in the game for forming alliance or strategic partnership.

First, I argue that the US's dominance and its unilateral behaviour in the WTO and particularly in China's accession negotiation constituted a potential threat which motivated other actors to form alliance or partnership *against* this threatening power. It is especially true for the second-tier powers like the EU which prefers engagement to US's punishment tactic. Second, by applying interdependence concept, I state any asymmetrical interdependence in a relationship may become a threat to the more dependent side. I argue that the EU, in order not to be over-dependent on the US in China's accession negotiation, adopted a different and softer approach towards China to show its constructive and cooperational stance, a signal of building partnership. Such a partnership with China could help the EU to balance the threats stemming from the increasing asymmetrical dependence on the US in China's accession negotiation and the US's unilateral behaviours in the WTO generally. The advantages of this strategy are threefold. First, the EU could balance the threatening US's dominance and its unilateral behaviour. Second, the EU could contain any asymmetrical interdependence in its relationships with the US. Third, the EU made itself become a more important strategic player and partner in the WTO. And if this trend can succeed, the EU helps promote itself as a bridge-builder, opposing the US's unilateralism.

Though this thesis can only cover the case study in China's accession to the WTO, the answers we will be getting from the above questions should be able to provide new and useful insights to a broader picture of the power structure in the world, but not only limited itself in trade area. As Smith pointed out, it has been impossible to insulate the economic relations from the broader impact of political change. (Smith, 2004, p.247) Henceforth the economic power structure, in fact, gives us hints about the overall power structure. Also, without understanding the former, it is not possible to picture the latter completely. After all, when the power structure is known, we are better able to come up with an explanation and a prediction about the behavior of the major powers and who will benefit in the process. This is one of the main purposes of this thesis.

1.4. Delimitation of the Study

Though it is impossible to cover every issue to trace EU's strategy in its trilateral relationships with China and the US in trade area, China's accession to the WTO is able

to offer an interesting and significant case to analyse these relations. First, the US clearly adopted a strong-arm tactic and strict accession terms and conditions for China with insistence on developed country status, and urged China to improve its human rights standard before granting MFN treatment. Besides, China was so eager to join the WTO and became somehow passive in the accession process. In this regard, the EU's stance became critical. The EU's strategy and approach could thus have a determinant influence on the negotiation result. Second, because any WTO negotiation can have the power in shaping the world economy, the accession negotiation can really make a difference to the power structure and have important implications on the relationships between these major actors.

The level of analysis is subject to delimitation as well. Here I put the analysis at the systemic level so that I try to explain from the outside in, looking at the way the overall system constrains the states. As Nye (2005, p.36-7) said, system includes structure and process. They obviously affect each other. That is what I will attempt to illustrate in this thesis: how the power structure influences the EU's strategy, how its strategy then shapes the power structure and how this structure can help us to predict the future behaviors of these actors. It should not be taken to mean that domestic politics, individual decision-makers or political interests groups are unimportant. However, if a simple (and general) explanation is adequate, it would be preferable. Only when that is insufficient to understand the picture, we then look at the units of the system and add complexity till a reasonable fit is obtained. Of course, its generalizing ability will decrease. After all, systemic level analysis provides a good starting point. (Ibid)

1.5. The Literature and Methodology

Although the literature on China's accession is enormous, much of it does not address the questions identified here. Most of it analyses either the economic impacts of the accession on individual actors, or mainly the negotiation process between China and the US. The EU as a key major actor in the accession negotiation is nearly ignored let alone the relationships between these three actors. The literature inclines to focus on only one actor and discusses it in details, providing us with fruitful data while missing to link different actors together and to build up the connections between them with theory (ies) which can then be generalized and applied in other similar cases. Though some newspaper articles did mention the interaction between these three major actors, they lack in depth analyses.

In this thesis, I try to link all these pieces of valuable materials together and cut the irrelevant off to make a case study so as to answer the thesis' central question: how the relationships are between China, the EU and the US, with my particular focus on the EU's behaviour and strategy. In order to contribute to future studies in this field, I will not only apply the balance of power theory from a realist perspective on this issue matter, but also develop the interdependence concept, making it more relevant to this case study.

1.6. Disposition

To answer my questions posed in this thesis, I will firstly lay out the theoretical framework through explaining and developing the key concepts, balance of power, balance of threat and interdependence in chapter 2. Then in chapter 3, I will answer the first question: how did the EU behave differently, so as to give a clear background picture of the positions of these three major powers. In chapter 4, I will put the theories into use and develop them accordingly to explain the differences in positions and strategies of these major powers. Official European Commission reports will be quoted to prove my explanation. Finally, I will conclude with a brief discussion and generalize the results from the analysis of the case study. In order to counterprove my argument, the US's responses on the EU's strategy will be mentioned as well. The conclusion would provide useful insights to the trilateral relationships between China, the EU and the US.

2. Theory

2.1. Balance of Power

This thesis will use realism perspective to analyse the power structure and the related strategies adopted by different states. One key concept of realism is known as the balance of power. It predicts that states will align² in a manner that prevents any one state from developing a preponderance of power. If one state appears to grow too strong, others will ally *against* it to avoid any threat to their own independence. (Nye, 1990, p.35-6) To realist, balancing is the main mechanism for states to contain the threatening power and maintain security and stability at the systemic level.

It is based on three basic assumptions: (1) the international system is a state-centric system where nation state is a key actor. (2) States exist in anarchy with no higher and able government that can be a central governing authority to protect states' own interests. (3) States value their independence above all else. In other words, independence is the most important element of national interests. States seek to survive as independent entities. (Dougherty and Pfaltzgraff, 1990, p.81-2; Nye, 1990, p.35; Nye, 2005, p.63; Paul, 2005, p. 51) Here, independence can also be referred as autonomy. If such fundamental goal can not be preserved, it is not possible for a state to function well as there is no 'state' anymore. Only on this basis, we can talk about state policy and strategy.

Structural realist Kenneth N. Waltz concludes from the above assumptions that states are unitary actors which seek, at a minimum, to preserve themselves, and, at a maximum, to dominate others if possible. States will strive to achieve these goals by either engaging in *internal* efforts like increasing political, military or economic capabilities, or undertaking *external* attempts to align or realign with other actors so as to strengthening their own alliances or weakening that of the adversary. He describes this as a self-help system in which states if not help themselves while others do, they will become

² Aligning and allying are used in this thesis interchangeably to refer to the actions of states in building alignment, partnership or alliance. This kind of relationship can be motivated by military reasons and/ or nonmilitary concerns like ideology and economics. Snyder suggests that 'alignment' is a broader phenomenon of which explicit (formal) alliance is merely a subset. He refers alignment as the expectations about who will support whom and who will resist whom to what extent and in what contingencies? Expectations of support or opposition stem from (1) power structure and the relative strength of each state, (2) conflicts and common interests among states, and (3) past interaction. (Snyder, 1991, p.123-4) Generally, if there is a big difference in power strength between the strongest power(s) and the other weaker states, these weaker states tend to support each other. Also, if they have more common interests and more cooperation experience, it is more likely they will have alignment. In this thesis, I used his broad definition to refer to the alignment or partnership or alliance relationships between states. It is because if I limit myself to the formal alliance definition which requires explicit mutual declaration of future intent, military collaboration and legal obligation, I may lose insights on the trend of international relationships.

disadvantaged. He further points out that balance of power is rooted in the international system and states will automatically strike a balance between themselves. (Dougherty and Pfaltzgraff, 1990, p.34, 119-21; Pape, 2005, p.15)

Here Waltz provides us with two very important insights of balancing. First, balancing is inherent to the international system as a mean of self-help. This will be triggered off once the independence of a state is violated or threatened and it is particularly the case under a preponderance of power. Second, balancing can be both internal and external which is not necessarily limited in terms of military power. This understanding of balancing leaves room for us to predict that states may be inclined to enhance their economic power to balance others instead of always focusing on the military power. And because balancing can be achieved by different means, counterbalancing alliance can be formed on one issue and be dismantled or reformed on another issue. It is, however, for certain that alliances with more common issues are supposed to be stronger.

2.2. Balance of Threat

The balance of power offers a useful starting point to predict how other states will react when one state is being too strong. However, it is not specific enough to inform us whether other states will form alliance against the preponderance of power because of its mere existence, or they will only do so if the power is perceived as having the intention to harm others' interests, particularly independence.

Walt fills this gap and makes a useful theoretical clarification by arguing that states ally to balance against *threats* rather than against power alone. (Walt, 1990, p.5) He replaces the traditional theory of *balance of power* with a more comprehensive *balance of threat*. The level of threat a state faces becomes a function not only of the distribution of power but also of the geographic proximity, offensive capability and, in particular, the perceived intentions of others. (Snyder, 1991, p.125-6; Walt, 1990, p.21-6) The first three variables are mainly about a state's capability while the last one points to the intentions of a state. By developing balance of power into balance of threat, Walt leads us to focus on the perceived intentions of states instead of just the distribution of power or capability itself.

Therefore, the pure existence of preponderance of power is not sufficient to motivate states to balance it. The perceived aggressive intentions are the necessary condition as well. Indeed, even states with rather modest capabilities may also prompt others to balance if they are perceived as aggressive. Balance of threat becomes more sensible and in line with history when states come together to balance against those who have aggressive intentions. States that are viewed as aggressive are likely to provoke others to balance against them. (Walt, 1990, p.25-6) The more aggressive and threatening the preponderance of power is perceived as, the stronger the balancing force and the greater the cohesion of the alliance is. (Snyder, 1991, p.125)

2.3. Balancing vs. Bandwagoning: Which is more common?

Apart from balancing which is defined as allying with others *against* the prevailing preponderance of power, states can also choose bandwagon. It refers to alignment *with* the source of danger or whoever seems stronger. (Walt, 1990, p.17; Nye, 2005, p.63) Bandwagoning, however, is not common in international politics. As Robert Gilpin suggests, states engage in cost and benefit calculations on the alternative courses of action available to them. (Dougherty and Pfaltzgraff, 1990, p.121) Both bandwagoning and balancing are subject to this cost and benefit calculation and bandwagoning is found to be more costly.

First, if vulnerable states choose to bandwagon, they have to place undue trust in a powerful state's benevolence. In contrast, credibility is less important in a balancing world because one's allies will resist strong states out of their own self-interest, not because they expect others to do it for them. (Walt, 1990, p.27) After all, placing trust on others is a costly and risky option in international politics which may induce oneself to lose its independence in the worst case.

Second, taking the aggressive intention into account, if the aggressive states are not likely to be changed by its allies or it is aggressive in its 'nature', it is very possible for vulnerable states to become victims as well. To use an irreverent metaphor by Nye, bandwagoning is a policy that helps the top dog which may eventually turn around and eat you. (Nye, 2005, p.64) In contrast, balancing with others to work against the aggressor may be the (only) way to escape this fate. (Walt, 1990, p.26) Besides, counterbalancing alliance is usually weaker and needs more assistance so vulnerable states can have greater influences in balancing. (Walt, 1990, p.18-9) Therefore, balancing is a more attractive option for states to maximize their gains.

Still, bandwagoning is favourable in certain situations, for instance, when states are too weak to form counterbalancing alliance or strong allies are not available for balancing purposes or threatening state is believed to be appeasable. Therefore, these weaker states may prefer bandwagoning either to avoid an attack by diverting it elsewhere hopefully, or to share the spoils of victory. (Snyder, 1991, p.127, Walt, 1990, p.21, 173-8)

To conclude, balancing refers to states allying *against* states that threaten them whereas bandwagoning means states allying *with* states that threaten them. Both are plausible foreign policy options for states to take up and, in fact, states may adopt both policies alternatively to accommodate different situations and the respective cost and benefit calculations. However, bandwagoning is believed to be more costly and unlikely as states have to pay trust, the most risky action in international politics, on the preponderance of power, with the possible cost of losing ones' independence. In contrast, it is less risky to join the weaker states and help the underdogs. This fact not only strengthens balancing as inherent in international politics but also turns it into a more common option in foreign policies.

2.4. Asymmetric Interdependence: a Source of Threat

Keohane and Nye in their classic 'Power and Interdependence' (2001) introduce an important concept of interdependence. Simply put, it means mutual dependence. More specifically, it refers to situations in which actors or events in different parts of a system affect each other. This reciprocal effect should be costly so there is really interdependence. Whereas interactions do not have significant costly effects, there is simply interconnectedness. Interdependence can be in military or economic terms. They refer to the mutual dependence that arises from military and economic competitions. In this thesis, economic interdependence is the main focus though military interdependence may be mentioned sometimes in reasoning due to its linkage with the economic interdependence. (Keohane and Nye, 2001, p.7-8; Nye, 2005, p.198)

Interdependence does not mean good or bad as there is not necessarily a mutual benefit. As Keohane and Nye (2001, p.8) suggests, an interdependent relationship will always involve costs, since interdependence restricts autonomy; but it is impossible to specify a priori whether the benefits of a relationship will exceed the costs.

Also, interdependence does not mean harmony because mutual dependence is often unevenly balanced. Symmetry describes situations of relatively balanced dependence versus unbalanced dependence. Perfect symmetry is rare. Most of the time, there is asymmetry in mutual dependent relationships and which provides sources of influence. If two parties are interdependent to each other but one of them is less dependent, then the less dependent one has more source of power as long as they both value the interdependent relationship. (Nye, 2005, p.202) The less dependent one in the interdependent relationship can often derive power from threats to manipulate that interdependence, because it is less vulnerable or to say it pays relatively less for any change of the interdependence. The power derived by the less dependent party can be used as control over resources or the potential to affect outcomes.

To sum up, economic interdependence refers to mutual dependence arising from economic competitions between actors. Once actors are engaged in the interdependent relationships, their autonomy is restricted. There is seldom balanced dependence. In an unbalanced interdependent relationship, the less dependent one may possess more power to manipulate the interdependence so as to control the resources or affect the outcomes to its favour. In other words, over-dependence can be a source of threat for the more dependent party from the less dependent one.

2.5. Balancing: a Response to Asymmetric Interdependence

Nye gives us a solution when there is asymmetry of interdependence. He says asymmetry often varies according to different issues such as security, trade and finance. States can try to link and unlink different issues to avoid, or at least to limit, the costly effect of asymmetric interdependence in each issue. This strategy he called as linkage strategy.

For example, a state can use its strength in an area in which it is less dependent and more powerful to cancel out its weakness in other areas. Thus, creating and resisting linkages between issues, where a state is either less or more vulnerable than the other, becomes part of the power game. The working principle is that states want to manipulate interdependence in areas where they are strong and avoid being manipulated in areas where they are relatively weak. Furthermore, he argues that political leaders can discourage or promote such linkages with the help of international institutions. The leaders will shop for the best forum that best suits *their* interests in defining scope of an issue. On the other hand, balancing is described by him in military terms totally as an instrument of security. It is said balance of (military) power is a zero-sum game. Though it is still an alternative strategy, it is far more limited in today world in which economic and ecological issues involve large elements of joint gain. (Nye, 1990, p.180-1; 2005, p. 203-4)

Though Nye provides us with a solution called the linkage strategy to minimize threats from asymmetric interdependence, it has its limitations. First, promoting and discouraging linkages between issues have assumed that there are varied asymmetries in different issues. Hence creating linkage is possible and can make a difference in each issue. However, what if asymmetries in different issues are largely the same? Then, no matter how one state links or unlinks to whatever issues, the general asymmetric pattern is the same. The more dependent state is still threatened by the less dependent state.

Second, Nye further points out that international institutions can help political leaders to link and define the scope of issues that best suit *their* interests. He implies international institutions are neutral and independent which facilitate linkage politics. So there is a web of linkages among different issues. Threat stemming from this asymmetric interdependence can be cancelled out by the power generated from another asymmetric interdependence. Therefore, there is complex interdependence instead of asymmetric interdependence in separate issue. However, why are international institutions so independent? How are they created? Is it possible that the strongest parties have only an equal voice like other weaker parties? In particular, the joint gain needs to be divided among all the parties. As Nye mentioned himself, this division is a zero-sum game. (Nye, 2005, p.199) Whether the gain is divided equally or who will get the lion's share are also questions of power politics. As international institutions cannot remove the underlying power realities, I doubt how effective the institutions can be, in helping states to deal with asymmetric interdependence through linkage strategy. In other words, to what extent are the international institutions able to help discourage power politics and promote linkage strategy?

Third, balancing is described totally in military terms as an instrument of security. Thus, the conclusion is that balancing is still an alternative strategy, but its use is limited due to its costly consequence. Of course, it is costly if balancing is in terms of military action. However, if interdependence can happen in both military and economic areas, balancing can also be in terms of economic power, *balancing without military*. An alliance can be formed on the basis of nonmilitary means like economic cooperation against the threatening state.

In this section, I argue that threat stemming from asymmetric interdependence is not necessarily and effectively ‘solved’ by linkage strategy. Instead, I suggest states can also form an alliance through economic cooperation (nonmilitary means) to balance threats posed by their common ‘less dependent party’ in certain issue. This kind of balancing I may call it *soft balancing*. The major difference between linkage strategy and soft balancing is that the former is ‘balancing’ a threat from asymmetric interdependence in one *issue* to another between the two concerned parties, whereas the latter is about balancing a threat by aggregating a number of *states and their power* in nonmilitary terms. Both of them are possible policy options. Nonetheless, when there is always the same ‘less dependent’ party in varied issues and it is very invulnerable, then soft balancing by allying others in nonmilitary terms may be a more effective and efficient option.

2.6. Soft Balancing

Soft balancing is not a brand new concept. It is suggested by Robert A. Pape and T.V. Paul in their articles about soft balancing against the US’s hard power. They define soft balancing as limited, tactic or indirect balancing strategies largely through coalition building and diplomatic bargaining within international institutions, short of formal bilateral and multilateral military alliance. (Second-tier) States that engage in soft balancing develop diplomatic coalitions or ententes with one another to balance a powerful state or a rising or potentially threatening power. (Paul, 2005, p.55) For them, however, soft balancing is still a tool used to balance others’ military power, though soft balancing itself is nonmilitary in nature.

In this thesis, I will apply soft balancing on the trade area, a *nonmilitary* aspect. By and large, states ally with each other in a form of economic cooperation against the preponderance of power or potentially threatening power in trade area. Echoing Section 2.1, in which I draw two important insights from Waltz: (1) balancing is inherent in international system; (2) balancing is not limited in military terms, soft balancing is just a concrete example of this.

3. China's Accession to the WTO

In this chapter, I will answer the first question posed for this thesis: how did the EU behave differently when compared to the US? I will firstly depict the background of China's application for the WTO membership and the implications of its successful accession. Then I will address the question by stating the positions and strategies of the US and the EU to show the differences between them. I will argue that the US adopted a confrontational approach and a strong-arm tactic. It insisted that China enter the WTO as a developed country and to fulfill required human standards before being a WTO member. On the other hand, the EU had a softer and more cooperational approach. It suggested the WTO to use transitional membership on China's accession, which permitted China to have a longer time to comply with the WTO rules. Also, the EU never used WTO membership as a sanction on China's poor human rights standard. All in all, the US tended to treat the WTO entrance ticket as a *stick* to force China to comply with the rule-based and market-driven international trading system and to punish its poor human rights standard, while the EU took the WTO membership as a *carrot* to integrate China into the world trade system. Now let us take a closer look at these actors.

3.1. Background and Implications of China's Accession

China notified the GATT its wish to resume its contracting party status in 1986. Then, it had begun its accession negotiation with the GATT/ WTO members and such negotiation had last for 15 years. In December 2001, China became a member of the WTO finally. Though there are no rules or norms which set the time for how long negotiations should be, and mostly it may take years, China's accession was described as marathon. (See Annex I)

Generally, the accession negotiation consists of quite a few stages. First, when a state enters an accession negotiation phase, there are two tracks of negotiations. One is the multilateral negotiation with the WTO working party, formed by all interested WTO members. The responsibilities of the working party are completing negotiation on how the applicant state will implement WTO rules, and finishing documenting the commitments in the protocol and working party reports. Another track is bilateral negotiation in which each interested member will negotiate with the applicant state on its market access commitment. States need to consolidate and verify the commitments. Though these negotiations are conducted bilaterally, any agreements reached between the two states will also apply to all other WTO members as the MFN principle required. Second, when

the applicant state and the working party reach consensus after these negotiations, final accession package with draft declaration will be made and forwarded to all members for review. Should states decide not to provide or not able to provide the applicant state with WTO benefits, they have to notify the WTO General Council which composes of all WTO members, to invoke 'nonapplication'. Third, General Council will accept or reject the applicant package through consensus; and if there is no consensus among members, a two-third majority can also approve membership. For those invoking 'nonapplication', they will not receive the benefits granted from the applicant state to the other WTO members. Finally, the applicant state has to accept and implement those commitments and formally notify the WTO. 30 days after the notification, the applicant will become a formal WTO member. (See Annex II) (Report to Congressional Committees by United States General Accounting Office, 3/ 2000, p.8-12, 17-8)

China also had to go through all these before being a member of the WTO. In its accession negotiation, there were two major actors, the EU and the US. Before discussing their positions in the negotiation, we first have a glance of the importance of China's accession.

Undoubtedly, the accession would benefit both China and the world economically. For China, a WTO membership could ensure Chinese exporters of access to overseas market, to solve any trade conflicts with other states in an insitutionalized Dispute Settlement System (DSP), and in particular to bring an end to the indignity of pleading its case every year for MFN access to such markets as the US and to being subjected to unilateral actions such as under Section 301 of US trade law³. It was also crucial to both China and the world that the membership accession requirements could lock the domestic reform in China so as to reduce the chance of its reversals and promote the speed of reform. For the world, the Chinese market was the largest potential market, so it was important to ensure the Chinese market and economy grew in a healthy and stable manner. The WTO could help China in this respect by providing skills and expertise to better integrate China to the world economy, which in turn provided a more predictable environment in trade and foreign investment. Politically, the symbolism of WTO membership could help China to restore national respectability abroad, an approval of its economic significance from the world. (Anderson, 1997, 756-7; Martin, 1997; US-China Business Review, Jan/Feb 2000; WTO News: Press Release, Press 243, 17/9/2001)

Because of these long-term interests, China was still keen to enter the WTO even though it had to suffer severe domestic pressures which might stir up political unrest. Expectedly, the process of accession was never smooth. One of the stumbling blocks was

³ Super 301 originated in the Trade Act of 1974, which authorized US Presidents to retaliate against foreign countries who maintained trade barriers that either violated US rights or were 'unreasonable'. As the US trade balance worsened along the years, the Congress sought to strengthen the Trade Act. In 1984, the Trade Act required the US Trade Representative's Office to issue an annual report to identify the unfair trade practises by foreign governments; in 1988, it went further that to rank the priorities among unfair trade practises and to cite the worst offenders and impose penalties if necessary. It is hoped that the DSP can help minimize such kind of unilateral actions by the US. (Guay, 2001, p.76-7)

China's insistence in entering the WTO as a developing country⁴. Certainly, it was a logical and understandable request from China, not only because China was undoubtedly a developing country, calculating on the GDP per capita basis, but also due to the lenient admission criteria this status might give. Such status conferred longer phase-in period for member states to comply with the WTO rules and recognized their needs for increased technical assistance. For example, under the Uruguay Round's Agreement on agriculture, developing countries had ten instead of six years to implement their promised reforms and only had to reduce their agriculture protection by two-third of that promised. Also, developing country states could restrict imports if they faced difficulties in its balance of payments or 'infant' industry. (Anderson, 1997, p.764; Eglin, 1997, p. 501-4)

Though China was eager to join the WTO, its insistence on developing country status could not get support from all the WTO members, especially the US. Moreover, when the poor human rights standard came into light after 1989 Tiananmen Event, the debate became more politicized which further agitated and delayed the accession negotiation.

3.2. The US's Position and Approach

Generally, the US's approach was confrontational in the negotiation for China's accession. This could be reflected in two respects: insisting China's entry status as developed country and linking the grant of permanent MFN status to human rights issues. Overall, the bilateral negotiation between China and the US was driven by short-term commercial interests. As the US trade administration officials stated that the US position on China's entering the WTO on a commercial basis remained unchanged. (Inside US Trade, 17/3/1995) Bilateral agreements were always made conditional upon the fulfillment of another agreement.

On entry status issue, it was not difficult to consider China as a developing country, with a majority of its 1.2 billion people living in urban and rural poverty, a highly inadequate institutional and physical infrastructure, an outmoded and state-owned heavy industry sector and a huge unskilled labour force. (Eglin, 1997, p. 503) Nonetheless, China's export capability was powerful and had significant impacts on international economy. It was expected that China would have even greater access once it joined the WTO. This constituted a competitive threat for the US. (Ibid, p.504) In particular, the US suffered increasing trade deficit with China to a level second only to that with Japan, totalled more than \$263 billion between 1991 and 1998. (Guay, 2001, p.83-4; Lardy, 1997, p.18) (See figure 3.1 below) Also, China's entry would lead to structural adjustment pressures for the declining industries like textile industry in the US which might put domestic pressure on the government. It was logical for the US to insist

⁴ According to GATT Article XVIII, a developing country was defined as a country that can only support a low standard of living and is in the early stage of development, undergoing a process of industrialization. It was further established that exceptionally favourable conditions for a country's export products at a given time are not determinant on a judgement on whether a country can only support a low standard of living. (Eglin, 1997, p.502)

China's entry status as developed country and its membership to be based on normal commercial conditions. A new notion came popular in the US that a growing China would inevitably become an enemy of the US. (Lieberthal, 1997, p.34) Hence the Clinton Administration maintained that even though China was a developing country, it did not warrant a developing country status because it was already a major power in global trade. (Tyson, 1997, p.43)

On permanent MFN status issue, it was more complicated because it was linked not only to the US serious trade deficit with China, but also to China's poor human rights standard. According to title IV of the US Trade Act of 1974, President has to deny it to products from certain non-market economy countries, including China. However, according to section 402 of the act, Jackson-Vanik amendment, a one-year waiver is permitted when the President determines that those non-market economies substantially comply with certain freedom of emigration objectives. Such one-year waiver is now further applied on other areas like human rights issue.

China had received annual grant of MFN status since 1980 and this practise always put the US-China relationships to the ice point, in particular after the 1989 Tiananmen Event. This time, as part of the WTO accession package, the US had to give permanent, instead of annual, MFN status to China before its accession, but such act was in contrast to the US's usual practise which gave China favour only if China could fulfill certain requirements. Most importantly, there was a continuing American perception of China in symbolic terms that resonated with the 1989 Tiananmen Event. (Lieberthal, 1997, p.34) Therefore, it was reasonable for US to punish China in non-economic area by economic means. Besides, such act, punishing a threatening or misbehaved, if not evil, country like China, could help legitimize the US's insistence on no exemptions of China's accession.

To conclude, the US's position was that China had to enter the WTO as a developed country and to comply with the WTO rules without exemptions, even though it confessed that China was a developing country. Also, it was also a favourable option for US to threat China by not providing it with permanent MFN status and only to apply 'nonapplication' clause in the WTO if China's human rights standards had no improvement. The US's approach was confrontational and strong. It tended to use WTO membership ticket as a *stick*, not only to force China to abide by the international market economic rules so as to contain this conceived threatening trading power, but also to punish China's poor human right standards. The US preferred to *get China right before getting it in*.

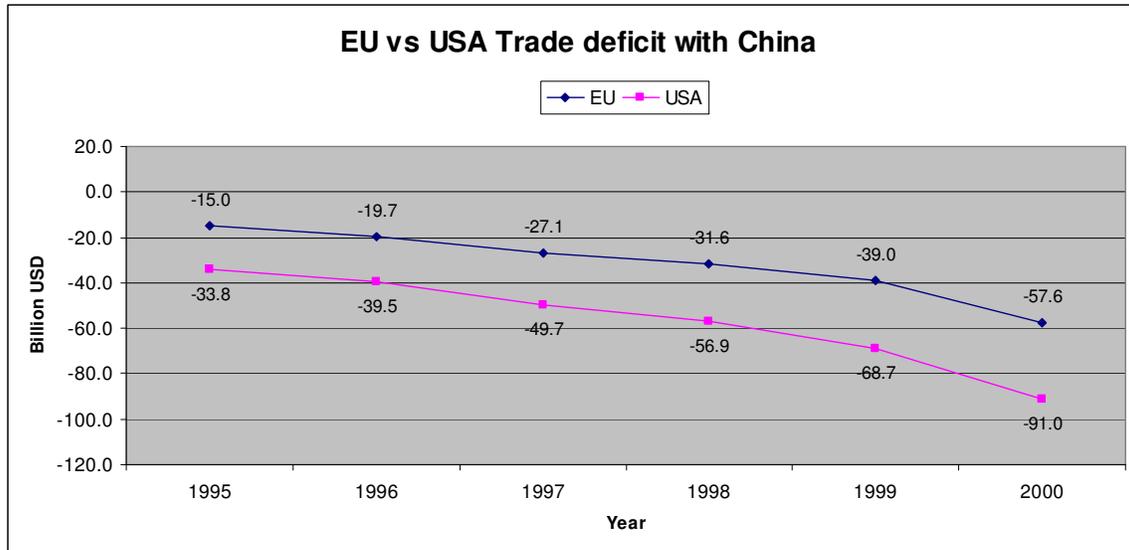


Figure 3.1 EU vs US Trade Deficit with China

(Source: US Census Bureau, <http://www.census.gov/foreign-trade/balance/c5700.html#> and Eurostat, 2002. 'EU Trade with China and Russia', Statistic in Focus – External Trade, Theme 6, 4/2002.)

3.3. The EU's Position and Approach

In contrast to the US's confrontational approach, the EU's position could be said as cooperational and constructive. On entry status issue, the EU, in opposition to US's insistence on developed country status, had proposed a transitional membership, allowing China to phase in its WTO obligations in certain sectors beyond the date of accession while adjusting its laws and practises. On human rights issue, the EU adopted an open debate policy and cooperation programme to get China's human rights standard more in line with the international level. The 1998 EC communications entitled *Building a Comprehensive Partnership with China* stated that the EU-China human rights dialogue without any pre-conditions would give the EU a real opportunity to pursue intense discussions which, coupled with specific cooperation projects, remained at present the most appropriate means of contributing to human rights in China. (COM (1998) 181, 25/3/1998) Generally, the EU supported China's early accession to the WTO by means of proposing transitional membership and dealing with China's poor human rights standard in a separate manner without any pre-conditions.

Though the EU also acknowledged that China's trade with the world had almost doubled in value since early 1990s, and China was forecasted by the World Bank as the top three traders in the world by 2020, the EU did not perceive China as threatening as the US did. Not because it did not have massive trade deficit with China, actually the EU's trade deficit with China reached 20 billion ECU in 1997 (See figure 3.1 above, ECU was exchanged to US dollar for easy comparison), but because the EU considered

engaging China into the world as the only way to make China a strong, stable and open partner and also align to the EU's interests. Therefore, the EU was one of the keenest advocates of China's early accession to the WTO. It promoted a flexible (or open advocacy) strategy aimed at easing China into the international political and economic system while paying due respect to the gradual pace of economic reform that had been chosen by the Chinese government. (Eglin, 1997, p.495)

The long-standing position of the Vice President of the European Commission and EU trade commissioner, Sir Leon Brittan, had been that China should be given transitional membership status whereby both China and WTO members would be freed from some of the obligations under the WTO, thus enabling China to become founding member and to complete its market reforms in line with WTO rules. (Eglin, 1997, p.495; van der Geest 1998, p.99, 104-5) After the WTO establishment in 1995, though China could never be the founding member, the EU was still constructive and began to talk in terms of case-by case, or sectoral, approach to China's accession. Sir Leon Brittan in another occasion said China must show more commitment to honor WTO rules; but all parties concerned needed to adopt fresh attitudes. (The Economist. London: Apr 22, 1995. Vol.335, Iss. 7911; p.33-5) In the 1998 communication report, it stated clearly that the EU would allow China to benefit from transition periods while certain sectors adapted to WTO obligations. Apart from proposing transitional membership, the EU also encouraged China to anticipate accession by setting as an early priority the amendment of domestic laws and regulations while offering practical assistance to China to build necessary institutions, policies, human resources and management techniques.

On human rights issues, though the EU did not have domestic law like that of the US to punish country which had poor human rights standard, it did not mean the EU kept its eyes blinded to China's human rights standard. Nonetheless, the EU considered the most appropriate means of contributing to human rights in China was through open debate and cooperation without any pre-conditions. The EU believed in the merits of dialogue in a frank, open and respectful manner, in all appropriate fora, over confrontation. Also, the EU held concrete cooperation program with China over human rights issues, as an assistance and back up dialogue. As one senior official put it, the EU closed the chapter of political and economic sanctions that it took after the 1989 Tiananmen Event. (van der Geest, 1998, p.100)

In contrast to the US outspoken opposition to quick and easy WTO accession for China, the EU had been more cooperative and positive in its positions, consistently stressing its advocate of early accession for China through promoting transitional membership and handling China's human rights issues separately from the accession negotiation. The EU's approach was constructive in the sense that it not only promoted an alternative course for China's entry status but also provided concrete cooperation program and assistances. To conclude, the EU preferred engagement policy, using WTO accession as a *carrot* to facilitate China's reform and integrate it into the world economy. The EU tended to *get China in before getting it right*.

In this chapter I show that the EU acted differently to the US concerning China's accession to the WTO, particularly on the entry status and human rights issues. Such a difference made the EU a second Western voice in international economy, providing an alternative course for negotiation and functioning as a counterweight to the US. The EU's bridge builder role became prominent in this case.

4. Why did the EU behave differently?

In this chapter, I will answer the second question posed for this thesis: why did the EU behave differently? I will approach this question from a realist perspective by applying the theoretical concepts which have been elaborated in chapter 2. So, more specifically, I will try to find out what the EU could possibly gain by behaving differently, especially softly, to China in its WTO accession when compared to the US strategy. In the first part, I will point out that it seemed more rational for the EU to act in accordance with the US. The EU might maximize its interests if it follows the US strong-arm tactic to a lesser extent of bandwagoning. However, quite the contrary, the EU adopted a more cooperational and constructive approach to China. Before addressing this interesting difference by adopting the balancing theory, in the second part I will firstly illustrate the relationship between the US and the EU in trade area which became tense after the Cold War while China was growing as a trade power in the international economy. These together subtly induced power redistribution. Then, I will argue that China's accession to the WTO was just a good chance for both the US and the EU to shape the changing power structure and promote their respective influences. Subsequently, in part three, I will apply the balance of threat theory to explain why the EU chose to behave softly, in stark contrast to the US's confrontational approach. For the US, it considered the growth of China as a threat but in contrast to what the US expected, the EU perceived the US as more threatening. On the one hand, the US was dominant in the WTO negotiation and less vulnerable in its interdependent relationship with the EU. On the other hand, the US kept acting unilaterally. In US's confrontational approach towards China, the EU not only disagreed with the US's interests but also considered the US's intention as too aggressive. Both the US's dominance and its aggressive intentions constituted a threat to the EU. Therefore, in order not to rely heavily on the increasingly threatening US, the EU adopted a softer approach on China, establishing a signal of building partnership. In so doing, the EU tried to balance the US in terms of trade power by building partnership with China and aggregating their trade capabilities. This kind of 'soft balancing' was believed to be in EU's long-term interests, particularly with the EU turning itself into a more important strategic partner and acting as a bridge-builder to counterbalance the US's unilateralism in the WTO.

4.1. Following the US: a More Rational Choice for the EU?

As presented in chapter 3, the EU adopted an antithetical approach to the US in China's accession negotiation; however, it was expected that the EU should follow the US's approach because it was considered to be more rational. First, the EU had a similar economic structure as that of the US. Generally, both of them had developed economies, specializing in high-end products like luxury goods, focusing on technology sector such as aviation and automobiles, stretching service industry all over the world like telecommunication and insurance industries, and facing structural adjustment pressure with low-skilled labour hitting the unemployment records. It might be said that the EU had similar interests as the US's, so the US's bargaining terms and conditions should similarly be applicable and favourable to the EU. By pressing more on China and insisting on having the status of being a developed country as entry requirement, the US could not only fight for more investment chances and more favourable conditions for large business groups, but also largely reduce the subsidies provided for the state-owned enterprises from the Chinese government that help minimize the impacts of a large flow of cheap goods from China. Besides, both the EU and the US were suffering massive trade deficit with China along years. Pressing more on China could definitely add more legitimacy to the government, or at the very least, reduce domestic pressures. Therefore, following the US's strong-arm tactic should be in the EU's interests as well.

Secondly, the EU had similar ideologies to that of the US. Both of them were democratic countries with mature market economies, so their values and cultures were akin to each other when compared to the east. This fact not only implied that they should not only see eye to eye with each other in the negotiations but also in concrete issues like human rights. They were expected to have the same stance with strong interests in improving China's human rights standard as soon as possible. It is presumed that the more similar the domestic ideology of two or more states, the more likely they are to ally. (Walt, 1990, p. 40) In this case, it was expected that the EU and the US were on the same side of the fence.

Based on the grounds that both the EU and the US had similar economic interests and ideology, it could be reasonably expected that the EU would, at least, agree with the US on the concerned interests. Moreover, adding the fact that the US was a dominant actor in the WTO, especially in the field of investment policy and service areas, the US was expected to take the lead and be able to fight for the largest benefits for all in the negotiation. Besides, according to the WTO rules, any agreements reached in bilateral accession negotiations would also be applied to other WTO members due to the MFN principle. Therefore, it was considered to be rational for the EU to follow the US's confrontational approach. Recalling bandwagoning mentioned in chapter 2, by building partnership with the US, the EU could possibly share the fruits of victory. In contrast, if the EU behaved differently or even in opposition, it might introduce potential conflict into its relationship with the US.

4.2. After the Cold War: (Re)distribution of Power

However, as presented in previous chapter, the EU did not follow the US; rather it behaved differently by being more cooperational and constructive to China. How can we explain this 'irrational' behaviour? By executing a different strategy, what could the EU possibly gain? Can this gain justify the EU's action, or rather, large enough to cover the loss in not following the US strategy? I will first explain this in light of the EU-US relationship after the Cold War and the growing trade power of China.

The relationship between the EU and the US has been intimate and interdependent since the integration of the EU. The US supported the EU's economic growth in the post war period in order to facilitate the global economic growth, strengthen liberal democratic ideology and balance the Soviet Union. On the other hand, the gloomy economy in Europe was in dire need of the US's help so that the US could provide aids and global institutions for the EU. Geopolitically, the EU also had to rely on US's nuclear guarantee and troops to defend itself from the threatening Soviet superpower. Along this, the EU was quietly growing strong in the trade arena. Later in mid 1970s, the EU attempted to challenge the US, at least in terms of its ability to shape the rules and more importantly the outcomes of the commercial relations in its own interests. For example, by the time of Tokyo Round in the 1970s the EU retained an effective veto over multilateral agreement. (Smith and Woolcock, 1999, p.442)

After the Cold War, it might be expected that the transatlantic relationships would be strengthened especially in sharing the feeling of 'winning' the ideology debate. However, according to Guay (2001, p.73), the EU-US relationship was entering into the most difficult period in the 1990s. Without the Soviet superpower threat bounding the Western alliance, trade disputes between the EU and the US became fierce, complex and drawn out like that in banana trade and treated food. Most importantly, the EU had strong opposition to the US' foreign commercial policy which imposed economic sanctions to punish 'bad' states for political objectives. For instance, the Helms-Burton and D'Amato Acts required the US to impose sanctions on foreign investors in Cuba and the Iranian and Libyan energy industries for its undemocratic polity and sponsoring terrorism respectively. In this incident, EU held back from asking the WTO to rule on the matter while the Clinton administration had waived the application of sanctions on European companies. Similar case in Burma and the EU did join a lawsuit to challenge the law. (Ibid, p.79) These cases point out one fundamental difference between the EU and the US: whereas the former prefers engagement policy, the latter tends to punish unilaterally through imposing economic sanctions. In the *1999 Report on United States Barriers to Trade and Investment* as issued by the EU, the EU made an explicit criticism on US's unilateralism. (Ibid, p.80) It reflected that the EU found the US's unilateral policy more disconcerting than ever.

Moreover, the EU has been growing as a trade power especially after it has gotten more united and stronger from the SEA, Maastricht Treaty and 1995 enlargement with Austria, Finland and Sweden, those rich countries included. Since early 1990s the EU has

already represented one fifth of total world trade in goods and a quarter of total trade in commercial services, maintaining a stable share of around 20% of total world exports while the figures for the US and Japan are around 16% and 11% respectively. (*European Union World Trade*, CN-68-98-002-EN-C) Also, the EU is a major source of outward foreign direct investment (FDI) and a major target of inward FDI, valuing for \$400 billion. (Smith and Woolcock, 1999, p.443) Counting on these economic resources alone, the EU is indubitably an economic power as strong as the US, though it can be questioned whether the EU can mobilize its economic power and if so, in what ways to turn it into a real influence.

On the other hand, there is another growing trade power in the East. China's share of world trade has increased from 1% to 3% over the last quarter century and the World Bank projected that it will triple again by 2020, making it the world's second largest trader. (Martin, 1997)

To sum up, the trading power structure is changing. On the one hand, the West alliance seems to be 'splitting'. Although the US has multilateral elements like having bilateral and multilateral agreements in its foreign commercial policy, it tends to act in a persistent unilateral manner. These unilateral behaviours certainly perturb another trade power, the EU, when the US's protected interests can harm the EU's own interests. As Smith and Steffenson (2005, p.344) pointed out, there is a desire for the EU to match with the US and this constitutes an ambivalence – the US as a key partner and leader but also as a potential rival in world politics – which has been central to EU-US relationships and to the international relations of the EU ever since. The EU-US relationships can be said as full of competitions though mixed with cooperations as well.⁵ On the other hand, China is becoming a trade power which may have a significant effect on the international trading relationships. In this changing trading power structure, these three actors with different interests will probably try to influence and shape the outcome to their own advantage in any chance they have.

China's accession to the WTO was just a good opportunity for all of them to exercise their influences. However, China was considered to be much more passive in the accession negotiation because it was the only one who was subjected to change its tariffs and trade barriers, making one-way concession. But for the EU and the US, they could influence the future economic power structure actively by setting the terms and conditions for China to enter the WTO. More politically, the way they interacted with each other could have long-term impacts on how they saw each other, as a friend who could cooperate, or as someone who needed watching out. As Sir Leon Brittan's speech on engaging China said that this was "one of the greatest strategic challenges for foreign policy makers in Europe, the United States, Asia and else where and that the way it unfolds will be one of the determining factors shaping the international order of the 21st Century." (van der Geest, 1998, p.101) After all, China being a trade power, its

⁵ For more EU-US trade issues, please see *Arron Statement on U.S.-EU Trade Issues*, 15/6/1999, <http://www.useu.be/ISSUES/aaron0617.html>

participation means there would be more options to form influential strategic alliance or partnership in the WTO.

4.3. Balancing as the Responding Strategy

4.3.1. Perceptions of Threat

As shown in chapter 3, US's confrontational approach to China's accession was due to its increasing trade deficit with China and the fear of large flow of cheap goods. On the basis of these, US insisted on developed country as China's entry status which permitted no lenient admission. On human rights issue, the US took it as an instrument of foreign commercial policy, turning it as a weapon to threaten China through not granting permanent MFN status. Such tougher conditions or approval procedures for China than those applied to other WTO members, showed that China was considered as a competitive threat to the US. (Tyson, 1997, p.37)

Since US was the dominant actor in the WTO, and its dominance somehow was not just because of its economic power but also its capability of turning its power into real influence, it was not difficult for the US to bring its concerned issues onto the table and shape the outcomes to its favour. As Sen says, the US is quite clearly able to achieve its goals in the world trade order to a greater degree than most other countries. This privileged position underlines the importance of its power and status within the international political hierarchy. (Sen, 2003, p.119) Therefore, the US acted domineeringly in its way to set the agenda and to put pressure on China. As chapter 3 concluded, the US tended to treat the WTO membership as a *stick* to get China right before integrating it into the international economy. The US attempted to use its national law to influence the negotiation outcomes and to set an international example on how to treat the 'bad' states. Keohane and Nye (2001, p.200) say this kind of unilateral behaviour of a large state may not be able or willing to police the behaviour of other states, but because of its size and importance, its actions may determine the behaviour of other states both because of its direct effects and through imitation.

That's why for the EU, the US seemed more threatening than China. It was because the US was able to and tried to use WTO membership as a stick to punish China unilaterally, which the EU found incompatible to its interests. The EU believed that making China a strong, stable and open partner was vital for both China and the world economy. More importantly, the EU thought that integrating China into the system was the *only way that the EU could contribute to this process*. EU's view on its interests could be reflected by its report *A Long Term Policy for China-EU relationships* published in 1995. It said EU policy should never lose sight of its strategic interests in China. It further stated that if it did not cooperate, its voice would not be heard. (COM (1995) 279/final) Evidently, the EU considered engagement was the most favourable option and

more in line with its long-term interests, specified as ‘making its voice heard’ both in this accession negotiation and in the global economy.

Here we could ask why the EU had such a view. It implied that the EU thought its influence would be ignored, marginalized or minimized by others (including China) if it adopted ‘non-cooperational’ approach (es). First, obviously, the most influential actor among those ‘others’ was the US. Second, the ‘non-cooperational’ approach was the confrontational approach because that was the only available approach. Meanwhile this was also provided by the US. Therefore, we can interpret the EU’s statement as: if the EU followed the US’s confrontational approach, its influence would have been marginalized.

Two insights could be drawn from this interpretation. First, if the EU followed the confrontational approach, its voice would not be heard so that its voice was covered by the US. If that was the case, then we could expect the negotiation would largely be shaped by the US since it was the proposer of the confrontational approach. Remember the negotiation results would be applied to all other members; therefore, the EU was dependent on the US on how terms and conditions were set. It might not be the EU’s wish, but that could be the case if the EU chose to stand by the US’s confrontational approach. Since any asymmetric dependence can be a source of power for the less dependent party. In such a relationship, the less dependent US could easily manipulate the interdependent relationships to either take control over resources or to affect negotiation outcomes. This asymmetrical interdependence could be a threat from the US to the EU.

Second, in general the US preferred to punish using economic sanctions, but the EU preferred engagement. Smith (2004, p.248-9) says there is a basic difference between the US’s approach to human rights which see them as an instrument of foreign policy, as opposed to the European approach, which is based on the universality of conceptions of justice. Now adding the fact that the EU’s interests (making its voice heard) would be harmed if following the US’s confrontational approach, then it was understandable why the EU did not support the US’s unilateralism. Simply put, the way the US fought and what the US fought for were not what the EU had wished. The US’s unilateral acts, with capability to do first and aggressive intentions to ignore others’ wants, had already been a threat to the EU. Therefore, in order not to over-depend on the US’s confrontational approach with which the EU could not agree, no matter in its way or its pursuing interests, the EU adopted a more cooperational approach which suggested transitional membership and dealt with human rights issues separately from the WTO membership.

Could it be possible that the EU and the US just had different interests and so had opposite strategies but not because of who saw whom as threat? To answer this, we have to look at the interests the EU was pursuing. Explicitly as it stated ‘making its voice heard’, the aim of this was to making oneself more influential especially in terms of shaping the negotiation outcomes. Even considering this voice might not necessarily challenge the US; ‘influence’ is still a zero-sum game, increasing influence of one actor means decreasing relative influence of others. If the EU increased its influence, then someone’s influence would be deducted. The US as a major actor in the negotiation game might lose its influence to the EU. At least, we would expect there was a possible

opposite force which became strong enough to affect the US's action. Therefore, there was an inherent balancing that states tried to compete for more influence to shape the negotiation outcomes. One step back, let's ask why the EU had to make *its* voice out. Because there were not only basic differences between the EU's and the US's interests but also the latter's interest tended to cover the formers by the US's unilateral aggressive actions. These unilateral aggressive actions were already constituted a threat to the EU.

To sum up, for the US, China's accession might be perceived as a competitive threat because of its significant export capability and its misbehaviour largely due to different ideologies. For the EU, however, the US was comparatively more threatening especially when the US acted unilaterally and pursued interests in contrast to the EU's. On the one hand, in China's accession negotiation the US was dominant and was less dependent in the interdependent relationship with the EU. These showed the US had the capability to influence the negotiation outcomes into its favour. On the other hand, the US's confrontational approach of using WTO membership as a stick, to which the EU could not agree, reflected its unilateral and aggressive intention. In general, the US's unilateralism was a potential threat to the EU, but when their preferred strategies and interests were not the same or might even be opposite to each other, then the US became a real threat to the EU. Therefore, it gave the EU motivation to ally with others to balance against it. In particular, in the economic area, the EU was a trade power already so it did not choose bandwagoning, defending itself and its interests through allying with the US. After all, it was risky to trust and depend on the top dog as it might swallow up its ally's interests as well.

4.3.2. Soft Balancing

The US was perceived as a threat by the EU. In order to balance this threat, the EU adopted a more cooperational and constructive approach in dealing with China so as to build a stable partnership. In the Commission report in 1995 *A Long Term Policy for China-Europe Relations*, the EU had already suggested the transitional membership concept. It said most commitments that China would make when joining the WTO would be implemented on the date of membership, but some could be implemented under multilateral surveillance over a specific period of time after entry into the WTO. It further stated that this approach reflected a sympathetic understanding of the fact that China was a country that was rapidly developing, but in certain important aspects, had not yet become a developed economy with all the characteristics of a fully-fledged market-economy system. (COM (1995) 279/final) This confirmed the EU's cooperational attitude to China and supportive position on its accession to the WTO.

In the later chapter of the same report, the EU expressed how it viewed its interests in China's accession and that shaped the strategy it used. The report stated that the development of the China-EU relationship must be a sustained long-term goal. If the EU did not cooperate, their voice would not be heard (specifically in this accession negotiation and generally in the world economy). Therefore, it suggested the EU not to

lose sight of its strategic interests in China and to get used to working with China in a variety of policy issues and debating key areas of mutual interest. It concluded that a closer economic partnership would help to further the interests of Europe and China and it supported China to become fully integrated into the international community including the WTO. (Ibid) This confirmed that the EU would like to form a long-term strategic partner with China. More explicitly it stated its interests as, if not cooperating with China, its voice would not be heard. This reflected that the EU thought its importance would be marginalized if keeping the relationships unchanged under this changing economic power structure with China growing up and the US persistently acting unilaterally. In the perception that the US was becoming more threatening and the fear of depending on the US too much, the EU chose to build economic partnership with China in order to make its voice heard.

Therefore, the EU persisted and solidified its strategy in 1998 *Building a Comprehensive Partnership with China*, by not only advocating once again China's early accession to the WTO, but also using 'comprehensive' instead of 'economic' partnership to further deepen their cooperation with each other. In the conclusion, it remarked that Europe and China both stand on the threshold of critical change. This should give the former the added incentive to craft its *own genuinely European strategy* towards the latter. (COM (1998) 181) Because of the new economic power distribution, it triggered off the EU to evaluate the new political economic landscape and found itself should have a stronger alignment with China which was then better to against the US in the WTO.

This kind of soft balancing was through aggregating the economic power of the 'second-tier' powers. Though as I said before, the EU was actually having economic power as strong as the US like in terms of world trade share and numbers of FDI, the EU seldom acted like US, going first and policing behaviour of other states. It was easily making itself more dependent on the US and more like a consumer instead of a producer in the WTO. Of course, it could counterbalance the US whenever it found that was seriously not in its interests. However, it was better to work with others than alone and it was more effective to counterbalance the US's unilateral actions by aggregating others' capabilities and making the US's unilateral act more costly. After all, there were so many connections between the EU and the US themselves. Avoiding direct conflicts by subtly changing its interdependent relations through building partnership with a third party, the EU could definitely decrease its vulnerability.

In particular, it was quite limited for the EU to link different issues. As Smith said, the US seemed to emerge after the Cold War as the sole superpower, with no realistic rivals in the political and security spheres, and with a renewed economic vitality. (Smith, 2004, p.237) It was harsh for the EU to link this interdependent relation, with itself more dependent, to other issues because in many cases the US was still quite dominant and less vulnerable. It was also irrational for the EU to trigger off linkage strategy first by drawing threat from asymmetric interdependence in one issue to balance the threat in another issue. By far, the EU still had to rely on the US for security defence. In contrast, having soft balancing by aggregating a number of states and their economics powers and not

touching the military aspects should give more grounds for the EU to turn its power into real influence.

4.3.3. Bridge-Builder

What could be gained through this soft balancing? Was the gain of soft balancing larger than the gain got from bandwagoning? Wasn't it too risky to bury potential conflicts into the EU-US relationships? *The Economist* (22/4/1995, p.33) said the EU's cooperational approach would not get unrewarded in Beijing, which in the past had made generous use of fat contracts to express its gratitude for political favours. That might be true, but this kind of short-term and uncertain reward was not convincing enough to explain why the EU chose to build partnership with China with the risk of antagonizing the US. However, if we consider long-term benefit on the structural power relationships, it is not difficult to understand the EU's soft approach. The advantages are threefold.

First, as a function of soft balancing, the first advantage is that the EU could aggregate its economic capability with China's economic power to balance the threat from US's dominance and its persistent unilateral actions. This balancing was not just limited to this accession negotiation. When the partnership had been worked out and both could find advantages from it, it could be believed that partnership would be formed in other issues, more closely and frequently. Therefore, the EU can form counterbalancing alliance with China in the future, when the US behaves unilaterally and against the EU's interests. This is in EU's long-term interests.

Second, through soft balancing, the EU could become less vulnerable in the EU-US interdependent relationships by giving itself more choices to form alliance. That means the EU in the future is not necessary to form alliance or work as a partner with the US. Rather, it can choose its ally according to its interests. When the US becomes more threatening, it can ally with others to fend themselves against the US. This would not only balance the threat but also contain the asymmetric relationship with the US, making the EU not too dependent on the latter.

Third, and most importantly, the EU acted as a bridge-builder in China's accession negotiation. Such role may have deep political implication to the world politics. Smith (1999, p.457) defined bridge-builder as building linkage or coalitions between actors in the global commercial system, often with an eye to action within the multilateral institutions. In China's accession, the EU was keen to integrate China into the international economy through WTO membership. To do this, the EU not only provided an alternative course of accession to unlock stalled negotiation process, but also offered assistance and opinions through cooperation programme and open dialogue. This process promoted the EU as an important partner to China and a strategic player in the WTO, which could be said as a specifically 'triangular' competitive strategy, directed towards the US and Japan, or simply say a strategy for competitive interdependence. (Ibid, p.458) After all, if the EU can keep its role as a bridge-builder to integrate more actors into the

international system, using itself as a link, the system may be better able to balance the power of threat and control any unilateralism.

5. Conclusion

In this thesis, the main question of why the EU and the US behaved differently on the accession of China into the WTO is posed. As suggested in the argument, it seemed that the EU would act in accordance with the US because of their similar economic structures and ideologies. Also, the US being a strong and dominant actor in the WTO negotiations, it was expected that its bargaining power could win the best terms and conditions which would then also be applied to the EU. As a 'rational' actor, the EU was more likely to ally with the US to share the victory gains; especially their bonding should be much stronger due to similar ideologies. It seems there was no reason for the EU to act differently and to bury potential conflicts into the EU-US relationships.

However, in the WTO accession negotiation, the EU adopted a soft approach towards China in contrast to US confrontational approach. I explained this by first considering the EU-US relationships after the Cold War and the overall global economic structure. I stated the EU-US relationship was getting much tenser in trade, reflected by the increasing complex and long-lasting trade disputes between them. Besides, the EU's increasing trade power and its attempt to be a leader further complicated this matter. Meanwhile, China has been growing as another trade power in the East, subtly changing the political economic landscape. Therefore, the WTO accession just came in at the right time for both the EU and the US to shape the changing economic power structure.

For the US, China might be considered as a competitive threat more than an opportunity to forge partnership because of China's significant export capability and poor human rights standard. For the EU, however, the US was perceived as much more threatening due to the US's persistent unilateralism in the past trade disputes and its dominance in this accession negotiation particularly pursuing interests with which the EU could not agree, while the issue with China was considered as a platform to make its voice heard in both the accession negotiation and the international economy. Therefore, the EU had a cooperational and constructive approach to China so as to build partnership. The advantages of this kind of partnership are threefold. First, the EU could balance the threat from the US through building partnership with China in economic terms which I named as soft balancing. Also, the EU could better control the interdependent relationship with the US without depending on the latter too much, by providing itself more chances on forming counterbalancing alliance with others like China. Third, the partnership approach would make the EU be seen as a bridge-builder. If this trend can succeed, the EU can possibly change the economic power structure by countering US's unilateralism.

At last the negotiation was ended in 2001 with China finally becoming a member of the WTO. This negotiation process was largely smoothed by the EU's proposal of

transitional membership. After Clinton's successful re-election in 1996, the US started to discuss with China on case-by-case basis as suggested in the EU's proposal. This helped move the negotiation forward from futile debate on entry status. This reinforces the argument that the EU acted as a bridge-builder which performed a more important strategic function to facilitate negotiation. Besides, after the China-US bilateral negotiation reached an agreement, the Congress had a fierce debate on whether to grant permanent MFN status to China. In order to win enough vote in Congress, Clinton's administration skillfully changed the name: permanent MFN status into permanent normal trade relations (PNTR) to minimize the public's sensitivity and also reminded the Congress to consider the costly consequence if other WTO members like the EU and Japan could enjoy trade benefits offered from China but the US could not. As *the Economist* (22/4/1995) mentioned, sanctions worked only when the world powers presented a united front. Now the EU preferred to get China in before getting it right. This move largely reduced the threatening power the granting of permanent MFN status could have on China from the US. The EU not only made its voice heard but also constrained the US's unilateral action by substantially increasing its cost. Finally, the bill was passed by Congress in October 2000 and China got the membership in December 2001.

Realism perspective has been applied throughout the argument as the theoretical approach because in the WTO accession negotiation process, the function of the WTO as an institution to contain the states is rather limited. It can at most act as an instrument to provide a platform for negotiation and as a guideline to structure the negotiation procedures. In particular, the applicant state is not a WTO member, so it cannot apply any WTO rules like DSP to object the requests from the existing members. The applicant state can either take it or just leave it. After all, the negotiation outcomes are still subjected to the negotiations between states and their relative power.

Some may suggest that the EU and the US were actually undergoing division of labour, one soft and one hard, to bargain for the best accession terms and conditions from China. I beg to differ. If that was planned, why would the US allow the EU to share the best offers provided from China, while permitting it to build strategic partnership with China as well, not to mention such kind of partnership might diminish the US's role in the global economic structure? More to the point, if that was a joint gain, why would the US allow the EU to get the lion's share? There was no division of labour. It was reflected in the speech on the US-EU relations by the Commerce Secretary Daley. He said "whatever terms China came in by, Europe would have to live with that - for a very long time. Some people believed that China should enter as part of a political statement. Well, that's not what the WTO was about, and that's not why other countries entered the WTO. These were commercial deals" (14/6/1999) Taking the long-established EU-US partnership into consideration, these statements had explicitly showed the US's disagreement with the EU's soft attitude.

Nonetheless, as Nye (2005, p.207) said, both realism and liberalism are simple models or ideal types. The real world lies somewhere between the two. In certain situations realism is more convincing, while in others liberalism seems fit. It can be said

that realism is more pessimistic that emphasizes the competitive or conflictual aspects, whereas liberalism is more optimistic and focuses on the similarities between actors which serve to strengthen the bonding between each other. (Guay, 2001, p.95) Transatlantic relationship can be either competitive or cooperative, or both as Smith terms it as 'competitive cooperation'. I certainly realize the importance of liberalism in explaining certain aspects and there is always a spectrum with a line linking the two extreme models. However, what I have pinpointed here is that there has been an increasing tendency of competition between the EU and the US since 1990s, not only because the Cold War has ended, but also there are more actors getting involved into the global economy. Both the EU and the US can forge new relationships with these actors. Somehow they compete with each other in this matter because the result can definitely affect the world economic structure and power distribution. In this respect, the EU can be said as having more comparative advantages since it has experience in bridging states or regions together. This bridge-builder role positions the EU in the middle between the East and the West in the new trilateralism, as a second voice from the US-led stream. (Smith, 2004) The EU has ingeniously turned itself into a more important strategic player, with China, in the WTO and in the global economy, increasing its balancing power or say interdependence competitiveness.

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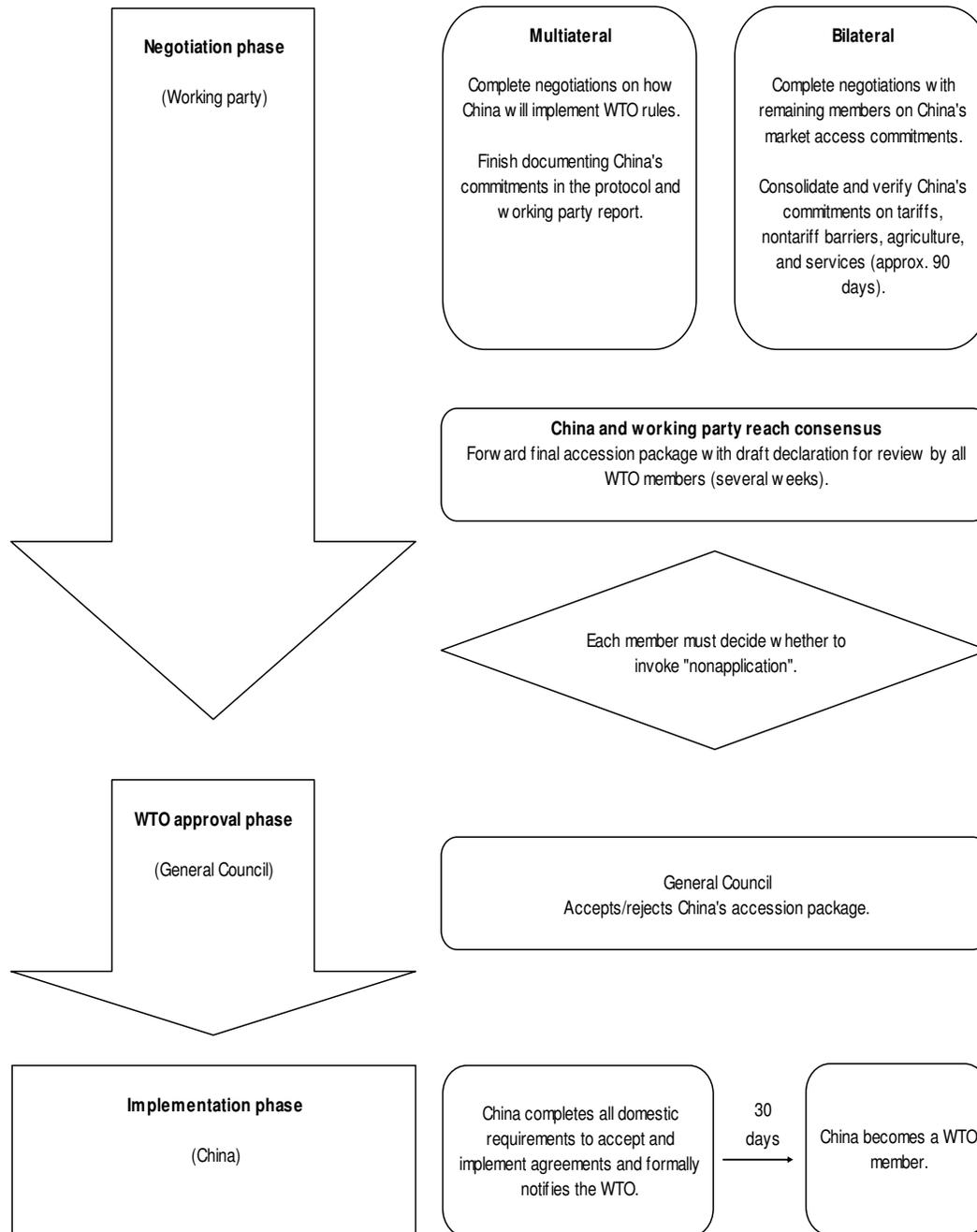
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Annex I

China's Accession to the WTO Chronology

1986		China applied for GATT membership
1989	Jun	Tiananman Event
1995	Jan	WTO has been established, replacing the GATT
1995	Dec	China applied for WTO membership
1996	Nov	Clinton won the Presidency re-election
1997	Feb	Chinese former President Deng Xie Ping died
1999	Nov	US concluded bilateral negotiation with China
2000	May	EU concluded bilateral negotiation with China
2000	Oct	US passed the law and granted Permanent Normal Trade Relations (its antecedent is Permanent Most Favoured Nation status) to China
2001	Dec	China became a member of the WTO

Annex II



WTO Accession Negotiation Process

(Source: World Trade Organization – China's Membership Status and Normal Trade Relations Issues, GAO/NSIAD 00-94)