Speculative Politics:

U.S. Economic Policymaking Towards China in the Post-Cold War Era



A thesis submitted for the degree of
Doctor of Philosophy in International Relations

by
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St. Catherine's College
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This dissertation develops a new speculative politics framework to explain the major shifts and enduring consistencies in U.S. economic policy toward China from 1989 to 2019. Building on behavioral economics, the speculative politics framework posits that just as investors face uncertainty about which stocks will yield the greatest returns, it is far from clear which policies will best promote one's political interests, especially in the context of complex economics and politics, both foreign and domestic. Thus, causal stories help translate interests into policy preferences under uncertainty, helping actors diagnose problems and speculate about the effects of policy solutions.

Moreover, like financial markets, the market for causal stories and the policies they support suffers from systemic biases like the availability heuristic and belief inertia. These biases can lead to market failures, such as overconfidence in certain stories and policies, opportunities for foreign actors to manipulate policy debates, and the potential for speculative bubbles. During debates over China's Most Favored Nation (MFN) status and later during China's entry into the World Trade Organization (WTO), Chinese officials and pro-engagement U.S. actors sought to bolster the narrative that U.S. economic engagement with China would strengthen the cause of reform in China and promote international stability. However, mounting dissonance due to unmet promises will eventually pop a bubble, producing a backlash in perceptions and policies, as can be seen today in the combative shift in the U.S. approach to China and talk of a "reckoning" within the U.S. China-watching community.

This dissertation utilizes archives, interviews, and statistical analysis of Congressional voting and focuses on key policy issues across two main eras: China's MFN status and WTO accession during the George H.W. Bush and Bill Clinton presidencies, and U.S. bilateral and plurilateral trade negotiations and escalating trade enforcement actions during the George H.W. Bush, Barack Obama, and Donald Trump presidencies. Thus, the dissertation makes important empirical and theoretical contributions, shedding light on the interplay between perceptions, power, and policies in U.S.-China economic relations.

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Note: Since January 2018, I have been an employee of the Office of the U.S. Trade Representative. The views expressed in this dissertation are my own and do not represent the views of the Office of the U.S. Trade Representative or the U.S. government.

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Abbreviations

AD/CVD	Anti-Dumping and Countervailing Duties
AmCham	American Chamber of Commerce
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BIT	Bilateral Investment Treaty
CCP	Chinese Communist Party
CED	U.S.-China Comprehensive Economic Dialogue
EU	European Union
FEC	Federal Elections Commission
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
HRW	Human Rights Watch
IFCSS	Independent Federation of Chinese Students and Scholars
IP	Intellectual Property
IPE	International Political Economy
IR	International Relations
JCCT	U.S.-China Joint Commission on Commerce and Trade
KORUS	Korea-U.S. Free Trade Agreement
Mega-FTA	Mega-regional Free Trade Agreement
MFN	Most Favored Nation
MTCR	Missile Technology Control Regime
NAFTA	North American Free Trade Agreement
NAICS	North American Industry Classification
NATO	North Atlantic Treaty Organization
NEC	National Economic Council
NME	Non-Market Economy
NSC	National Security Council
OEP	Open Economy Politics
PNTR	Permanent Normal Trade Relations
S&ED	U.S.-China Strategic and Economic Dialogue
SASAC	State-owned Assets Supervision and Administration Commission
SED	U.S.-China Strategic Economic Dialogue
SIC	Standard Industrial Classification
SOE	State-Owned Enterprise
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership

UDHR	Universal Declaration of Human Rights
UN	United Nations
UNHRC	United Nations Human Rights Council
USITC	U.S. International Trade Commission
USTR	Office of the U.S. Trade Representative
WTO	World Trade Organization

Introduction

More Than Just the Economy, Stupid!

While it has been said many times, it still bears repeating: the U.S.-China relationship will shape the course of the twenty-first century. The United States and the People's Republic of China are the world's two largest economies and the major established and rising powers of the post-Cold War world, one developed and democratic, the other autocratic and developing, and managing this bilateral relationship is crucial to securing prosperity and peace in the twenty-first century. While other aspects are also important, the economic relationship in particular deserves focus. Given the huge volumes of trade and investment involved, U.S.-China economic engagement and liberalization have yielded sizeable benefits on both sides of the Pacific and can continue to do so. Given their economic and political power, the two states also can realize knock-on gains in even bilateral deals by increasing the pressure for liberalization on other countries worldwide and creating standards for both domestic and international markets. Furthermore, economic relations can also impact a range of issues, from geopolitics to sustainability. Indeed, C. Fred Bergsten coined the term "G2", recognizing this potential for U.S.-China cooperation to shape the world.[1] At the same time, however, the bilateral relationship has become increasingly tense as the two countries see one another as economic and strategic rivals.

As important as the U.S.-China economic relationship is, the mixed policy record in the post-Cold War era is not easily explained by a purely economic or geopolitical perspective. After a period of increasing cooperation following the U.S.-

[1] C. Fred Bergsten, "Two's Company," *Foreign Affairs*, September 1, 2009.

China rapprochement and Chinese Reform and Opening Up in the 1970s and 1980s, the Chinese government's violent suppression of the student-led Tiananmen Square protests on June 4, 1989 dealt a serious blow to the burgeoning relationship. U.S.-China trade continued to grow, but limited sanctions were introduced and China's Most Favored Nation (MFN) trading status became subject to annual Congressional debate. President Bill Clinton linked MFN renewal to human rights in 1993, only to reverse himself the following year and later support establishment of permanent MFN (also known as permanent normal trade relations or PNTR) as part of China's World Trade Organization (WTO) accession in 2001. Following China's WTO accession, the two powers have filed numerous trade disputes against one another and engaged in finger-pointing in the deadlocked Doha Round negotiations. Seeing no progress at the multilateral level, they then joined the movement to free trade agreements (FTAs) and later mega-regional FTAs (mega-FTAs) but have yet to conclude or even seriously propose such an agreement among themselves, although they did re-launch of bilateral investment treaty (BIT) negotiations in 2013 and reach a deal on information technology tariffs and environmental standards in 2014. However, under Donald Trump's presidency, the U.S. has adopted a more directly confrontational trade policy, withdrawing from the Trans-Pacific Partnership (TPP) and imposing tariffs on billions in Chinese imports as retaliation for intellectual property theft, forced technology transfer, and government-directed investments aimed at acquiring foreign technology. Even if ongoing bilateral negotiations do reach a positive resolution, China watchers have called this period a "backlash" or a "reckoning" for U.S. China policy, and the bilateral relationship appears fundamentally changed.[2]

[2] Richard McGregor, *Xi Jinping: The Backlash* (Sydney: Penguin Group and Lowy Institute, 2019); Kurt M. Campbell and Ely Ratner, "The China Reckoning," *Foreign Affairs*, February 13, 2018.

Thus, this dissertation asks, *what has driven U.S. economic policy towards China in the post-Cold War era?* Surprisingly little academic work has been done on the politics of recent U.S.-China economic relations. Existing studies have often focused on security or human rights in isolation from the economic relationship, despite the latter's importance to and interaction with such issues.[3] A number of studies have looked at the Chinese politics involved in the WTO accession and subsequent negotiations, as well as the pursuit of FTAs, forming part of the larger discussion of when China is willing to engage and liberalize.[4] However, the study of U.S. economic policy towards China is just as important as that of Chinese policy towards the U.S. As the Trump administration's tariffs on billions of dollars in Chinese goods have shown, the willingness of the U.S. to engage with China is contingent, political, and often the decisive factor in determining the direction of bilateral relations. The relatively few studies focused on the U.S. economic policy towards China emphasize the importance of U.S. domestic politics but have been descriptive and historical rather than engaged in causal analysis and international

[3] See, for example, Thomas J. Christensen, "Fostering Stability or Creating a Monster? The Rise of China and U.S. Policy toward East Asia," *International Security* 31, no. 1 (2006): 81–126; Rosemary Foot, *Rights beyond Borders: The Global Community and the Struggle over Human Rights in China* (Oxford: Oxford University Press, 2000); Alastair I. Johnston, *Social States: China in International Institutions, 1980-2000* (Princeton: Princeton University Press, 2008); Robert S. Ross and Feng Zhu, *China's Ascent: Power, Security, and the Future of International Politics*, Cornell Studies in Security Affairs (Ithaca: Cornell University Press, 2008); Susan L. Shirk, *China: Fragile Superpower* (Oxford: Oxford University Press, 2008).

[4] See, for example, Joseph Fewsmith, "The Politics of China's Accession to the WTO," *Current History* 99 (September 2000): 268–73; Nicholas R. Lardy, *Integrating China into the Global Economy* (Washington, DC: Brookings Institution Press, 2002); Hongyi Harry Lai, "Behind China's World Trade Organization Agreement with the USA," *Third World Quarterly* 22, no. 2 (2001): 237–255; Wei Liang, "China's WTO Negotiation Process and Its Implications," *Journal of Contemporary China* 11, no. 33 (2002): 683–719; Qingxin K. Wang, "The Rise of Neoclassical Economics and China's WTO Agreement with the United States in 1999," *Journal of Contemporary China* 20, no. 70 (2011): 449–465; Ka Zeng, "Multilateral versus Bilateral and Regional Trade Liberalization: Explaining China's Pursuit of Free Trade Agreements (FTAs)," *Journal of Contemporary China* 19, no. 66 (2010): 635–652; Xianquan Tu, "China's Position and Role in the Doha Round Negotiations," in Ka Zeng and Wei Liang, *China and Global Trade Governance: China's First Decade in the World Trade Organization*, Routledge Contemporary China Series (London: Routledge, 2013), pgs. 167-188.

relations (IR) theory.[5] Indeed, Robert Sutter acknowledges that "measuring the influence of individual interest or lobby groups on U.S. China policy remains a subjective exercise," reflecting the need for further work in this area.[6] Chinese America watchers are also interested in the domestic politics of U.S. foreign policy and increasingly grasp the subtleties and complexities of the U.S. government, as well as the influence of special interest groups; however, they still offer little additional insight into crucial questions such as how interest groups form, interact, and exercise power.[7] Finally, many scholars are now contributing to a growing literature that discusses the recent shift in U.S. perceptions of China.[8] While important and insightful, this ongoing debate regarding the track record of U.S. "engagement" with China would benefit from greater application of international relations theory, extensive data gathering, and detailed analysis.

[5] See, for example, Vinod K. Aggarwal and Simon J. Evenett, "A Fragmenting Global Economy: A Weakened WTO, Mega FTAs, and Murky Protectionism," *Swiss Political Science Association* 19, no. 4 (2013): 550–57; I. M. Destler, *American Trade Politics*, 4th ed. (Washington, DC: Institute for International Economics, 2005); Charan Devereaux, Robert Z. Lawrence, and Michael Watkins, *Case Studies in US Trade Negotiation* (Washington, DC: Institute for International Economics, 2006); David M. Lampton, "America's China Policy in the Age of the Finance Minister: Clinton Ends Linkage," *The China Quarterly* 139 (1994): 597–621; Robert S. Ross, ed., *After the Cold War: Domestic Factors and U.S.-China Relations*, Studies on Contemporary China (Armonk, NY; London: MESharpe, 1998); Robert Suettinger, *Beyond Tiananmen: The Politics of U.S.-China Relations, 1989-2000* (Washington, DC: Brookings Institution Press, 2003); Robert G. Sutter, *U.S. Policy toward China: An Introduction to the Role of Interest Groups* (Lanham: Rowman & Littlefield Publishers, 1998).

[6] Sutter, *U.S. Policy toward China*, 3.

[7] See, for example, Wang Hao, "Meiguo Duiwai Zhanlüe Bianqian de Dongli, Jizhi Yu Jincheng [The Motivations, Mechanisms and Process of U.S. Foreign Strategic Change]," *Dangdai Yatai* 6 (2016): 34–58; Xiangdong Nie and Xiaoxia Song, "Zhongmei Guanxi Zhong Meiguo Guohui de Zuoyong Fenxi [Analysis of the Role of the U.S. Congress in U.S.-China Relations]," *Baoding Xueyuan Xuebao* 22, no. 1 (2009): 98–101; Tangqian Qinsi and Du Hong, "Cong Zuihuiguo Daiyu Kan ZhongMei Guanxi [Looking at U.S.-China Relations from Most Favored Nation Treatment]," *Guoji Guancha* 2 (2002): 21–25; Tao Xie, "Ruhe kandai meiguo guohui zai zhongmei guanxi zhong de zuoyong: yi 1973-2006 nian qijian de zhongguo yi'an wei li [How to Look at the Role of U.S. Congress in U.S.-China Relations: the Case of Bills on China in the Period of 1973-2006]," *Shijie jingji yu zhengzhi*, no. 1 (2009): 27–37.

[8] Campbell and Ratner, "The China Reckoning"; Alastair Iain Johnston, "The Failures of the 'Failure of Engagement' with China," *The Washington Quarterly* 42, no. 2 (April 3, 2019): 99–114; David M. Lampton, "A Tipping Point in U.S.-China Relations Is Upon Us" (Speech at the "China's Reform: Opportunities and Challenges" Conference, May 6, 2015); McGregor, *Xi Jinping*; Neil Thomas, "Matters of Record: Relitigating Engagement with China" (MacroPolo, September 3, 2019).

Turning to international relations theory, existing approaches also struggle to explain the mixed record of cooperation and conflict in the U.S.-China relationship. Liberal international political economy (IPE) models are often used to explain the politics of foreign economic policymaking and argue that policymakers respond to the lobbying of economic special interests, and economic special interests support openness or protectionism depending upon their competitiveness in global markets.[9] This perspective expects policymaking processes and outcomes to reflect economic interests, with, for example, economic interest groups and economic officials playing a key role in formulating economic policy with respect to China and changes in that policy reflecting changes in economic realities. Thus, while an IPE analysis helps explain, for example, big business lobbying for MFN and PNTR and labor's opposition, it falls short of explaining the variation in the complex, high stakes U.S.-China economic relationship. How does liberal IPE explain the limited influence and urgency of both business and labor groups in the MFN debates in the early 1990s, the sudden emergence of serious opposition to China's WTO accession a decade after the fact, or former Secretary of Defense Ashton Carter's claim that "passing TPP is as important to me as another aircraft carrier"?[10]

Geopolitical explanations also fail to capture the variation here. Hegemonic stability and power transition theory, for example, argue that relations between established and rising powers like the U.S. and China tend towards tension and even violence.[11] Although the two states could pursue win-win scenarios through peace

[9] For overviews of IPE, see Robert Keohane, "The Old IPE and the New," *Review of International Political Economy* 16, no. 1 (2009): 34–46; David A. Lake, "Open Economy Politics: A Critical Review," *The Review of International Organizations* 4, no. 3 (May 28, 2009): 219–44.
[10] Helene Cooper, "U.S. Defense Secretary Supports Trade Deal With Asia," *The New York Times*, April 6, 2015.
[11] Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981); John Mearsheimer, *The Tragedy of Great Power Politics* (New York: Norton, 2001); A.F.K. Organski, "Power Transition," in *International Encyclopedia of the Social Sciences*, vol. 12 (New York: Macmillan, 1968), 415–17.

and trade, each fears that the other will make relative gains and then use its greater means to extract further concessions, through political, economic, or even military power.[12] Thus, the specter of conflict can poison even mutually beneficial economic relations. From a geopolitical perspective, policymaking processes and outcomes should reflect security interests, with, for example, security officials and experts playing the key role in formulating China policy and changes in that policy reflecting changes in geopolitical realities. Indeed, the National Security Council has often played an important role in China trade policy, and security tensions in the U.S.-China relationship have resurged following the end of the Cold War. However, geopolitical explanations often have difficulty accounting for cooperation and the ongoing influence of economic actors and interests. If, as John Mearsheimer argues, "states recognize that the best way to survive in such a system is to be as powerful as possible relative to potential rivals," why has the U.S. supported initiatives that yield greater relative gains for China, such as China's WTO accession or the Obama-era BIT negotiations?[13] Why would the U.S. champion and then withdraw from the TPP?

Finally, IR literature on human rights also has both unique insights and limitations. This body of work brings into focus the enduring influence of transnational networks and normative concerns like human rights and democracy in U.S. China policy. However, this scholarship has focused mostly on success stories, so while it explains quite well the policies and progress achieved by advocates in the early to mid-1990s, it has difficulty explaining obstacles and failures, likely because it

[12] Joanne Gowa and Edward D. Mansfield, "Power Politics and International Trade," *The American Political Science Review* 87, no. 2 (June 1, 1993): 408–20; Mearsheimer, *The Tragedy of Great Power Politics*; Robert Powell, "Absolute and Relative Gains in International Relations Theory," *The American Political Science Review* 85, no. 4 (1991): 1303–1320; Duncan Snidal, "Relative Gains and the Pattern of International Cooperation," *The American Political Science Review* 85, no. 3 (September 1991): 701–26.
[13] John Mearsheimer, "China's Unpeaceful Rise," *Current History* 105, no. 690 (April 2006): 160.

does not address the interaction between human rights ideals and economic and security interests. While China obviously did not transform into a liberal democracy, State Department human rights reports during Clinton's first term noted "some positive steps," including the release of detainees and adoption of normative language, which, although likely tactical, was in line with the positive predictions of progress in human rights scholarship. Why, after this apparent if not resounding success, did the human rights advocacy networks splinter in the mid-1990s and Clinton reverse his policy of linkage between trade and human rights compliance?[14] How does one explain the fact that human rights and democracy have remained a constant but rarely central issue in U.S.-China economic relations? What is the significance of reasoning that links normative concerns with economic or geopolitical interests, such as the argument that trade spreads liberal views? Thus, existing scholarship offers some insight, but new theory building and analysis are needed to address the interactions between these diverse dynamics and to explain the twists and turns in U.S. China economic policymaking.

This dissertation draws on existing explanations from international relations theory, economics, and psychology to develop a new framework of speculative politics. Building in particular on recent insights from behavioral economics, the speculative politics framework models the foreign policymaking process as a market for policies and argues that the interaction of diverse actors and interests, beliefs and biases, and even foreign manipulation can generate speculative bubbles, i.e., boom and bust cycles in policy agendas. Using this new framework, this dissertation explains the intense debates over China policy after Tiananmen and the U.S. strategy

[14] Caroline Fleay, "Australian Foreign Policy, Human Rights in China and the Spiral Model," *Australian Journal of Political Science* 41, no. 1 (March 1, 2006): 71–90; Foot, *Rights beyond Borders*.

of engagement with China, as well as the souring mood today as dissonance from unmet promises in the 1990s pops the pro-engagement bubble. Moreover, it helps bridge different areas of scholarship and provides a framework for understanding the important speculative dynamics in politics of foreign policymaking.

The following sections introduce the speculative politics framework, including its theoretical foundations and key claims, and then summarize this dissertation's methodology and findings before concluding.

I.1 Introducing the Speculative Politics Framework

This dissertation takes as its starting point key insights and models from international political economy (IPE), and then draws further upon other areas of scholarship in international relations (IR), economics, and psychology to build the speculative politics framework and explain variation in U.S. China economic policy. Of IR theories, IPE has been applied the least to U.S.-China relations but may explain the most, given the centrality of trade and investment in the overall relationship, and thus is a good starting point for theory building. Rooted primarily in liberal, rationalist IR, IPE examines the relationship between "public and private power in the allocation of scarce resources" and appreciates the two-level dynamics of foreign policymaking, under which domestic as well as international actors and interests demand the attention of policymakers.[15] One of IPE's key insights is that while society on the whole benefits from free trade, the unequal distribution of costs and

[15] John Ravenhill, *Global Political Economy*, Fourth edition. (Oxford: Oxford University Press, 2014), 18; Robert D. Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization* 42, no. 3 (1988): 427–460.

benefits politicizes trade.[16] Recently, IPE has tended to focus on domestic actors and model them as materially driven and rational; some benefit from and therefore favor protectionist policies, and others liberalization, and these interests drive coalitional politics and, ultimately, policy.[17] As gains and losses from trade policy are often concentrated, special interest groups have greater incentive to organize and lobby and so exercise more influence than the general public. Thus, economic realities give rise to economic interests, driving individuals' policy preferences, around which political coalitions form and lobby the executive and legislature in the struggle to determine policy.

IPE models have strengths and limitations. They have considerable explanatory power when applied to trade issues and help explain, for example, big business lobbying for renewal of China's MFN status and accession to the WTO, as well as labor opposition. However, they struggle to explain variation in economic policy in complex, multi-faceted relationships like that between the U.S. and China, including the sanctions placed upon China in the wake of Tiananmen and the backlash against globalization and engagement seen in the U.S. today. IPE analyses tend to suffer from three key limitations. First, a focus on economic concerns often leads to the exclusion of security and normative ones, which other areas of IR scholarship show can be important driving forces. Second, like the closely related field of economics, recent IPE scholarship has often relied on assumptions of hyper-rationality to build models linking interests and policy preferences, which, while simple and powerful, can fail in ways large and small. Third, in emphasizing the

[16] Andrew Moravcsik, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht* (Ithaca: Cornell University Press, 1998); Ronald Rogowski, *Commerce and Coalitions: How Trade Affects Domestic Political Alignments* (Princeton: Princeton University Press, 1989).
[17] For example, Michael J. Hiscox, "Commerce, Coalitions, and Factor Mobility: Evidence from Congressional Votes on Trade Legislation," *The American Political Science Review* 96, no. 3 (2002): 593–608.

importance of domestic politics in foreign economic policymaking, IPE has often neglected the role of transnational politics.[18]

The speculative politics framework builds on IPE scholarship as well as other areas of IR, economics, and psychology in order to address these limitations and better explain the politics of foreign economic policymaking in more complex, multifaceted cases like that of contemporary U.S. China economic policy. Its key framing idea is that **political actors are engaged in a market for policies**. Much like actors in a stock market, political actors, including politicians and constituents, try to "invest" their political capital (i.e., money, time, votes) in the proposed policies that will yield the best returns (i.e., promote their interests). This explanation is not unlike a liberal IPE one; however, it takes into account **four additional complications or key claims**: multiple interests, causal stories, systemic biases, and susceptibility to manipulation and speculative bubbles.

First, political actors are rarely driven purely by economic interest, and selling economic policies often requires appeals to non-economic factors like security and human rights concerns. Politicians, seeking votes, endorsements, donations, and expertise, are under pressure to respond to the varied concerns of their constituents. Surveys of American voters show their emphasis on multiple issue areas when it comes to preferences on foreign policy, such as stopping nuclear proliferation and terrorism, promoting human rights and democracy abroad, and protecting American jobs and businesses.[19] Moreover, from labor unions and industry groups to think tanks and activists, a range of influential special interest groups have influence and interests at stake when it comes to U.S. China policy. While these interests are

[18] For example, constructivist scholars have shown the influence of transnational advocacy networks. Margaret E. Keck, *Activists beyond Borders: Advocacy Networks in International Politics* (Ithaca: Cornell University Press, 1998).
[19] Jeff Jones and Lydia Saad, "US Foreign Policy Goals" (Gallup News Service, February 1, 2017).

not all equally weighed at all times in the policymaking process, they all exert some influence. Thus, constituents, including both voters and special interest groups, seek to invest in policies that promote their diverse interests, and, in response, politicians often seek policies that are defensible across the range of interests and therefore satisfy the greatest number of constituents, rather than maximizing any one interest.

Second, actors rely on causal stories in order to speculate about the future and decide how to invest in policies that promote their diverse interests. Drawing on scholarship in psychology, economics, and international relations, this dissertation uses the term "causal stories" to refer to webs of knowledge structures, i.e., analogies and schema, that tell a coherent narrative about a policy agenda and its future impact across multiple interest areas.[20] The market for policy solutions does have elements of rational, self-interested behavior, with actors supporting policies that they forecast will promote their interests. Even given clear interests, however, one's preferred policy is not always self-evident, just as it can be unclear which stock will yield the best return, especially under conditions of complexity, uncertainty, and cognitive limitations. Thus, just as economic investors sometimes rely on narratives about the future trajectory of products, companies, and markets in addition to or even instead of hard numbers,[21] causal stories help political actors define how the world works, speculate about how proposed policies will affect their interests, and convince others to support their same policy agenda as well. In other words, causal stories tell

[20] From psychology, see Daniel Kahneman, Paul Slovic, and Amos Tversky, eds., *Judgment under Uncertainty: Heuristics and Biases* (Cambridge: Cambridge University Press, 1982); Theodore R. Sarbin, *Narrative Psychology: The Storied Nature of Human Conduct.* (Praeger Publishers/Greenwood Publishing Group, 1986); George A. Akerlof and Robert J. Shiller, *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism* (Princeton: Princeton University Press, 2009); Wei Xiong, "Bubbles, Crises, and Heterogeneous Beliefs," in *Handbook on Systemic Risk*, ed. Jean-Pierre Fouque and Joseph A. Langsam (Cambridge: Cambridge University Press, 2013), 663–713; Yuen Foong Khong, *Analogies at War : Korea, Munich, Dien Bien Phu, and the Vietnam Decisions of 1965* (Princeton: Princeton University Press, 1992).
[21] Robert Shiller, *Narrative Economics: How Stories Go Viral and Drive Major Economic Events* (Princeton: Princeton University Press, 2019).

political actors how to invest, given a set of interests. For example, the popular causal story in the 1990s posed that political engagement with China would increase bilateral economic activity, which would promote further Chinese economic and even political liberalization, as well as bilateral cooperation on a range of international issues. Causal stories are more likely to come into play under conditions of uncertainty and complexity, such as when a policy question involves multiple, competing interests and large, long-term goals, which makes relying on sweeping stories to convince oneself and others of the merits of a policy solution especially tempting. As is addressed further below, due to the mix of rational and irrational behavior at work, actors both support policies because they believe the associated causal stories and, more cynically, champion causal stories because they support certain policies. While causal stories by definition and by necessity simplify the complexities of reality, they play important roles in politics, giving actors a way to think about and discuss complex problems, to unite around a policy agenda, and to weather turbulence in order to see that agenda through.

Third, the market for policies is inefficient in that it is subject to systemic biases due to the human nature of political actors and the imperfections of political institutions. Like an efficient stock market, an efficient market for policies as a whole should rationally balance risk against return on investment, with any over- or under-valuation eliminated via arbitrage. However, findings in both psychology and economics have shown that systematic irrational tendencies exist. Overconfidence, herd behavior, and emotion all shape human decisions, including in financial markets, and institutions like the media can reflect and exacerbate these

biases.[22] This dissertation focuses on two biases in particular: the availability heuristic and belief perseverance. The availability heuristic describes people's tendency to estimate the probability of an outcome "by the ease with which instances or associations can be brought to mind," i.e., the availability of analogies and schema related to that outcome, which in turn hinges on factors like vividness, recentness, and emotional charge.[23] Personal experience, for example, is especially available. The availability heuristic is particularly likely to come into play when forecasting under conditions of uncertainty.[24] Belief perseverance means that rather than engage in rational updating, people tend to continue relying on causal stories despite evidence to the contrary, tending to ignore, discredit, or creatively interpret it.[25] When, in the face of mounting dissonance, people do alter their beliefs and policies, they do so slowly, updating tactics first, revising strategic approaches only after repeated tactical failures, and reconsidering fundamental goals and assumptions as a last resort.[26] This dissertation focuses on these two biases for a number of reasons. They are both systemic and therefore unlikely to be mitigated by moving from the individual to group level; indeed, herd behavior and even expertise and institutions can exacerbate them, as the media tends to amplify vivid images and established beliefs, and political bureaucracies often create barriers to policy change.[27] Moreover, existing IR

[22] Akerlof and Shiller, *Animal Spirits*; Robert J. Shiller, *Irrational Exuberance* (Princeton: Princeton University Press, 2001); Paul C. Tetlock, "Giving Content to Investor Sentiment: The Role of Media in the Stock Market," *The Journal of Finance* 62, no. 3 (2007): 1139–68.
[23] Thorsten Pachur, Ralph Hertwig, and Florian Steinmann, "How Do People Judge Risks: Availability Heuristic, Affect Heuristic, or Both?," *Journal of Experimental Psychology. Applied* 18, no. 3 (September 2012): 314–30; Amos Tversky and Daniel Kahneman, "Availability: A Heuristic for Judging Frequency and Probability," *Cognitive Psychology* 5, no. 2 (1973): 208.
[24] Leigh Ann Vaughn, "Effects of Uncertainty on Use of the Availability of Heuristic for Self-Efficacy Judgments," *European Journal of Social Psychology* 29, no. 2–3 (March 1, 1999): 407–10.
[25] Leon Festinger, *A Theory of Cognitive Dissonance* (Evanston: Row, Peterson, 1957).
[26] Also known as the principle of least resistance in attitude change, see: William J. McGuire, "The Nature of Attitude and Attitude Change," in *Handbook of Social Psychology*, ed. Gardner Lindzey and Elliot Aronson, 3rd ed. (New York: Random House, 1985).
[27] See discussion of biases in expertise and institutions in Philip Tetlock, *Expert Political Judgment: How Good Is It? How Can We Know?* (Princeton: Princeton University Press, 2005); Keren Yarhi-Milo, *Knowing the Adversary: Leaders, Intelligence, and Assessment of Intentions in International*

scholarship has already demonstrated the influence of these two biases in foreign policymaking, albeit with a focus on security issues.[28] Meanwhile, although other biases like overconfidence have scientific merit and may also be at work in the cases analyzed in this dissertation, they tend to be more difficult to test outside of laboratory settings or large quantitative datasets. Moreover, the two biases emphasized here are the minimum inefficacies necessary to deduce the next, most important claim of the speculative politics framework.

Fourth and finally, the combination of diverse interests, causal stories, and systemic biases makes the market for policies unstable, subject to manipulation and speculative bubbles. Even in well-regulated financial markets, manipulation by traders, such as bashing or running up a security, is a documented phenomenon; insiders in particular can manipulate company policies and disclosures to affect stock prices.[29] Similarly, in the market for policies, powerful political actors – including foreign and domestic officials – can use their position as insiders with privileged information to help sell a preferred policy agenda in the short term with actions and rhetoric that resonate with a particular causal story. Because such behavior is highly available due to its recentness and vividness, it can help make that story seem more plausible and garner more support for the policy agenda it justifies. For example, well-timed prisoner releases, trade concessions, and votes on the United Nations Security Council by the Chinese government in the early 1990s helped sell the story that said the Bush administration's policy of engagement with China would

Relations, Princeton Studies in International History and Politics (Princeton: Princeton University Press, 2014).

[28] Robert Jervis, *Perception and Misperception in International Politics* (Princeton: Princeton University Press, 1976); Khong, *Analogies at War*; Yarhi-Milo, *Knowing the Adversary*; George W. Breslauer and Philip Tetlock, *Learning in U.S. and Soviet Foreign Policy* (Westview Press, 1991).

[29] Rajesh K. Aggarwal and Guojun Wu, "Stock Market Manipulations," *The Journal of Business* 79, no. 4 (2006): 1915–1953.

pay off across the board. Not all such actions and rhetoric need be disingenuous; foreign actors may sincerely believe in the promises of a causal story and be disappointed should they not come to pass. Nonetheless, there is a long-term cost to overpromising: the boom of a speculative bubble produces the bust. Economists have shown that irrational exuberance in financial markets can drown out rational actors, leading to an unsustainable run-up in an asset price beyond the asset's intrinsic value, followed by a sharp price drop as the bubble implodes. Some rational profiteers may fear to challenge the growing consensus, while others may even "ride the bubble", benefitting from and even encouraging irrational hype.[30]

Thus, in the market for policies, a transnational coalition may succeed in selling a policy agenda by bolstering a causal story that promises great payoff as previously described. First comes a boom, with the number of supporters of the policy increasing, along with their confidence levels, producing overinvestment in the policy agenda, such as overspending in lobbying efforts or votes that may later be regretted. While foreign governments may make concessions in the short run to promote a favored policy, they cannot and will not hold themselves hostage indefinitely to the domestic politics of another country. Given the belief perseverance bias, actors' belief in causal stories is sticky, but a growing mismatch between promises and outcomes and between the domestic politics of the two countries builds dissonance and ultimately leads to a collapse in support for an established policy agenda when actors update their choice of causal story, often overcorrecting. Similar to stock markets, the risk of a policy bubble is especially high in periods of displacement, where "new era" stories are especially likely to arise.[31] In fact, the

[30] Markus K. Brunnermeier, "Bubbles," in *Banking Crises* (Springer, 2016), 28–36.
[31] Akerlof and Shiller, *Animal Spirits*, 55; Charles P. Kindleberger, *Manias, Panics and Crashes: A History of Financial Crises*, Fourth Edition (London: Palgrave Macmillan UK, 2001).

market for policies is more susceptible to bubbles than financial markets because there are greater limits to arbitrage: actors can choose not to buy into a popular and overvalued causal story and policy agenda but lack the ability to short it, a crucial correcting feature for an efficient market.[32] Similar to financial bubbles, it is incredibly difficult to predict when a policy bubble will burst given the complexity of human behavior and interactions in the overall system, but the likelihood of a crash increases as foreign behavior contradicts the popular causal story, dissonance mounts, and impatience increases. Thus, like financial markets, the policy market plays host to diverse interests and actors, who rely on causal stories and suffer from systemic biases, making the market susceptible to manipulation and speculative bubbles.

I.2 Applying the Speculative Politics Framework to U.S. China Economic Policy

This dissertation argues that the speculative politics framework best explains five major policy cases in U.S.-China economic relations across two periods in the post-Cold War era. In the first period of 1989 to 2001, the analysis focuses on competition between the engagement and external pressure stories when it came to 1) the annual renewal of China's MFN status and then 2) China's WTO accession and PNTR. In the second period of 2001 to 2016, the dissertation examines the persistence and evolution of the engagement story, as well as the rise of alternatives like economic nationalism, with 3) increasing use of the WTO dispute settlement mechanism, 4) U.S. engagement in mega-FTAs like the TPP, and 5) ongoing bilateral

[32] Andrei Shleifer and Robert W. Vishny, "The Limits of Arbitrage," *The Journal of Finance* 52, no. 1 (1997): 35–55.

dialogues, including U.S.-China negotiations on a BIT. The conclusion also briefly discusses further developments during the Trump presidency, including U.S. withdrawal from the TPP, the U.S. investigation of Chinese intellectual property theft, forced technology transfer, and government-directed foreign investment and subsequent application of tariffs on Chinese imports under Section 301 of the U.S. Trade Act of 1974, and U.S.-EU-Japan trilateral engagement on China and WTO reform. The cases have been chosen both for their importance to and representativeness of U.S.-China economic relations in this period, as well as their variation in the hypothesized drivers of U.S. policy, namely, the economic, security, and normative dimensions of the issues, Chinese involvement, and the evolution of causal stories about U.S.-China relations.

Given the complexity of the U.S.-China relationship, in one sense this study is a plausibility probe conducted on a most-likely case; however, at disaggregated levels there are also least-likely cases, such as testing whether the interest-driven Congress can be swayed by non-material factors like norms and stories. Furthermore, this study uses temporal, across-case, and within-case comparisons along with process tracing to produce more robust analysis of the proposed causal mechanism versus alternative explanations and balance richness with generalizability.[33] Congruence testing and process tracing are applied to data from extensive archival research and elite interviews of over fifty current and former officials and other political actors and experts.[34] Additionally, statistical analysis of Congressional voting on China's MFN status from 1990 to 2000 is employed to examine the drivers of votes, including economic competitiveness indicators used in IPE models, as well as proxies for non-

[33] Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (MIT Press, 2005); John Gerring, "What Is a Case Study and What Is It Good For?," *American Political Science Review* 98, no. 2 (2004): 341–354.
[34] George and Bennett, *Case Studies and Theory Development in the Social Sciences*.

economic interests, causal stories, and the influence of Chinese actors. Thus, this dissertation triangulates between a number of data sources and analytical tools to compare the explanatory power of the speculative politics framework with IPE, geopolitical, and normative alternatives.

This analysis finds strong support for the key claims of the speculative politics framework. From debates on MFN renewal in the wake of Tiananmen to debates over the tariffs imposed by the Trump administration, economic, security, and normative interests and actors have all played important roles in the policymaking process. Moreover, causal stories, systemic biases, and speculative bubble dynamics have also been central. Chapters 2 through 4 focus on the George H.W. Bush and Clinton administrations and argue that, at the start of 1989, several U.S. administrations had maintained cooperation with the Chinese on the basis that they helped the U.S. balance the Soviet Union and were only "so-called" communists anyway, but Tiananmen and the end of the Cold War challenged that story and the policy agenda it justified. In the wake of that policy bubble's implosion, two diverse coalitions emerged and clashed over China policy in the 1990s: one promoting engagement and the other external pressure, and both stitching together a number of schema and analogies into causal stories that promised their policy agenda would deliver on a range of issues, from trade and security to human rights. The pro-engagement coalition, including the Bush administration, the business community, and, ultimately, the Clinton administration, pulled together schema like interdependence, democratization theory, and capitalist and democratic peace theory, as well as analogies to other Asian states, to argue that continuing the established U.S. policy of engagement with China promoted U.S. economic, security, and normative interests. Meanwhile, human rights activists and their allies in Congress, noting the

events of Tiananmen and employing analogies to the Soviet Union and Eastern Europe, argued that more direct pressure would be required to get China to change its policies. Only by placing conditions on China, requiring, for example, that it adhere to human rights standards in order to maintain its MFN status, would the U.S. be able to get the Chinese government to politically liberalize and thereby secure normative, economic, and security benefits. The availability and belief perseverance biases played an important role in the engagement story's ultimate success in maintaining China's MFN status and ushering in its WTO accession, as did the Chinese themselves. For example, National Security Advisor Brent Scowcroft and President Bush himself appear to have been affected by their considerable experience with China and personal relationships with Chinese officials. Their hopes, as well as the hopes of the American business community, were supported by the rhetoric of Chinese officials themselves, who implied that the WTO accession would lock China into a path of economic reforms and even, ultimately, political liberalization, and made well-timed tactical concessions to reinforce that message. Thus, the engagement story's promises of ongoing progress across multiple issue areas won over many security officials and experts, increasing numbers of economic actors as the Chinese economy took off, and even some democracy and human rights activists were convinced that this approach was best in the long-term. This is not to say that everyone was swept up in grand expectations of imminent Chinese marketization, democratization, and pacifism, but a significant amount of overselling and "irrational exuberance" can be found in the historical record.

However, actors will update even quite sticky beliefs under persistent dissonance. As Chapter 5 shows, although the transnational pro-engagement coalition succeeded in the 1990s with the help of the engagement story, the long-term cost was

that this new bubble would pop as China failed to deliver and, consequently, new causal stories would increasingly compete to influence policy. From China's limited compliance with its WTO commitments and greater than anticipated costs to American manufacturing stemming from Chinese competition to China's lack of political liberalization and increasing military assertiveness, disappointment has worn away at the credibility of the engagement story, and views on globalization and economic openness have soured, especially since the global financial crisis. Due to belief perseverance, actors are update their causal stories slowly; thus, at first, the engagement story was only tweaked, adding a new schema. Coined by the U.S. Trade Representative under President George W. Bush, Robert Zoellick, competitive liberalization holds that ambitious FTAs with likeminded partners can strengthen the U.S. and put competitive pressure on third party states concerned about lost opportunities or even trade diversion, incentivizing them to liberalize as well so they can regain equal market access and thereby triggering the virtuous cycle espoused by the engagement story. The flip side of competitive liberalization is containment: if China does not join the liberalization bandwagon, it will be left behind, allowing the allied powers to contain it in the short run and, in the long run, create pressure for fundamental change. Thus, an updated engagement story pulled together a coalition of pro-traders and China hawks in support of initiatives like the TPP.

The mounting disenchantment with the engagement approach was enough not only to drive updating among pro-engagement actors, but also to fuel the rise of another story: economic nationalism.[35] While similar to the competitive liberalization

[35] This dissertation uses the term "economic nationalism" in the academic sense to describe a range of views seen in discussions of China and trade policy today that advocate an increased role for the state in managing globalization, including through economic policies that advance national interests but may decrease international integration and cooperation. See, for example, Monica de Bolle and Jeromin Zettelmeyer, "Measuring the Rise of Economic Nationalism" (Peterson Institute for International Economics, August 2019), 19-15, Working Paper; Eric Helleiner, "Economic Nationalism as a

schema in that it is concerned with strengthening the U.S. position relative to China, the economic nationalist story entails more blanket skepticism of international economic engagement, as well as greater willingness to use unilateral measures in order to generate leverage in negotiations, to protect key U.S. industries, or decrease dependence on the Chinese economy. As the concluding chapter explains, such a view is seen in many of the Trump administration's policies, such as withdrawing the U.S. from the TPP and imposing unilateral tariffs; however, in this period following the bursting of the engagement bubble, consensus has yet to reemerge and these various political factions and causal stories continue to compete for policy influence.

Thus, the debates over renewal of China's MFN status and WTO accession, as well as those on managing the challenges posed by China following its entry into the WTO offer strong evidence for the central claims of the speculative politics framework. Alternative approaches like pure IPE, geopolitics, and normative explanations struggle to account for the consistent influence of diverse interests and actors, including foreign actors and transnational coalitions, debates centering around means more than ends, and evidence pointing to limited rationality. The speculative politics framework, however, captures the key dynamics at work. First, multiple interests have driven the market for policies, including economic but also security and normative concerns. Second, competing and evolving causal stories have played a critical role in forecasting the effects of proposed policy, translating interests into policy preferences, and tying together the varied interests of different actors. Third, systemic biases like availability and belief perseverance have shaped the selection and updating of causal stories. Fourth and finally, the market for policies has therefore

Challenge to Economic Liberalism? Lessons from the 19th Century," *International Studies Quarterly* 46, no. 3 (2002): 307–29; Takeshi Nakano, "Theorising Economic Nationalism," *Nations and Nationalism* 10, no. 3 (2004): 211–29.

been subject to manipulation and speculative bubbles. Notably, foreign actors have been able to boost a given policy agenda in the short term by intelligently offering rhetoric and actions that fit with the associated causal story; however, the deferred cost comes when the speculative bubble bursts, as built-up expectations are left unmet, dissonance mounts, and views shift, often dramatically, as can be seen in U.S. public opinion on China and trade issues today.

I.3 Conclusion

This dissertation triangulates between different data sources and methods, bridging different areas of scholarship in international relations and beyond and extending insights related to beliefs and biases to the study of trade policy. The new framework developed here appreciates the role of belief perseverance in foreign policymaking but also incorporates foreign actors to examine the sudden shifts that can occur in political coalitions and policy preferences when enough dissonance builds to prompt updating. Thus, the speculative politics framework demonstrates the opportunities that come with the inefficiencies of the market for policies, opportunities that Chinese and other pro-trade actors have seized upon. However, it also reveals the dangers of relying on such uncertain foundations, as beliefs can suddenly shift and policies reverse when reality fails to live up to expectations. Thus, this dissertation aims to be the first cohesive theory-based explanation of U.S. post-Cold War economic policy towards China, explaining the debate about the future of the relationship following the end of the Cold War and Tiananmen, the rise of the engagement story and policy agenda that paved the way to China's WTO accession, and the backlash against engagement unfolding today.

Chapter 1

The Speculative Politics Framework

What are the key drivers of the politics of foreign economic policymaking, especially when it comes to complex international relationships, such as that between the U.S. and China? This chapter draws on scholarship from different areas of international relations, especially international political economy, but also psychology and behavioral economics to build a new framework. The resulting speculative politics framework models the domestic politics of foreign economic policymaking as a market for policies and makes four main claims. First, political actors are rarely driven purely by economic interests, and selling economic policies often requires appeals to non-economic factors like security and human rights concerns. Second, given complexity and cognitive limitations, actors rely on causal stories that tell them how the world works, allow them to speculate about the future, and decide how best to invest in policies that promote their interests. Third, the market for policies is limited by systemic biases, including the availability heuristic and belief perseverance. Political actors are more likely to draw on causal stories based on highly available schema and analogies, i.e., more vivid, recent, or personal, and also tend to continue relying on causal stories despite evidence to the contrary and update their beliefs only after dissonance mounts. Fourth, because of these inefficiencies, the policy market is subject to manipulation by powerful domestic and foreign political actors in the short term, and to speculative bubbles in the long term, i.e., growing overconfidence in certain policies and causal stories followed by sudden and rapid reversal. The framework and its foundations are detailed below and tested in

subsequent chapters using five major cases of U.S. China economic policy and a range of analytical tools.

This chapter proceeds as follows. First, it draws on existing scholarship in international relations, and then introduces insights from psychology and economics, after which it lays out the main claims of the speculative politics framework, discusses the methodology of the dissertation, and then concludes.

1.1 Foundations in International Relations Theory

What drives foreign economic policymaking in multifaceted, high-stakes relationships like that of the U.S. and China? This dissertation turns first to established explanations in the field of international relations (IR), drawing on liberal international political economy (IPE), but also realism and constructivism.

The field of IPE examines the relationship between "public and private power in the allocation of scarce resources" and appreciates the two-level dynamics of foreign policymaking, under which domestic as well as international actors and interests demand the attention of policymakers.[36] IPE, especially the mainstream liberal IPE of the past few decades, has rarely been applied to the U.S.-China relationship but has much to offer when trying to understand the economic interests and actors involved in relations between the world's two largest economies. Who supports economic openness? This question has been central to the field of IPE and has only gained in importance in recent years amidst fierce debates about globalization. One of IPE's key insights is that while society on the whole benefits from international economic openness, the unequal distribution of costs and benefits

[36] Ravenhill, *Global Political Economy*, 18; Putnam, "Diplomacy and Domestic Politics."

politicizes the issue.[37] Illustratively, when the Chicago Booth Initiative on Global Markets surveyed forty top U.S. economists, they unanimously agreed that trade with China makes most Americans better off, but some who work in competing industries are made worse off.[38] Thus, some benefit from protectionist policies and others from liberalization, and these interests drive coalitional politics and, ultimately, policy.

Recently, IPE has become more liberal, materialist, and rationalist, in that it tends to focus more on domestic actors and model them as materially driven and rational. This trend is embodied in a popular paradigm, sometimes referred to as open economic politics (OEP). As David Lake writes, "OEP begins with individuals, sectors or factors of production as the units of analysis and derives their interests over economic policy from each unit's position within the international economy."[39] OEP posits that individuals' positions on trade policy stem from their competitiveness in global markets, which in turn is determined by the factors – land, labor, and capital – they own.[40] If those factors are mobile, i.e., easily transferred between industries, competitiveness depends on the abundance of those factors internationally, as described in the factor endowment model.[41] If factors are immobile, competitiveness instead is based on the industry to which factors are tied, as argued in the specific factors model.[42] As gains and losses from trade policy are often concentrated, special interest groups are incentivized to organize and lobby and therefore exercise more influence than the general public. Officials, in need of votes, campaign contributions, and information on policy issues, respond to pressures from these constituencies or risk losing their jobs. Thus, factor distribution and mobility give rise to economic

[37] Moravcsik, *The Choice for Europe*; Rogowski, *Commerce and Coalitions*.
[38] IGM Economic Experts Panel, "US-China Trade," IGM Forum, June 19, 2012.
[39] Lake, "Open Economy Politics," 225; Keohane, "The Old IPE and the New."
[40] Hiscox, "Commerce, Coalitions, and Factor Mobility."
[41] Also known as the Heckscher-Ohlin-Samuelson theory of international trade.
[42] Also known as the Ricardo-Viner theory of international trade.

interests, driving individuals' policy preferences, around which political coalitions form and lobby the government in the struggle to determine policy. An OEP analysis helps explain, for example, U.S. multinational businesses' lobbying for renewal of China's Most Favored Nation (MFN) status, accession to the World Trade Organization (WTO), and establishment of permanent MFN (also known as permanent normal trade relations or PNTR), as well as labor unions' opposition.

The OEP approach is simple and powerful, but it has three main limitations that the new framework aims to address. First, OEP tends to discount insights from security and human rights scholarship in IR. Second, it tends to assume hyper-rationality and ignore questions about forecasting, especially under complexity and uncertainty. Third, while it succeeds in shedding light on the role domestic actors play in shaping foreign policy, it often ignores the influence of foreign ones. Precisely for overlooking such dynamics, Robert Keohane has critiqued OEP scholarship for being "too materialistic" and "too inclined to identify rationality with egoism", and Dani Rodrik has advocated for more consideration of the role ideas and identity play in interest formation.[43] OEP scholars have responded, for example, with work on the influence of ethnocentrism on immigration policy,[44] the role of ideology in preferences for trade versus aid,[45] and the relationship between environmentalism and protectionism.[46] These extensions of OEP represent an exciting direction for an

[43] Keohane, "The Old IPE and the New," 38; Dani Rodrik, "When Ideas Trump Interests: Preferences, Worldviews, and Policy Innovations," *Journal of Economic Perspectives* 28, no. 1 (Winter 2014): 189–208.
[44] Jens Hainmueller and Michael J. Hiscox, "Attitudes toward Highly Skilled and Low-Skilled Immigration: Evidence from a Survey Experiment," *American Political Science Review* 104, no. 01 (2010): 61–84; Edward D. Mansfield and Diana C. Mutz, "Support for Free Trade: Self-Interest, Sociotropic Politics, and out-Group Anxiety," *International Organization* 63, no. 03 (2009): 425–457.
[45] Helen V. Milner and Dustin H. Tingley, "Who Supports Global Economic Engagement? The Sources of Preferences in American Foreign Economic Policy," *International Organization* 65, no. 01 (January 2011): 37–68.
[46] Michael M. Bechtel, Thomas Bernauer, and Reto Meyer, "The Green Side of Protectionism: Environmental Concerns and Three Facets of Trade Policy Preferences," *Review of International Political Economy* 19, no. 5 (December 2012): 837–66.

already strong area of scholarship, but more work is needed. An OEP explanation still struggles to answer a number of questions when it comes to post-Cold War U.S. China economic policy. Why have pro-engagement American business lobbies consistently been slow to act but, once galvanized, organized and influential? Why did human rights activists, despite some initial successes, splinter on MFN linkage in the mid-1990s? Why did Obama's Secretary of Defense Ashton Carter weigh in on U.S. trade policy, saying that "passing TPP [the Trans-Pacific Partnership] is as important to me as another aircraft carrier," while other U.S. economic officials and interest groups insisted that it was not about containment or exclusion?[47]

While IPE analyses, particularly those based on OEP approaches, have often focused solely on economic interest and actors, many other areas of IR scholarship have long noted the importance of the economy to security affairs. Theories like hegemonic stability theory and offensive realism stress the connection between economic strength and military might, as states can use military power to secure economic benefits and trade can fund military expansion or create leverage through dependence.[48] Thus, security concerns can disrupt otherwise mutually beneficial economic relations. Meanwhile, theories like capitalist peace and interdependence suggest that economic exchange increases the prospect of cooperation and peace.[49] Conversely, security is crucial to the economy, as without it international and even domestic commerce might flag. Although an OEP account does not include them, such concerns have clearly played an important role in the U.S.-China economic

[47] Helene Cooper, "U.S. Defense Secretary Supports Trade Deal With Asia," *The New York Times*, April 6, 2015; David Ignatius, "A Free-Trade Agreement with Europe?," *The Washington Post*, December 5, 2012.
[48] Robert Gilpin, "The Theory of Hegemonic War," *The Journal of Interdisciplinary History* 18, no. 4 (Spring 1988): 591–613; Mearsheimer, *The Tragedy of Great Power Politics*.
[49] Erik Gartzke, "The Capitalist Peace," *American Journal of Political Science* 51, no. 1 (2007): 166–191; Robert Keohane and Joseph Nye, *Power and Interdependence* (Boston: Longman, 1977).

relationship in recent decades. For example, the George H.W. Bush Administration saw unconditional renewal of MFN as an important prerequisite for U.S.-China cooperation on security issues like handling the breakup of the Soviet Union and the Iraqi invasion of Kuwait. Additionally, concerns about the economic and military rise of China have bolstered calls for exclusive trade deals like the TPP or speculating that the two countries may be engaging in "economic decoupling".[50] Security actors like National Security Council officials have also played a role in U.S. trade policy. However, geopolitical explanations often have difficulty accounting for cooperation between states and the role of domestic interest groups. For example, they struggle to explain U.S. support for China's WTO accession and the U.S. withdrawal from the TPP, as well as the ongoing influence of economic actors and interests.

Meanwhile, constructivist scholars have shown the influence of non-material motivating factors. While economic and security interests are clearly important, normative concerns have also shaped international economic policy, with advocacy networks pressuring governments like the U.S. and the European Union to place sanctions on human rights violators such as China.[51] The idea of the U.S. as not only an international example but also a promoter of liberal democracy is widespread among Americans and can itself drive policy.[52] Again, new work in IPE, including constructivist IPE, has also considered the influence of normative concerns on

[50] To be clear, no one in the Trump administration is known to have advocated "decoupling", while Chinese officials have long called for the development of "indigenous innovation" and reduction of import reliance. Jim VandeHei and Mike Allen, "The Great Global Decoupling: The Cold War between China and the U.S. Is Heating Up," *Axios*, August 13, 2019.
[51] Caroline Fleay, *The Impact of Internal and External Responses on Human Rights Practices in China: The Chinese Government and the Spiral Model* (Curtin University of Technology, 2005); Rosemary Foot, *The Practice of Power: US Relations with China since 1949* (Oxford: Clarendon Press, 1995); Keck, *Activists beyond Borders*; Thomas Risse, Steve C. Ropp, and Kathryn Sikkink, *The Power of Human Rights: International Norms and Domestic Change*, Cambridge Studies in International Relations (Cambridge: Cambridge University Press, 1999).
[52] Henry R. Nau, *At Home Abroad: Identity and Power in American Foreign Policy* (Cornell University Press, 2002).

economic policy preferences. For example, normative concerns were clearly at work in the U.S. response to the Tiananmen massacre, including the subsequent interest in revoking or conditioning China's MFN status on human rights progress. However, IR literature on human rights has focused mostly on success stories, so while it explains quite well the achievements of advocates in the early to mid-1990s, it has difficulty explaining obstacles and failures, likely because it does not address the interaction between normative ideals and other interests. A new framework must, therefore, integrate economic, security, and normative concerns if it seeks to explain the politics of foreign economic policymaking in a multidimensional relationship like that between the U.S. and China.

Moreover, the concerns about OEP's tendency to assume hyper-rationality and to ignore the role of foreign actors must also be addressed. OEP struggles with the fact that, even if one's interests are known, the future is both crucial to one's policy preferences and often difficult to predict. For example, the factor endowments model assumes that economic opportunities or threats presented by foreign markets are obvious based on the distribution of factors, making policy preferences self-evident. Meanwhile, operationalizations of the specific factors model have assumed that industries base their support or opposition to trade liberalization only on their exports or import competition at that moment in time. However, actors must make forecasts and often have difficulty interpreting present and past experience to do so; thus, uncertainty about the future can complicate policy preferences. An American company may have a clear goal of maximizing its profit, but when determining its preferences for U.S. China policy, it not only faces questions about pure economic opportunities and threats, but also must speculate about China's future policies and political environment, including how proposed U.S. policies might affect China's

trajectory. For example, some economists have shown that the impact of China's accession to the WTO actually had a much more damaging effect on U.S. manufacturing than anticipated at the time.[53] Thus, even using the state-of-the-art information and analysis at the time, companies and workers would have been unable to correctly calculate how their interests would be affected and, thus, choose an optimal policy agenda and efficiently allocate time and resources to promoting it. In the midst of complexity and uncertainty – from the effects of globalization to future Chinese policy – how can actors predict what effects a given policy will have on their interests, even their more easily quantifiable economic ones?

This issue of selecting policy in the face of uncertainty also applies if security and normative concerns are taken into account. If a political actor is motivated by security concerns, it may still be unclear whether she should favor engagement or confrontation. As she thinks about the future of U.S.-China relations, does she worry that an unequal distribution of gains contributing to the relative power of a potential rival or hope that increased diplomatic and economic exchange will promote peace? Similarly, does a human rights activist think that economic engagement and development promote political reforms or that international sanctions are necessary? Different answers to these questions imply entirely different political preferences. To address deal these issues of complexity, uncertainty, and forecasting, this dissertation turns to other areas of scholarship.

1.2 Integrating Insights from Psychology and Economics

[53] David H. Autor, David Dorn, and Gordon H. Hanson, "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," *American Economic Review* 103, no. 6 (2013): 2121–2168; Josh Bivens, "Using Standard Models to Benchmark the Costs of Globalization for American Workers without a College Degree" (Economic Policy Institute, March 22, 2013).

Developments in psychology have revolutionized the understanding of human thought processes. Cognitive psychology focuses on the acquisition and use of knowledge, including mental limitations and how they shape human perceptions and decisions.[54] In contrast to rational actor models, psychologists have emphasized the difficulty of having too much information, information that does not speak for itself but rather needs interpretation by human minds with cognitive and time limitations. Research has shown that humans rely on cognitive shortcuts to filter information and draw conclusions; moreover, those shortcuts and the conclusions made with their help involve biases and tend to persevere even in the face of conflicting data. People often discredit unwelcome information, seek out support for their position, view discrepancies as exceptional, or avoid the dissonance altogether before updating their beliefs and behavior. Such beliefs can also be socially constructed and institutionalized, as people take cues and seek validation from others.[55]

These insights have been applied across the social sciences. While economists such as John Maynard Keynes and Frank Knight have long understood the role of complexity, uncertainty, and animal spirits in economic decision-making,[56] the 2008 global financial crisis and recent work in behavioral economics have brought such thinking once again to the forefront of the field. Nobel laureates George Akerlof and

[54] Kahneman, Slovic, and Tversky, *Judgment under Uncertainty*, xii; Stephen Reed, *Cognition: Theory and Applications* (Cengage Learning, 2006), 2–3.
[55] Leon Festinger, *A Theory of Cognitive Dissonance* (Evanston, Ill: Row, Peterson, 1957); Kahneman, Slovic, and Tversky, *Judgment under Uncertainty*; Reed, *Cognition.* Moreover, one does not have to adopt a psychological, constructivist, or even a bounded rationality approach to human behavior; a number of studies have shown that even under Bayesian inference, individuals can diverge in their interpretation of even the same information. Daron Acemoglu, Victor Chernozhukov, and Muhamet Yildiz, "Fragility of Asymptotic Agreement under Bayesian Learning," *Theoretical Economics* 11 (2016): 187–225; Avinash K. Dixit and Jörgen W. Weibull, "Political Polarization," *Proceedings of the National Academy of Sciences* 104, no. 18 (May 1, 2007): 7351–56.
[56] John Maynard Keynes, *A Treatise on Probability* (London: Macmillan, 1921); John Maynard Keynes, "The General Theory of Employment," *The Quarterly Journal of Economics* 51, no. 2 (1937): 209–23; John Maynard Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan ; New York, 1961); Frank H. Knight, *Risk, Uncertainty and Profit*, Hart, Schaffner & Marx Prize Essays, No. 31 (Boston: Houghton Mifflin, 1921).

Robert Schiller, for example, have argued that sentiment, norms, and stories play a major role in economics.[57] In communications theory, scholars have also pointed to psychological biases and institutional failings in order to critique and complicate the classic metaphor of an efficient "marketplace of ideas", where reasoned competition among viewpoints rewards the best argument.[58] Meanwhile, in IR, neoclassical realists have used cognitive theory to illuminate the perceptions and decisions of elite security policymakers, such as U.S. presidents and their advisors.[59] The speculative politics framework builds on the work of Yuen Foong Khong, among others, who has argued that policymakers use knowledge structures like analogies to other historical cases and schema (i.e., more general causal hypotheses) to: 1) define the nature of a situation, 2) assess its stakes, 3) provide proscriptions, 4) predict chances of success for each alternative, 5) evaluate their moral rightness, 6) warn about the dangers of options, and, thus, come to a decision.[60] Additionally, while not directly linked to psychological scholarship, many scholars have examined the role of ideas and beliefs in international relations.[61] Such applications have made considerable contributions to the understanding of markets and policymaking, but more work is needed.

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[57] George A. Akerlof and Robert J. Shiller, *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism* (Princeton: Princeton University Press, 2009); Robert J. Shiller, *Irrational Exuberance* (Princeton: Princeton University Press, 2001); Robert J. Shiller, "Narrative Economics" (Cowles Foundation for Research in Economics, Yale University, January 2017), No. 2069, Cowles Foundation Discussion Paper; Robert Shiller, *Narrative Economics: How Stories Go Viral and Drive Major Economic Events* (Princeton: Princeton University Press, 2019).

[58] Derek E. Bambauer, "Shopping Badly: Cognitive Biases, Communications, and the Fallacy of the Marketplace of Ideas," *U. Colo. L. Rev.* 77 (2006): 649; Claudio Lombardi, "The Illusion of a "Marketplace of Ideas" and the Right to Truth," *American Affairs Journal* 3, no. 1 (February 20, 2019).

[59] See, for example, Breslauer and Tetlock, *Learning in U.S. and Soviet Foreign Policy*; Jervis, *Perception and Misperception in International Politics*; Khong, *Analogies at War*; Jack S. Levy, "Learning and Foreign Policy: Sweeping a Conceptual Minefield," *International Organization* 48, no. 02 (March 1994): 279; Jonathan Mercer, *Reputation and International Politics* (Cornell University Press, 2010); Yarhi-Milo, *Knowing the Adversary*.

[60] Khong, *Analogies at War*, 10; Ronald R. Krebs, 'How Dominant Narratives Rise and Fall: Military Conflict, Politics, and the Cold War Consensus', *International Organization* 69, no. 04 (September 2015): 809–45.

[61] Judith Goldstein and Robert O. Keohane, *Ideas and Foreign Policy: Beliefs, Institutions, and Political Change* (Ithaca: Cornell University Press, 1993); Johnston, *Social States*; Alexander Wendt, *Social Theory of International Politics* (Cambridge: Cambridge University Press, 1999).

In particular, study of international economic policymaking has yet to fully integrate psychological insights. Much like the field of economics it draws upon, IPE has been dominated in recent decades by material-based, rationalist OEP, with both its strengths and limitations, and only recently has begun to complicate, challenge, and revise those approaches. After all, if, as behavioral economists argue, complexity, uncertainty, and cognitive limits mean that beliefs shape economic decisions, it is not a great leap to argue that beliefs similarly shape economic policy. If one's economic interests or the best methods for achieving them are unclear, how does one form policy preferences? The problem is magnified in the political realm, where actors face questions not only about the future of markets but also complex domestic and international politics and tradeoffs across interest areas. When actors are uncertain the ramifications of a given policy, beliefs about the world provide some important guidance. OEP approaches, however, have tended to ignore both the uncertain specter of the future and the role of human psychology, assuming that rational actors can quantify risk. Again, some scholars have been moving to incorporate the role of ideas and identity into OEP approaches. For example, work on immigration preferences in particular has focused on the influence of ethnocentrism, nationalism, and isolationism, which involves non-economic interests like cultural preservation and ethnic homogeneity, as well as beliefs about the economic, cultural, political, and security effects of immigration and trade.[62] The growing field of constructivist IPE has also recognized the importance of cognitive theory in the

[62] See, for example, Jens Hainmueller and Michael J. Hiscox, "Educated Preferences: Explaining Attitudes toward Immigration in Europe," *International Organization* 61, no. 02 (2007): 399–442; Hainmueller and Hiscox, "Attitudes toward Highly Skilled and Low-Skilled Immigration."

context of all the complexity and uncertainty involved in economics, business, and economic policy.[63] This dissertation expands upon this work.

Furthermore, little has been done to consider how foreign actors might enter and influence this contest of ideas.[64] Chinese officials and other actors hire lobbyists, host and go on trade delegations, spend money, and make speeches all in order to influence perspectives and policies in the U.S. IPE coalitional analyses of foreign policymaking, however, have tended to treat domestic politics as a sealed bubble. Similarly, human rights scholars have highlighted the importance of transnational advocacy networks and the pressure they can bring to bear on illiberal states, but have not focused on the reverse, i.e., the influence an illiberal state like China might have on international norms and networks.[65] Some cognitivist insights about the updating and debating of beliefs have been incorporated into IR research but typically only by neoclassical realists focused on the beliefs of elite security officials and without regard to transnational dynamics. This dissertation focuses on international economic issues that involve a variety of interests and actors and heated domestic politics that intersect with complex international politics. Thus, there is a pressing need to

[63] Rawi Abdelal, Mark Blyth, and Craig Parsons, *Constructing the International Economy*, Cornell Studies in Political Economy (Ithaca: Cornell University Press, 2010); Ash Amin and Ronen Palan, "Towards a Non-Rationalist International Political Economy," *Review of International Political Economy* 8, no. 4 (2001): 559–77; Mark Blyth, *Great Transformations: The Rise and Decline of Embedded Liberalism* (New York: Cambridge University Press, 2002); Peter A. Hall, "Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain," *Comparative Politics*, 1993, 275–96; Qingxin K. Wang and Mark Blyth, "Constructivism and the Study of International Political Economy in China," *Review of International Political Economy* 20, no. 6 (2013): 1276–99; Wesley W. Widmaier, "The Keynesian Bases of a Constructivist Theory of the International Political Economy," *Millennium: Journal of International Studies* 32, no. 1 (2003): 87–107.

[64] In other words, the lens has been exclusively second image, without attention to second image reversed.

[65] For transnational advocacy networks, see Keck, *Activists beyond Borders*; Risse, Ropp, and Sikkink, *The Power of Human Rights*. For limitations, see Caroline Fleay, "Human Rights, Transnational Actors and the Chinese Government: Another Look at the Spiral Model," *Journal of Global Ethics* 2, no. 1 (June 1, 2006): 43–65.

incorporate these insights from different areas of scholarship – including the roles of diverse interests, ideas, cognitive biases, and foreign actors – into a new framework.

1.3 Building the Speculative Politics Framework

We turn now to the core of the speculative politics framework: the role of beliefs and biases – as well as some rational self-interest – in driving the policymaking process. The framework's key framing idea is that **political actors, including officials and constituents, are engaged in a market for policies**. Much like actors in a stock market, political actors try to "invest" their political capital (i.e., money, time, votes) in the proposed policies that will yield the best return (i.e., promote their interests). Building on and complicating this market analogy, the speculative politics framework makes four key claims: 1) political actors are driven by diverse interests, including economic, security, and human rights concerns, 2) those actors rely on causal stories to speculate about the future and translate their interests into policy preferences, 3) causal stories are in turn shaped by systemic biases, and 4) the market for policies is therefore often inefficient and unstable, subject to manipulation and speculative bubbles. This section elaborates on these claims, laying out their foundations and exploring implications.

First, **political actors are rarely driven purely by economic interest, and selling economic policies often requires appeals to non-economic factors like security and human rights concerns.** In financial markets, profit is an actor's driving interest, but in the market for policies, the situation is more complex. Politicians, in need of votes, endorsements, donations, and expertise, must respond to the concerns of their constituents. Meanwhile, surveys show the American public

places emphasis on multiple interest areas when it comes to preferences on foreign policy, from combatting nuclear proliferation and terrorism and protecting American jobs and businesses to promoting human rights and democracy around the world.[66] Moreover, a range of influential special interest groups have interests at stake when it comes U.S. China policy, with labor unions, industry groups, experts, and activists all weighing in. Security professionals – actors institutionally charged to consider security issues, including security officials and other experts – have particular interest in highlighting and addressing the security dimensions of trade. Similarly, human rights professionals are particularly invested in the normative dimensions of trade. Industry and labor groups are also institutionally obligated to pursue economic interests, but even they may be driven by ideals to some extent. Thus, in contrast to a purely economic, geopolitical, or normative explanation, the speculative politics framework holds that diverse constituents invest their political capital in policies that they think will promote their diverse interests. [67] Meanwhile, politicians often seek policies that are defensible across the range of interests, and thus satisfy the greatest number of constituents, rather than maximizing any one interest. While interests are not all equally weighed in the policymaking process at all times, they all exert some varying level of influence over time.

Second, the speculative politics framework argues that **actors rely on causal stories to speculate about the future and decide how to invest in policies that promote those interests**. This dissertation uses the term "causal stories" to refer to

[66] Jeff Jones and Lydia Saad, "US Foreign Policy Goals" (Gallup News Service, February 1, 2017).
[67] While these dynamics have some elements in common with bureaucratic politics, they differ in that debates and conflicts over policy stem not only from internal bargaining among state actors shaped by the institutional design of their positions, but also external pressures from special interests, activists, foreign actors, and, occasionally, the public. Moreover, emphasis on the role of beliefs and biases sets this framework apart. Graham T. Allison, "Conceptual Models and the Cuban Missile Crisis," *American Political Science Review* 63, no. 03 (1969): 689–718.

webs of knowledge structures, i.e., analogies and schema, that together tell a coherent tale about a policy agenda and its future impact across multiple interest areas; thus, they sit in a middle range above analogies and schema and below worldviews and ideologies. As has been discussed, leading IPE and geopolitical approaches often assume actions are rational, but psychologists, economists, and political scientists have shown that, in the face of complexity and uncertainty, humans rely on mental shortcuts such as narrative thinking to filter, interpret, and act upon the overwhelming amount of information available when trying to apply past experience to present and future problems. The market for policy solutions does have elements of rational, self-interested behavior, with actors supporting policies that they anticipate will promote their interests; however, even given clear interests, one's preferred policy is not always self-evident, just as it is often unclear which stock will yield the best return, especially under conditions of complexity, uncertainty, and cognitive limitations. Thus, economic actors sometimes turn to narrative thinking in addition to or even instead of hard numbers when making investment decisions.[68] Similarly, causal stories help political actors define how the world works and speculate about how proposed policies will affect their interests. While causal stories by definition and by necessity simplify the complexities of reality, they play important roles in politics, giving actors a way to think about and discuss complex problems, convince others to unite around the same policy agenda, and weather turbulence in order to see that agenda through. In other words, causal stories help political actors marshal lessons from the past to speculate about the future and make investment decisions, correctly or incorrectly. For example, proponents of unconditional renewal of China's MFN status and WTO accession in the 1990s and early 2000s relied on a causal story that

[68] Shiller, "Narrative Economics."

strung together schema like peace through interdependence and democratization through development, as well as analogies to other East Asian developmental states in order to argue for maintaining engagement. Causal stories are more likely to come into play under conditions of higher uncertainty and complexity, such as when a policy question involves multiple, competing interests and large, long-term goals, all of which make relying on causal stories to convince oneself and others of the merits of a policy solution especially tempting. Applying a more rational perspective, a causal story can be deployed to build and maintain support for a policy that may not actually be able deliver for everyone. Meanwhile, from a more psychological perspective, such "have your cake and eat it" stories help individuals avoid prioritizing among interest areas and may be linked to motivated reasoning or, more colloquially, a wishful thinking bias.[69]

But which causal stories are developed, selected, and applied to a given situation, especially when experts themselves are divided? How does one decide, for example, if Chinese leaders are only "so-called communists" committed to reforms, what counts as evidence one way or the other, or if such categories are the correct way of thinking about China at all? While individuals may err, an efficient market for policies might produce good results at the societal level, just as an efficient stock market would rationally balance risk against return on investment on the whole, with any over- or under-valuation eliminated via arbitrage. As psychologists and behavioral economists have shown, however, irrationalities can be systemic. Similarly, **the market for policies is inefficient in that it is subject to systemic biases due to the human nature of political actors and imperfections of political**

[69] Ziva Kunda, "The Case for Motivated Reasoning," *Psychological Bulletin* 108, no. 3 (1990): 480–98.

institutions. Biases like overconfidence, herd behavior, and emotion all have been shown to shape human decisions, both in the lab and in the stock market.[70] This speculative politics framework focuses on two biases in particular: the availability heuristic and belief perseverance. The availability heuristic describes people's tendency to estimate the probability of an outcome "by the ease with which instances or associations can be brought to mind", i.e., the availability of analogies and schema related to that outcome, which in turn hinges on factors like vividness, recentness, and emotional charge, with personal experience being especially available.[71] The availability heuristic is also particularly likely to come into play under conditions of uncertainty.[72] Belief perseverance entails people's tendency to continue relying on beliefs – including causal stories, which are sets of beliefs – despite evidence to the contrary, tending to ignore and discredit the source of dissonance, seek out consonant sources, interpret information liberally, or write it off as an exception rather than engage in rational updating.[73] When, in the face of mounting dissonance, people do alter their beliefs and policies, they do so slowly, updating tactics first, revising strategic approaches only after repeated tactical failures, and reconsidering fundamental goals and assumptions as a last result.[74] This is perhaps unsurprising from a psychological perspective; by definition, knowledge structures entail a degree of top-down processing, alerting actors to the salience of certain facts and

[70] Akerlof and Shiller, *Animal Spirits*; Kahneman, Slovic, and Tversky, *Judgment under Uncertainty*; Shiller, *Irrational Exuberance*.
[71] Pachur, Hertwig, and Steinmann, "How Do People Judge Risks"; Tversky and Kahneman, "Availability," 208.
[72] Vaughn, "Effects of Uncertainty on Use of the Availability of Heuristic for Self-Efficacy Judgments."
[73] Festinger, *A Theory of Cognitive Dissonance*.
[74] Also known as the principle of least resistance in attitude change, see: McGuire, "The Nature of Attitude and Attitude Change."

perspectives but potentially blinding them to others.[75] Such biases help explain why vivid images of the Tiananmen crackdown and personal relations between Chinese and Americans, for example, have played important roles in U.S. China policymaking, as well as the common tendency towards slow updating.

This dissertation focuses on availability and belief perseverance for a number of reasons. First, they are both systemic and unlikely to be mitigated by moving from the individual to group level. Actors with more diverse knowledge and training and more self-critical styles can better resist these biases; however, herd behavior can compound them, and expertise and institutions can even exacerbate the problem.[76] After all, expertise and institutions involve knowledge structures; training, literatures, and institutional processes can point actors towards key facts and theories but also cause them to ignore other important considerations, especially when the issue sits at the intersection of multiple, poorly-integrated fields.[77] This can help explain why China hands tend to compare China to other Asian states or focus on its potentially unique aspects, while IR scholars may group it with other rising powers, and human rights advocates, with other norm-violators. Such perspectives all offer insight but remain incomplete, with both strengths and blind spots. Unfortunately, the political process does not tend to amalgamate expertise well, with media often amplifying and decision-makers often listening more to the simplest, most confident, and most convenient views while bureaucracies often create resistance to belief updating, thereby exacerbating bias in the system.[78] Indeed, scholars have demonstrated the

[75] Shelley E. Taylor, "The Availability Bias in Social Perception and Interaction," in *Judgment under Uncertainty: Heuristics and Biases*, ed. Daniel Kahneman, Paul Slovic, and Amos Tversky (Cambridge: Cambridge University Press, 1982), 190–208.
[76] Tetlock, *Expert Political Judgment*.
[77] Tetlock; Yarhi-Milo, *Knowing the Adversary*.
[78] Taylor, "The Availability Bias in Social Perception and Interaction," 197–98; Tetlock, *Expert Political Judgment*, 20–22.

influence of these two biases in foreign policymaking, albeit with a focus on security issues.[79] Second, although other biases have scientific merit and may also be at work in the cases analyzed in this dissertation, many are more difficult to test in real-world political situations, whereas the original psychological and economics literature could draw on much more data and even laboratory experiments. Finally, the availability heuristic and belief perseverance are the minimum inefficiencies needed to deduce the next, most important claim of the speculative politics framework.

Dangerously, **these biases make the market for policies unstable, subject to manipulation and, therefore, speculative bubbles**. Again, the speculative politics framework draws on economics here. Even in well-regulated financial markets, manipulation by traders, such as bashing or running up a security, is a well-documented phenomenon; insiders in particular can manipulate company policies and disclosures to affect stock prices.[80] Such tactics can be effective because of information asymmetry and limits to rationality like the availability heuristic. For example, the George W. Bush administration's deployment of the informational capabilities and authority of the White House in order to sell the Iraq War and, more recently, Chinese and Russian efforts to create "fake news" on social media in order to shape political debates in foreign countries have also shown the potential for manipulation of the "marketplace of ideas".[81] Similarly, in the market for policies, a transnational coalition of foreign and domestic actors can take advantage of systemic biases to help sell a preferred policy agenda, at least in the short term. Foreign actions and rhetoric constitute highly available information when it comes to

[79] Jervis, *Perception and Misperception in International Politics*; Khong, *Analogies at War*; Yarhi-Milo, *Knowing the Adversary*; Breslauer and Tetlock, *Learning in U.S. and Soviet Foreign Policy*.
[80] Aggarwal and Wu, "Stock Market Manipulations."
[81] Chaim Kaufmann, "Threat Inflation and the Failure of the Marketplace of Ideas: The Selling of the Iraq War," *International Security* 29, no. 1 (Summer 2004): 5–48; Lombardi, "The Illusion of a "Marketplace of Ideas" and the Right to Truth."

speculating about a country's future and determining policy towards it, often being both vivid and recent, and when they resonate with a causal story they make that story seem even more plausible, thereby increasing the incentive to invest in the policy agenda it justifies. Foreign behavior can be especially influential when paired with powerful domestic actors framing them as confirming a causal story. For example, during the MFN debates, well-timed prisoner releases, trade concessions, and votes on the United Nations Security Council by the Chinese government helped the Bush administration sell the causal story that promised its policy of engagement with China would pay off. Such actions even helped administration officials themselves buy into the story, especially those already inclined to do so due to belief perseverance and the tendency to seek out consonant information. These transnational dynamics can also be more complex, as domestic actors sometimes convince foreign officials to make such concessions in the first place by promising that doing so will help sell a preferred policy, as the Bush administration in the context of MFN renewal, for example.

However, there is a long-term cost when a causal story is oversold: the boom of a speculative bubble is followed by its bust. Economists have argued that when irrational exuberance floods financial markets, rational actors can get drowned out, leading to a speculative bubble, i.e., an unsustainable run-up in an asset's price beyond its intrinsic value, followed by a sharp price drop as the bubble implodes. Some rational profiteers even "ride the bubble", benefitting from and even encouraging irrational hype.[82] Similarly, in the market for policies, coalitions (especially transnational ones) may succeed in the short term in their efforts to sell a policy agenda with a causal story that promises great payoffs and highly available actions and rhetoric that make that causal story seem more plausible. At first there is

[82] Brunnermeier, "Bubbles."

a boom, with increasing numbers and confidence levels of supporters of the policy agenda and, thus, overinvestment in that agenda, such as overspending in lobbying efforts. While initial versions of the causal story may be more realistic, as a bubble grows, the claims get increasingly grand. After all, because of the belief perseverance bias, actors tend to embrace consonant information while dismissing dissonance, raising enthusiasm; moreover, some rational actors may hold their tongues given the intensity of the mainstream consensus or determine the short-term payoff of increased support for the agenda is worth the potential long-term fallout. Thus, while a consensus in the policymaking community is not necessarily indicative of a bubble, it can certainly become one and can be identified as such when new dissonant information is discounted, fundamental principles of the consensus cannot be questioned, and any critics of the consensus are reflexively dismissed or attacked. While they may feed the bubble at times, foreign governments have their own priorities and cannot indefinitely accommodate the sweeping promises of a booming causal story. The belief perseverance bias means that belief in causal stories is sticky, but an increasingly clear gap between promises and outcomes produces growing dissonance and ultimately a collapse in support for an established policy agenda when actors update their choice of causal story. Often that delayed updating leads to overcorrection, sometimes even fueling a new bubble in an alternative causal story. It is also worth noting that not all foreign actors that promote a causal story do so disingenuously; they too may have sincerely believed the promises of that causal story and thus be similarly disappointed when reality fails to meet those expectations.

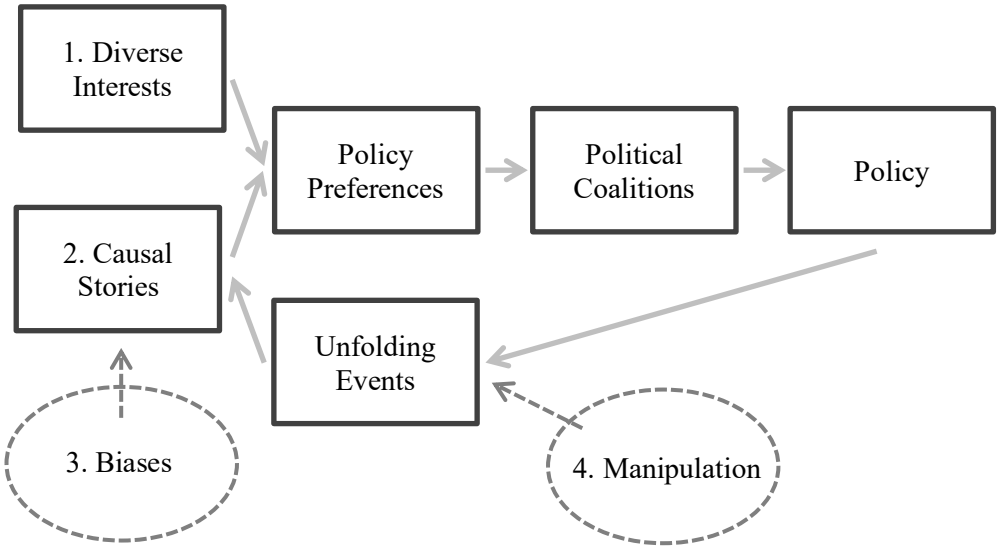
Similar to stock markets, the risk of a policy bubble is especially high following displacement, such as the emergence of a new, disruptive technology or major shift in the international order, where uncertainty is high and the availability

heuristic prevalent, and "new era" stories are especially likely to arise.[83] In fact, the market for policies is more susceptible to bubbles than financial markets in that there are greater limits to arbitrage; namely, actors can choose not to buy into a popular and overvalued causal story and policy agenda, but lack the ability to short it, a crucial feature of an efficient market.[84] Thus, there is one key distinction from a stock market bubble: unlike traders who can short stocks, the political actors who profit in the short term from a boom in their preferred policy often lose in the long term when the crash comes. Finally, while it is incredibly difficult to predict when a financial bubble will burst given the complexity of human behavior and interactions in the overall system, a policy bubble arguably presents an even more difficult challenge because of the greater complexity and fewer quantitative indicators involved. However, similar to a financial crash, the likelihood of a crash in the policy market increases with the gap between exuberance and reality, i.e., as foreign behavior contradicts the popular causal story and dissonance mounts.

Thus, the speculative politics framework makes a few relatively simple updates to the OEP model – adding diverse interests, causal stories, systemic biases, and manipulation – in order to explain bubble behavior in the policy market (see Figure 1.1). Although it does not yield precise predictions – notably, even advanced economic models struggle to predict the timing of bubbles, much to investors' chagrin – it sheds light on overall trends and the key dynamics driving them. The speculative politics framework offers a number of important contributions to the field of IR and the study of U.S.-China relations. From the success of the pro-engagement lobby at the turn of the century to the tense bilateral relationship of today, alternative theories

[83] Akerlof and Shiller, *Animal Spirits*, 55; Kindleberger, *Manias, Panics and Crashes*.
[84] Shleifer and Vishny, "The Limits of Arbitrage."

Figure 1.1 – Speculative politics causal mechanism



have been unable to account for dynamic and dramatic shifts in rhetoric, coalitions, and policy. This understanding of speculation-backed politics, with all its opportunities and challenges, sheds new light. Crucially, it helps incorporate insights from security and human rights scholarship into IPE, illuminating interactions between different actors, interests, and ideas across the three areas. It expands upon and updating beyond security officials to IPE while also introducing a dynamic role theorizing about the "marketplace of ideas" and extends cognitivist work on beliefsfor foreign actors in the domestic politics of foreign policy. It offers new insights into the study of U.S.-China relations and great power relations more generally, emphasizing the interaction of a range of U.S. interests, as well as the effects of Chinese intervention in U.S. politics. Thus, this dissertation aims to be the first cohesive theory-based explanation of U.S. post-Cold War economic policy towards China. Additionally, the framework developed here also has potential for application to other cases, such as the politics of Brexit or the U.S. invasion of Iraq, which also involved complexity, uncertainty, and diverse actors and interests.

1.4 Methodology

The hypotheses of the speculative politics framework are tested alongside those of alternative OEP, geopolitical, and normative explanations using the five major cases of U.S. international economic policy towards China across two periods. In the first period of 1989 to 2001, the analysis focuses on competition between the engagement and external pressure causal stories when it came to 1) the renewal of China's MFN status and then 2) China's WTO accession and PNTR. In the second period of 2001 to 2016, the dissertation examines the persistence and evolution of the engagement story, as well as the rise of alternatives like economic nationalism, with 3) increasing use of the WTO dispute settlement mechanism, 4) negotiation of mega-regional free trade agreements (mega-FTAs), in particular the Trans-Pacific Partnership (TPP), and 5) ongoing engagement in bilateral dialogues. The conclusion also briefly discusses further developments during the Trump presidency, including U.S. withdrawal from the TPP, the U.S. investigation of Chinese intellectual property theft, forced technology transfer, and government-directed foreign investment and subsequent application of tariffs on Chinese imports under Section 301 of the U.S. Trade Act of 1974, and U.S.-EU-Japan trilateral engagement on WTO reform. The cases were chosen both by their importance to and representativeness of U.S. China economic policy in the post-Cold War era, as well as variation in the hypothesized drivers of U.S. policy. Given that contemporary U.S.-China relations are so complex, in one sense this study is a plausibility probe conducted on a most-likely case; however, at disaggregated levels there are also least-likely cases, such as testing whether Congress, which is especially susceptible to the influence of special interests, can be swayed by norms and beliefs. Furthermore, this study uses temporal, across-

case, and within-case comparisons along with process tracing to produce more robust analysis of the main claims of the speculative politics framework versus alternative explanations and balance richness with generalizability.[85]

Chapters 2 through 4 address the first period, 1989-2001, and the first two cases: the post-June 4 debates on MFN status for China and the 2000 decision to extend PNTR to China as part of its WTO accession. MFN/PTNR status and China's WTO accession not only were the policies with the greatest impacts on bilateral trade but also epitomized the issues of the period: tension between economic opportunities and competition, potential for security cooperation or conflict, and ongoing ideological disagreements. The political dynamics at work in the MFN debates are representative of the activities of interest groups on other issues in this period, such as the other post-Tiananmen sanctions or intellectual property disputes. Furthermore, the annual debates and votes create a significant amount of data for analysis. Have producers' interests driven policy, as an OEP model would argue, or must other factors, such as security and human rights, be taken into account? Did exposure to Chinese officials affect Congressional votes? Have causal stories influenced the policy preferences of U.S. actors beyond what material factors can explain?

Next, Chapter 5 examines the period of ongoing but increasingly selective and tense engagement following China's WTO accession and focuses on three cases: increasing use of the WTO dispute settlement mechanism, as well as U.S. negotiation of the mega-FTAs and use of bilateral dialogues during the Bush and Obama administrations. The increasing number of U.S. cases against China under the WTO dispute settlement mechanism and pursuit of FTAs and, ultimately, mega-FTAs like

[85] George and Bennett, *Case Studies and Theory Development in the Social Sciences*; Gerring, "What Is a Case Study and What Is It Good For?"

the TPP and the Transatlantic Trade and Investment Partnership (TTIP) were the key U.S. responses to China's compliance with its WTO commitments and deadlock in Doha Round negotiations, demonstrating both mounting frustration and ongoing willingness to work within the existing system and established policy. U.S. cases against China in the WTO were increasingly ambitious and complex but often failed to yield significant gains; still more issues were not covered by WTO agreements at all. The mega-FTAs sought to be the biggest and most ambitious trade agreements ever, with highly touted economic and geopolitical implications; however, they were also a focal point for increased skepticism of globalization and international economic engagement. Meanwhile, bilateral dialogues like Strategic Economic Dialogue (SED), Strategic and Economic Dialogue (S&ED), and the U.S.-China BIT reflected ongoing but flagging U.S.-China engagement, yielding some results but also plenty of disappointments. Finally, the concluding chapter briefly examines the Trump administration's more confrontational and unilateral approach to China, with a focus on TPP withdrawal and the Section 301 investigation and subsequent tariffs, as well as ongoing engagement with likeminded countries on WTO reform and Chinese industrial policy. While these later periods present evidentiary challenges such as interviewee sensitivities and unreleased archival documents, there are still relevant, publicly available official documents, speeches, interviews, and books for analysis. Elite interviews supplement archival research. Who has supported these mixed and shifting U.S. policies and why? Have stories like competitive liberalization and economic nationalism shaped policy positions? What role has China itself played?

Congruence testing and process tracing are essential to the analysis. Congruence testing helps confirm that the main claims of the framework are plausible and moreover offer greater explanatory power than alternatives (see Table 1.1).

Process tracing tests whether the causal process hypothesized "is in fact evident in the sequence and values of the intervening variables", supporting causal arguments against accusations of spuriousness.[86] Attention also is paid to consistency in the thought processes cited (or lack thereof), especially in less public spaces. The goal is to show that speculative dynamics like systemic biases, manipulation, and bubble behavior factored into the mindsets of key actors and in the important junctures in the policy process, favoring some policy outcomes and discounting others.[87] Thus, this dissertation examines whether the key variables of the speculative politics framework correspond consistently to policy preferences as predicted, and the timing and reasoning expressed indicate the predominant role of these factors over others.

Archival research has also been central to this dissertation. The analysis draws on the wealth of information available in government archives, including extensive use of documents from the George H.W. Bush and Bill Clinton presidential libraries, as well as news archives, memoirs, and academic work in both English and Chinese. Of particular interest are sources related to the policymaking process, such as relevant executive branch meetings minutes and memos, Congressional hearings and debates, lobbying letters, and opinion pieces by key actors. Who supported what, when, and why? What were the prominent discourses, who did they influence, what causal stories did they imply, and what policies did they justify? Ultimately, the dissertation shows that the evidence aligns with the proposed theory rather than the predictions of OEP, geopolitical, and normative explanations. The analysis also critically considers the provenance of sources: who wrote them, for what audience,

[86] Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (MIT Press, 2005), 6–7; Khong, *Analogies at War*, 64–68; Jack S. Levy, "Learning and Foreign Policy: Sweeping a Conceptual Minefield," *International Organization* 48, no. 02 (March 1994): 308; Yarhi-Milo, *Knowing the Adversary*, 40–42.
[87] This approach draws on the work of Yuen Foong Khong. Khong, *Analogies at War*, 62–66.

and in what context. Thus, primary sources are carefully examined for insight into the role of speculative dynamics in foreign policymaking.

Elite interviews complement the archival work. Relevant documents, particularly more recent ones, have not all been declassified and, even so, paint an incomplete picture. Interviews have limitations as well, such as murky memories or sensitivity concerns, and must be subject to scrutiny. Thus, the analysis has triangulated between the two methods, with interviews filling in blanks left by archives and findings from archives being used to prompt interviewees. Interviewees were identified using archival research, personal connections, and snowballing. Ultimately, over fifty interviews were conducted, including with current and former U.S. officials – including from Congress, the National Security and Economic Councils, the Office of the U.S. Trade Representative, and the Departments of State, Defense, Treasury, and Commerce – and other political actors and experts, such as academics and business, labor, and human rights lobbyists. Again, this dissertation has investigated who supported what, when, and why, examining the role of knowledge structures, availability, and belief perseverance in policy agendas.

Quantitative analysis works alongside these qualitative methods. Chapter 4 details the results of logistic analysis of Congressional voting on China's MFN status from 1990 to 2000.[88] This chapter examines the effects of issue-related variables on voting: economic competitiveness indicators used in OEP models, as well as proxies for security and normative concerns. Congressional delegations to China are also used as a proxy for the influence of personal experiences and foreign actors, and the analysis also reveals a growing centrist consensus on globalization and economic

[88] Sources include Congressional records and U.S. Census, Department of Commerce, and Federal Election Commission statistics.

engagement. A number of controls and alternative models are also included. This analysis serves as an important test of the strengths and limitations of an OEP explanation of trade policy preferences using a largely OEP analytical approach, complementing the qualitative work and strengthening the overall argument.

Thus, this dissertation contributes to the ongoing debate on U.S.-China relations and more broadly to the field of international relations. By triangulating between different data sources and methods, it bridges different academic approaches and extends insights related to beliefs and biases from geopolitics and pure economics to trade policy and to a broader sweep of political actors with varied interests and expertise. It appreciates the role of belief perseverance in policy preferences but also incorporates foreign actors to examine the sudden shifts that can occur in policy when enough dissonance builds to prompt updating. Thus, this dissertation demonstrates the opportunities that come with speculative dynamics, opportunities that Chinese actors and pro-trade actors have seized upon. At the same time, it reveals the dangers of relying on such uncertain foundations, as causal stories can implode, coalitions collapse, and policies reverse when reality fails to live up to expectations.

Table 1.1 Speculative politics framework: hypotheses, evidence, and alternative explanations

Speculative Politics	OEP Alternative	Geopolitical Alternative	Normative Alternative	Evidence
1. Multiple interests: Economic, security, and normative interests all drive policy preferences, political coalitions and debates, and, ultimately, policy.	Economic actors and interests drive the policymaking process and its outcomes. Other interest areas subordinated. Variation in policy preferences and outcomes reflects economic variation.	Security actors and interests drive the policymaking process and its outcomes. Other interest areas subordinated. Variation in policy preferences and outcomes reflects geopolitical variation, e.g., balance of power shifts.	Activists and norms drive the policymaking process and its outcomes. Other interest areas subordinated. Variation in policy preferences and outcomes reflect the steps of the spiral model, i.e., gradual norm acceptance.	▪ Actors representing all interest areas are continually and centrally involved in policymaking. ▪ All interest areas are repeatedly invoked, even by single-issue actors and decision-makers. ▪ Typically, policy outcomes reflect a mix of wins and concessions in all interest areas; if one interest dominates, concessions in other interest areas are still necessary.
2. Causal stories: Causal stories help actors speculate about the future and decide how to invest in policies that promote those interests and, thus, along with interests, drive policy preferences, political coalitions, and, ultimately, policy.	Actors derive their policy preferences rationally from economic interests, e.g., their competitiveness in global markets. Other interest areas subordinated. Variation in policy preferences and outcomes stems exogenously from economic variation.	Actors derive their policy preferences rationally from geopolitical interests, e.g., balance of power. Other interest areas subordinated. Variation in policy preferences and outcomes stems exogenously from geopolitical variation, e.g., balance of power changes.	Actors follow the logic of appropriateness, i.e., adhering to norms, rather than the logic of consequences, i.e., choosing means to achieve ends.	▪ Actors with different interests can form coalitions through shared causal stories. ▪ Actors with shared interests can fracture over divergent causal stories. ▪ Single-issue actors use causal stories to convince others – and even themselves – that multiple interests can be forwarded by a policy agenda and prioritization is unnecessary. ▪ Changes in causal stories can lead to changes in policy preferences and outcomes.
3. Systemic biases Actors are more likely to draw on causal stories based on highly available schema and analogies, i.e., more vivid, recent, or personal. Actors also	Actors determine and update their beliefs rationally given new information. Highly available information is given no special weight,	Actors determine and update their beliefs rationally given new information. Highly available information is given no special weight,	Actors follow the logic of appropriateness, i.e., adhering to norms, rather than the logic of consequences, i.e., choosing means to achieve	▪ The causal stories – and the analogies and schema that comprise them – that are invoked by or persuasive for actors tend to correspond to recent, well-publicized, and/or vivid events, as well as personal experiences.

tend to continue relying on causal stories despite evidence to the contrary and, should dissonance mount, limit belief change.	and dissonant information is not dismissed.	and dissonant information is not dismissed.	ends. Diffusion of new norms by norm entrepreneurs drives change in individual policy preferences and policy outcomes.	▪ New, highly available events can promote alternative casual stories and, thus, policy agendas. ▪ Actors tend to dismiss dissonant evidence and stress consonant evidence. ▪ Facing mounting dissonance, actors tend to update tactics first, revise strategic approaches only after repeated tactical failures, and reconsider fundamental goals and assumptions as a last resort.
5. Manipulation & speculative bubbles: Foreign actors can bolster a causal story and the policy agenda it justifies with highly available consonant actions and rhetoric, especially with the help of domestic allies. However, past a tipping point, domestic and foreign political actors can undermine an established causal story and the policy agenda it justifies with dissonant behavior.	Actors update their beliefs rationally given new information. Foreign actions and rhetoric represent new information to which actors react rationally, recognizing its provenance and limitations.	Actors update their beliefs rationally given new information. Foreign actions and rhetoric represent new information to which actors react rationally, recognizing its provenance and limitations.	Diffusion of new norms by norm entrepreneurs drives change in individual policy preferences and policy outcomes.	▪ Transnational alliances design, time, and frame foreign behavior to try to reinforce their preferred causal story and policy agenda. ▪ Domestic actors can extract foreign concessions by arguing that doing so will reinforce their preferred causal story and policy agenda. ▪ Bubbles often center on "new era" causal stories. ▪ As a bubble builds, support for the causal story and policy agenda grows, as do the promised results. ▪ Actors update the causal story and policy agenda slowly in the face of dissonant foreign behavior. ▪ The likelihood of the bubble bursting increases with the gap between foreign behavior and the popular causal story. ▪ The strength of the bubble's implosion, i.e., the magnitude of the swing in policies and causal stories, increases with the duration and size of the bubble's boom.

Chapter 2

The End of the Cold War Consensus: China's Most Favored Nation Status During the George H.W. Bush Administration

While only a one-term president, George H.W. Bush oversaw a highly significant period of international uncertainty and transformation, including the end of the Cold War. Moreover, his term in office marked a time of major change in the U.S.-China relationship. The 1989 Tiananmen Square protests and their subsequent repression on June 3 and 4 arguably constituted the most significant development in Sino-American relations since the establishment of diplomatic relations in 1978. Almost overnight, American perceptions of China shifted, and China policy became the subject of intense debate in Washington. The White House and Congress argued about how the U.S. should react, ultimately imposing three sets of sanctions. However, in 1990, the debate came to focus on China's Most Favored Nation (MFN) status, which by law had to be renewed annually by the president, subject to review by Congress. The subsequent decade of debate on MFN served as a focal point for both an annual airing of gripes with China and serious discussion about China's future and how U.S. policy might shape it. President Bush did manage to maintain unconditional renewal of China's MFN status during his time in office, but this was by no means a foregone conclusion or without cost.

This chapter examines the emergence of these annual MFN debates in their complex domestic and international context and then presents evidence supporting the core claims of the speculative politics framework over alternative explanations. One might argue that the MFN debates represent a case of economic or security interests trumping human rights or of the early stages of a norm cascade, but, as this chapter

will demonstrate, such explanations are insufficient. Instead, the evidence indicates that June 4, 1989 put an end to one speculative bubble in a Cold War-era cooperative China policy and created a vacuum in which two new causal stories and policy agendas emerged, laying the foundations for new bubbles. The external pressure story brought together a broad coalition of diverse actors in favor of a more confrontational approach, believing that establishing conditions China must meet to retain MFN, such as human rights standards, would create helpful pressure for political and economic reforms in China and, ultimately, promote bilateral cooperation. Meanwhile, the engagement story united other actors in support of policies like unconditional MFN renewal, arguing that such engagement would boost Chinese economic development and bilateral economic ties and therefore spur further Chinese reforms and bilateral cooperation. Moreover, diverse interests, systemic biases, and Chinese actors played a key role in these causal stories and bubble dynamics, both prior to and following Tiananmen.

This chapter proceeds as follows. First, it briefly summarizes the events of the period and shows how conventional explanations fall short. It then analyzes evidence from archival research and elite interviews, finding support for the key claims of the speculative politics framework: the importance of multiple interests, causal stories, systemic biases, manipulation, and speculative bubbles.

2.1 From Rapprochement to Sanctions

This section lays out the historical background of the debates over China's MFN status. It also demonstrates the limitations of existing theoretical approaches (open economy politics, geopolitical and normative), on which following sections will

expand. First, the mixture of influential security, normative, and economic interests both before and immediately after Tiananmen make a poor fit for all three single-issue explanations. Second, the highly available images of Tiananmen appear to have shattered the popular and overly rosy view of the Chinese as only "so-called communists" and produced significant backlash, raising questions about the assumption of rational thinking made by both OEP and geopolitical explanations. Finally, although normative explanations in IR focus on the logic of appropriateness, successful arguments during this period tied proposed policy to normative objectives using the logic of consequences.

To begin, what is MFN status, and how did it come to be the center of debates on U.S.-China relations for much of the 1990s? MFN is a trade status granted by one state to another by treaty and an important pillar of the international trade regime. A foreign country granted MFN status must be treated no less favorably in terms of trade advantages like tariffs and import quotas than any other also granted MFN. Thus, if a country offers additional trade openings to another, it is legally obligated to extend those benefits to all other countries to which it has granted MFN. While MFN status was historically conferred via bilateral treaties, since World War II it has been a key component of the General Agreement on Tariffs and Trade (GATT) and subsequently its successor, the World Trade Organization (WTO), as all members must confer MFN upon one another. The GATT and WTO have incorporated some exceptions to the equal treatment embodied by MFN, however, permitting free trade agreements (FTAs) that eliminate duties and restrictive regulations on commerce on substantially all trade between the partners and do not raise duties and restrictive regulations for third parties. Thus, MFN is somewhat of a misnomer for what is more of a "normal trade relations" baseline than "most favorable" treatment.

On January 1, 1979, the U.S. and the People's Republic of China officially established diplomatic relations, and on July 7 of that year signed a trade agreement mutually granting MFN treatment. However, as a non-market economy country, China was subject to Section 402 to the U.S. Trade Act of 1974, also known as the Jackson-Vanik amendment. Originally, Congress inserted this amendment in order to restrict the president's ability to extend MFN status to communist countries, the Soviet Union in particular. At the time, the Soviet Union had placed restrictions on the emigration of Soviet Jews, so the Jackson-Vanik amendment required non-market economy countries to meet a set of free emigration requirements as a precondition for MFN treatment. Thus, in order to maintain the MFN status for China, a non-market economy with restrictions on emigration, the U.S. president was required every year by June 3 to grant a waiver to the Jackson-Vanik provision by executive order and report to Congress that the Chinese emigration practices were improving and the waiver would contribute to that improvement. Congress could, however, disapprove the president's waiver via a fast-track joint resolution passed within sixty days of the renewal deadline. A presidential veto could negate Congressional disapproval but in turn could be overridden by a two-thirds majority in the House and the Senate. Congress could also pass other bills changing the law regarding China's MFN status.[89]

In practice, however, there was never opposition to or debate over MFN renewal for China in the decade following its establishment. Indeed, establishment of MFN in 1979 stemmed more from political symbolism than economic interest, and in either case it was not all that important at the time, either as a way of reinforcing the

[89] Vladimir N. Pregelj, "Legislative Procedure for Disapproving the Renewal of China's Most-Favored-Nation Status" (Congressional Research Service, May 31, 1996).

bilateral relationship or as potential leverage the U.S. could use on China. Even in 1989, ten years after the start of China's economic reforms, bilateral trade totaled only $17.7 billion, as compared to over $578 billion today.[90] Moreover, American officials and economic actors did not fully appreciate the huge potential of the Chinese market – opportunities and threats both. Instead, the U.S.-China relationship was firmly focused on balancing the Soviet Union, the impetus behind rapprochement in the first place. Thus, the OEP explanation and its focus of economic interests already seem to fall short, with the geopolitical explanation perhaps a better fit. Later, however, President Ronald Reagan added a moral justification to the relationship. While private tensions and mistrust between American and Chinese officials remained, in order to maintain support for U.S.-China cooperation, the Reagan administration portrayed China to the American public as a steadily liberalizing, friendly country and its leaders as only "so-called communists".[91] China's economic reforms were a major factor, but other Chinese actions also helped sell this story, such as Deng Xiaoping's famous donning of a cowboy hat at a Texas rodeo in 1979.[92] American public opinion on China ballooned from 30% favorable in 1979 to 72% in early 1989.[93] However, this intersection of interests and suggestions of manipulation by key actors and bubble dynamics is not easily captured by conventional explanations in IR.

The situation changed dramatically in 1989. On April 15, 1989, former Chinese Communist Party (CCP) leader Hu Yaobang died suddenly of a heart attack.

[90] Data from the U.S. Census Bureau.
[91] Jim Mann, About Face: A History of America's Curious Relationship with China from Nixon to Clinton (New York: Alfred Knopf, 1998), 147.
[92] Ezra F. Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge: Belknap Press of Harvard University Press, 2011), 344–45.
[93] Frank Newport, "Americans' Unfavorable Attitudes Towards China Unchanged Ten Years After Tiananmen," Gallup, June 3, 1999.

Hu was known as a strong proponent of both political and economic reforms, and had been forced to resign as CCP General Secretary for his lenient handling of the 1987 student protests. Hu's death triggered spontaneous gatherings that ultimately transformed into six weeks of wide-scale pro-democracy protests in cities throughout China. Famously, protestors – led by but not limited to students – occupied Beijing's Tiananmen Square, with an estimated one million people assembled at the height of the protests; thus, these became known as the Tiananmen Square protests of 1989. After a number of clashes with the protestors, on the evening of June 3 and morning of June 4 the People's Liberation Army violently cleared the capital of protests, with estimates of the civilian death toll ranging from several hundred to a thousand. In the following weeks and months, the crackdown on political activity continued, with further arrests and trials. Notably, Chinese astrophysicist and activist Fang Lizhi and his wife, Li Shuxian, sought and were ultimately granted refuge in the U.S. embassy in Beijing. As many foreign journalists had coincidentally arrived in Beijing to report on Mikhail Gorbachev's visit in May, they provided around-the-clock coverage of the protests and, ultimately, their bloody repression. Thus, June 4, 1989 became infamous as the Tiananmen Square massacre and, in China, the June 4 incident.[94]

The Tiananmen protests and subsequent crackdown elicited a strong but complex international reaction that cannot be neatly explained by conventional IR explanations. U.S. public opinion on China plummeted from 72% favorable and 13% unfavorable in February 1989 to 34% favorable and 53% unfavorable in August as Americans realized Chinese leaders were not just "so-called communists".[95] Despite their greater knowledge of the ongoing repressive policies of the Chinese government,

[94] For a more detailed account of the protests and their repression, see Jonathan D. Spence, *The Search for Modern China* (New York: Norton, 1991), 738–47.
[95] Richard Wike, "How America's Opinion of China Has Changed since Tiananmen," *Pew Research Center* (blog), June 3, 2014.

even China experts were shocked and upset, suggesting speculative bubble dynamics at work rather than the purely rational thinking assumed by OEP and geopolitical approaches.[96] In response, on June 5, 1989, President Bush announced moderate sanctions: a suspension on arms sales and visits between U.S. and Chinese military leaders, sympathetic review of requests for visa extensions by Chinese studying in the U.S., and review of other aspects of the bilateral relationship.[97] The GATT also indefinitely postponed meetings to negotiate China's reentry.[98] Intelligence cooperation focused on monitoring the Soviet Union continued, however, and no economic sanctions were imposed. Bush explained that he wanted to protect commercial contacts and encourage reform while targeting the Chinese military, the perpetrators of the violence, rather than the Chinese people, and also emphasized the importance of the U.S.-China relationship when it came to balancing the Soviet Union and other strategic interests.[99] Security actors were central in the administration's China policy, with National Security Advisor Brent Scowcroft and Bush himself as the main authors of this engagement approach and military officials in support.[100] This centrality of security interests and actors in the Bush administration's China policy is a problem for both OEP and normative explanations and, at first glance, may appear to support a geopolitical explanation. However, a geopolitical approach would

[96] Memorandum, Douglas Paal to Brent Scowcroft, "China - Game Plan for MFN," April 2, 1990, Folder "China - MFN 1990 [4], OA/ID Number CF01317-009, Douglas H. Paal, National Security Council, Bush Presidential Records, George Bush Presidential Library.
[97] George Bush, "The President's News Conference," June 5, 1989, Online by Gerhard Peters and John T. Woolley, The American Presidency Project.
[98] Gary Clyde Hufbauer et al., "Case 89-2: US v. China (1989- : Tiananmen Square Massacre, Human Rights)," Peterson Institute for International Economics, April 15, 2016.
[99] Bush, "The President's News Conference"; Rew Rosenthal and Special to The New York Times, "Bush Gamble With Beijing," *The New York Times*, December 13, 1989.
[100] As Scowcroft himself said when asked about the aftermath of Tiananmen, "The President and I—as distinguished, for example, from [Secretary of State] Jim Baker, and [Secretary of Defense Dick] Cheney really didn't weigh in on the issue—felt that it was extremely important to maintain a relationship with China." Brent Scowcroft, interview by Philip Zelikow et al., November 12, 1999, George H.W. Bush Oral History, Miller Center, University of Virginia.

also expect that changes in the balance of power produce commensurate changes in policy, so with the need to cooperate with China to balance the Soviet Union decreasing at the close of the Cold War, emphasis on China's strategic importance to the U.S. should have also decreased. In contrast, the Bush administration continued to maintain that, given rapid change and uncertainty, China was a key strategic partner, perhaps even more so than before. Thus, a conventional geopolitical explanation does not fit exactly either.

Moreover, both OEP and geopolitical explanations fail to explain the clear normative concerns at work, and even a normative explanation has limitations. After all, in his limited response to Tiananmen, Bush had misjudged the political climate and level of public outrage. Under pressure from Congress, he reluctantly announced a second set of sanctions on June 20, 1989 and signed a bill in February 1990 that codified existing sanctions and introduced further ones, introducing some economic measures and suspending high-level exchanges.[101] The Bush administration's China policy came under renewed attack in late 1989 when it came to light that National Security Adviser Brent Scowcroft and Deputy Secretary of State Lawrence Eagleburger were making a trip to Beijing, contradicting the administration's suspension of high-level exchanges, and moreover, the pair had already made another secret trip in July.[102] The Bush administration continued to argue, however, that its policy of limited sanctions paired with continued engagement was yielding results, such as coordination vis-à-vis the Soviet Union and the lifting of martial law in Beijing in January 1990. Still, the administration faced intense pressure to take a

[101] "Statement by Press Secretary Fitzwater on United States Sanctions Against the Chinese Government," June 20, 1989, Online by Gerhard Peters and John T. Woolley, The American Presidency Project; "China," U.S. Department of State, accessed July 6, 2017.
[102] David M. Lampton, *Same Bed, Different Dreams: Managing U.S.- China Relations, 1989-2000* (Berkeley: University of California Press, 2002), 303–4.

more confrontational approach towards China. Warming relations with the reformist Soviet leader, Gorbachev, and the fall of Communist governments in Germany, Hungary, and Romania in late 1989 had made liberalization seem all the more possible and Chinese leaders all the worse for opposing it. During the winter of 1989-1990, in coordination with Chinese student activists and Democratic and Republican allies, Representative Nancy Pelosi (D-CA) sponsored a bill that sought to waive the requirement for the 43,000 Chinese students in the U.S. to return home upon completion of their studies. The bill passed both the House and the Senate but met President Bush's veto, which narrowly survived a veto override vote. Bush instead implemented safeguards for students by executive order, but criticism that he was being too soft on China intensified.[103] Importantly, Bush and his allies in Congress also mustered the votes needed to defend his veto in part with the normative argument that if the bill passed, China would follow through on its threat cut off all exchange programs like the Fulbright scholarship program, which spread democratic ideas.[104] In other words, they professed the same ideals as the bill's proponents but advocated different means. Thus, while the logic of appropriateness central to established normative explanations in IR may have been at work to some extent, the logic of consequences, which such explanations tend not to address, played a key role in the interaction between policy outcomes and normative goals like democracy promotion.

This was the tense state of affairs in Washington following Tiananmen, and by the middle of 1990, the focus of debates over China policy would move to MFN renewal, where the limits of conventional IR explanations – their single-issue focus,

[103] Mann, *About Face*, 210–16; Lampton, *Same Bed, Different Dreams*, 304; Marc Sandalow, *Madam Speaker: Nancy Pelosi's Life, Times, and Rise to Power* (Rodale, 2008), 139–43.
[104] "Overriding a Chinese Veto," *The New York Times*, November 29, 1989; Robert Pear, "Chinese Visa Bill May Face a Veto," *The New York Times*, November 24, 1989.

as well as assumptions of rationality or emphasis on the logic of appropriateness rather than the logic of consequences – continue to be evident.

2.2 The Decade of MFN Debates Begins

This section describes the three years of MFN debates during the Bush administration and once again shows where leading IR theories on foreign policymaking fall short. Conventional explanations, which tend to focus on a single issue area and either on the domestic or international level, fit poorly with the variety of interests and actors driving the policymaking process, including the Chinese themselves. Additionally, the debates centered not just on those interests but also on the best policy means for achieving them, with actors espousing shared interests but still divided on policy, conflicting with both the rationalist assumptions of OEP and geopolitical explanations and normative explanations' focus on the logic of appropriateness. Finally, there is evidence of limited rationality, with the availability of Tiananmen continuing to play a key role and actors exhibiting signs of belief perseverance, such as the administration's ongoing emphasis on China's geopolitical importance and economic actors' inattention to the opportunities and challenges the Chinese market would soon present.

1990

As the annual deadline for the president to extend the waiver of the Jackson-Vanik amendment fell on June 3, in 1989 President Bush had already announced his decision to extend MFN on May 31, prior to the outrage following the crackdown in

Beijing on June 3 and 4 and, thus, met little opposition.[105] It was not until January 1990 that MFN was seriously proposed as a tool, when Chinese student leaders and some of Congressional allies, including Representative Pelosi, gathered for a conference at Harvard University to discuss the future activism following the Chinese student bill push.[106] Although Chinese exports to the U.S. at $15.2 billion were only a fraction of their volume today, MFN status protected those goods from an increase in tariffs of more than 95%, and the CIA estimated that loss of MFN would cost China more than $2.5 billion in immediate export earnings, so it was proposed as potential leverage that could be used to change Chinese policy.[107] After the effort to override Bush's veto of the student visa bill failed later that month, the coalition moved quickly on to MFN. Pelosi formed a new congressional working group in March focused on challenging the administration's China policy, with MFN at the center.

Thus, in 1990, the White House faced for the first time significant pressure not to waive the Jackson-Vanik provision for China, or at least place some conditions upon future waivers, pressure not accounted for by geopolitical or political economy explanations. That the name of the trade status made it sound like a special favor and the annual deadline for the presidential waiver fell on June 3, a day before the anniversary of the Tiananmen Square massacre, making those events more available, likely did not help. Internal documents show that the White House was already debating the decision in Spring 1990 and even considering withdrawing support for MFN renewal. National Security Council (NSC) Director of Asian Affairs, Douglas

[105] Although seven bills and resolutions concerning China's MFN status had been introduced in 1989 (S. 1151, H.R. 2611, H.R. 2613, S.Con.Res. 28, S. 1241, and S. 1241, 101st Congress), they received little attention, none of them even being brought to the floor for a vote. See Kerry Dumbaugh, "China's Most-Favored-Nation (MFN) Status: Congressional Consideration, 1989-1998" (Congressional Research Service, August 1, 1998).
[106] Mann, *About Face*, 229–30.
[107] Trade data from the U.S. Census Bureau. CIA estimate from Memorandum, Douglas Paal to Brent Scowcroft, "China - Game Plan for MFN."

Paal argued in a memo to Scowcroft and President Bush that although "clearly, the 'responsible' course to take is to continue MFN in China… the attendant political costs are equally clear," demonstrating the real power of normative interests and actors, even though political economy and geopolitical explanations tend to ignore them.[108] However, Bush and Scowcroft ultimately decided to renew MFN unconditionally once again, announcing the decision on May 24.[109] The administration argued that revocation would be counter-productive, harming the U.S. economy, the Chinese people, and Hong Kong, but "by maintaining our involvement with China, we will continue to promote the reforms for which the victims of Tiananmen gave their lives."[110]

The opposition was ready. A total of seventeen bills and resolutions meant to revoke or place conditions on renewal of China's MFN status were introduced in Congress in 1990.[111] Two bills passed the House: H.J.Res. 647, which was introduced by Representative Gerald Solomon (R-NY) and would disapprove the recommendation of the president to extend MFN, and H.R. 4939, which was sponsored by Representative Donald Pease (D-OH) and would renew MFN for one year but condition its further extension upon progress in human rights, termination of martial law, and ending assistance to the Khmer Rouge and contributing to multilateral efforts to negotiate peace in Cambodia. The latter, conditional legislation was a carefully crafted compromise that garnered wider support, passing the House

[108] Memorandum from Douglas Paal to Brent Scowcroft, China - Game Plan for MFN, April 2, 1990, Folder "China - MFN 1990 [4]", OA/ID Number CF01317-009, Douglas H. Paal, National Security Council, Bush Presidential Records, George Bush Presidential Library.
[109] Email correspondence, Douglas Paal to author, July 10, 2017.
[110] Press Conference by the President, May 24, 1990, Folder "MFN to China (Some Documents from Sichan Siv) [2]", OA/ID 08128-003, Clayton Fong, White House Office of Public Liaison, Bush Presidential Records, George Bush Presidential Library.
[111] Namely, H.R. 4866, S.J.Res. 325, H.J.Res. 576, H.J.Res 578, H.J.Res. 581, H.J.Res 586, H.R. 4931, H.R. 4939, H.J.Res. 607, S. 1278, S. 2836, H.R. 5252, H.R. 5260, H.R. 5285, H.J.Res. 646, H.J.Res. 647, and S.J.Res. 382,

384 to 30 versus the 247 to 74 for H.J.Res. 647 (both on October 18, 1990). Winston Lord, U.S. Ambassador to China from 1985 through April 1989, also spoke out in favor of the conditionality bill, both in testimony before Congress and on the op-ed page of the *New York Times*.[112] Special interests also weighed in, with activists like Human Rights Watch and the Independent Federation of Chinese Students and Scholars (IFCSS) arguing against unconditional MFN renewal and business actors like the American Chamber of Congress, National Association of Manufacturers, and U.S.-China Business Council supporting it. However, the influence of industry and labor groups continued to be limited, as such economic actors were still unsure about the future of the Chinese market. Thus, the debate again involved a mix of issues and actors, which the alternative explanations struggle to capture. Moreover, debate centered not just on the logic of appropriateness, i.e., whether it was appropriate to renew MFN for a state that had used its military on civilians, which a normative explanation would expect, but also the logic of consequences, i.e., what normative, economic, and security consequences would result from rejecting or conditioning MFN renewal. The Chinese government also got involved with concessions widely seen as aimed at helping with MFN renewal, including the release of 500 Tiananmen prisoners in January 1990, 211 more on May 11, and a further 97 after Bush's announcement of the MFN waiver on June 3.[113] U.S. officials also emphasized in negotiations with the Chinese that the release of the high-profile Fang Lizhi and his wife, who were still holed up in the U.S. embassy in Beijing, would help with MFN. The two were ultimately allowed to depart for the UK on June 25, 1990, also well timed for MFN.[114] Many IR theories tend to focus on the domestic or the

[112] Winston Lord, "Extend Equal Trade Status for a Year, Conditionally," *The New York Times*, May 10, 1990.
[113] Suettinger, *Beyond Tiananmen*, 109–10.
[114] Suettinger, 109.

international levels, and thus, the three main alternative explanations struggle to explain these transnational dynamics.

Ultimately, Senate Leader George Mitchell (D-ME), Pelosi's key ally on MFN, declined to call H.R. 4939 to the Senate floor as the clock ran out on the 101st Congress, perhaps due to a focus on budget negotiations or a lack of support for the bill.[115] After all, in addition to the arguments the Bush administration had already made in favor of continued engagement with China, that autumn another talking point was added: that China's support for United Nations (UN) Security Council resolutions against Iraq during the Gulf Crisis showed that engagement was paying off.

1991

Debate over China's MFN status only intensified in 1991, again driven by a mix of issues and actors. Lack of progress on human rights issues continued to be a source of frustration, with more Chinese student leaders and intellectuals sentenced in March 1991, and an Asia Watch report adding the issue of prison labor exports from China to the agenda.[116] Chinese nuclear and missile proliferation, support for the Khmer Rouge, and the growing trade imbalance and intellectual property (IP) rights violations added to discontent in Washington.[117] In May, the White House had already acknowledged internally that it faced the prospect of a veto override on MFN, and privately and publicly contemplated working with Republican Members of

[115] Mann, *About Face*, 233.
[116] Suettinger, *Beyond Tiananmen*, 117.
[117] R. Jeffrey Smith, "China Aid on Algerian Reactor May Violate Pledges," *Washington Post*, April 20, 1991; Nicholas D. Kristof, "China Said to Plan New Arms Sales; U.S. Is Concerned," *The New York Times*, June 10, 1991; White House MFN Briefing Materials, "Issues of Concern--This Year and Last," May 1991, Folder "China MFN [1]", James Dyer, White House Office of Legislative Affairs, Bush Presidential Records, George Bush Presidential Library.

Congress to develop an acceptable alternative conditionality bill.[118] Nonetheless, on May 27, Bush announced his unconditional extension of China's MFN status, reiterating his arguments about the strategic, normative, and economic benefits of engagement.[119]

Again, the White House's Congressional critics were unconvinced, and arguably even more organized. A total of fifteen bills and resolutions that sought to condition or end renewal of China's MFN status were introduced in 1991.[120] Attention once again coalesced around two bills: H.J.Res. 263, the fast-track resolution intended to disapprove Bush's Jackson-Vanik waiver, and H.R. 2212 or the U.S.-China Act of 1991, a new conditionality bill. H.R. 2212 would have renewed MFN for a year while conditioning renewal in 1992 on a full accounting and release of Tiananmen detainees, as well as progress in the areas of human rights, trade, and weapons proliferation. Again, the White House, Members of Congress, and lobbyists all weighed in, as did the Chinese government, hiring PR firm Hill and Knowlton to lobby for MFN renewal and spending over $1.5 billion on American goods on a government buying mission to the U.S.[121] Thus, once again a mix of interests and actors was at the center of the policymaking process, including the Chinese themselves, at odds with conventional IR explanations.

Notably, Senator Max Baucus (D-MT) brought together a group of fifteen moderate Senate Democrats and Republicans who shared China-related economic,

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[118] White House MFN Briefing Materials, "Issues of Concern--This Year and Last"; "As Bush Okays 'Conditions' Treasury Urges Hill to Keep Chinese Trade Status despite Money Fixing Dispute," *Inside the White House*, May 23, 1991, Vol. 10, No. 21 edition.
[119] George H.W. Bush, "Remarks at the Yale University Commencement Ceremony," May 27, 1991, The American Presidency Project.
[120] Namely, S. 38, H.R. 2188, H.R. 2212, S. 1020, S. 1084, H.R. 2381, H.R. 2468, S. 1167, H.J.Res. 262, H.J.Res. 263, S.J.Res. 153, H.R. 2759, S. 1367, H.R. 2792, and S. 1469.
[121] Mary Foley, "Chinese Group To Spend Billions During U.S. Visit," NewsOK.com, May 18, 1991; Gary Lee, "With Vote Approaching, China Hires Hill and Knowlton to Lobby for MFN," *Washington Post*, July 10, 1991.

security, and human rights concerns but advocated use of policy tools other than MFN to press for change, including counter-actions under U.S. trade law, technology transfer restrictions, and opposition to multilateral loans to China.[122] The White House welcomed their stance and pointed to the Special 301 investigation into Chinese IP rights violations initiated by the U.S. Trade Representative (USTR) on May 26, 1991, later followed by a Section 301 investigation into China's market access barriers initiated on October 10, as well as arms control talks and ongoing U.S. opposition to World Bank and International Monetary Fund lending to China.[123] Like many IR approaches, OEP and geopolitical explanations hold that actors, being rational, should share policy preferences if they have the same interests and information and, thus, struggle to explain these debates about means.

Similar to the previous year, both H.J.Res. 263 and H.R. 2212 passed the House in July by 223 votes to 204 and 312 to 111, respectively. Baucus, however, used his position as chairman of the Senate Finance Committee's Subcommittee on International Trade to help prevent the joint resolution that sought to revoke MFN outright from coming to the Senate floor. However, the conditionality bill this time was also brought to the floor, and the Senate passed an amended version, 55 votes to

[122] Letter, Max Baucus, J. Bennett Johnston, Quentin Burdick, Richard Shelby, Bob Dole, Nancy Kassebaum, Jeff Bingaman, John McCain, Bill Roth, Dick Lugar, Larry Craig, Kent Conrad, Alan Simpson, Frank Murkowski, and Orrin Hatch to George Bush, June 19, 1991, Folder "China MFN [3]", OA/ID 08451-007, James W. Dyer, White House Office of Legislative Affairs, Bush Presidential Records, George Bush Presidential Library.

[123] Section 301 of the U.S. Trade Act of 1974 authorizes the Office of the U.S. Trade Representative (USTR) to investigate acts, policies, and practices of foreign governments that violate an international trade agreement or that is unreasonable or discriminatory and that burdens or restricts U.S. commerce. The U.S. Trade Act of 1974 also requires USTR to produce an annual report on trade barriers on U.S. products arising from IP issues (known as a "Special 301 report") and to launch Section 301 investigations (often referred to as a "Special 301 investigation" in these circumstances) into the policies of countries with the most onerous or egregious IP issues. In the event of a positive Section 301 finding, USTR may bring a trade enforcement action, such as seeking dispute settlement under the trade agreement or applying unilateral tariffs. "U.S. Trade Act of 1974," Pub. L. No. 93–681, 19 U.S.C. 2101 (1974), § 182, 301; Letter, George Bush to Max Baucus, July 19, 1991, Folder "[Section] 301 / PRC [People's Republic of China] [1]", Subject Files, James Keith, National Security Council, Bush Presidential Records, George Bush Presidential Library.

44, with the support even of some Republicans like Senator Jesse Helms (R-NC), who was hawkish on both geopolitics and religious freedom.[124] Following a conference to resolve differences between texts agreed to in the House and Senate, the final bill was presented to Bush for signature on February 27, 1992, and he vetoed it on March 2. The House then voted to override Bush's veto on March 11, 357 to 61, but on March 18 the Senate failed to do so, mustering only 60 of the necessary 67 votes, with the Baucus coalition serving as the crucial swing votes.[125]

1992

The debate over MFN in what turned out to be the final year of the Bush presidency was no less intense. It was, after all, an election year, for both Congress and the president. In fact, in Autumn 1991, Bill Clinton, Governor of Arkansas and Democratic presidential candidate, sought out Chinese activist Zhao Haiqing for a meeting on China policy and listened as Zhao argued for conditions on renewal of China's MFN status.[126] Clinton took Zhao's advice, as did the Democratic Party as a whole, using Bush's policy of engagement with China to accuse Bush of "coddling dictators" and calling Bush's waiver of the Jackson-Vanik provision for China of June 2, 1992 "unconscionable".[127] Meanwhile, Congressional action was more focused in 1992, with only three MFN-related bills and resolutions introduced and action taking place again on two: another joint resolution that sought to disapprove Bush's waiver

[124] Tao Xie, *US-China Relations: China Policy on Capitol Hill* (New York: Routledge, 2008), 49.
[125] Senator Jeff Bingaman ultimately voted to override Bush's veto, and Senator Kent Conrad did not vote, but the other thirteen senators who voted against the override were more than enough to make the difference in the veto override, which was lost by seven votes. Bingaman and Conrad were both Democrats, likely subject to party pressure.
[126] Mann, *About Face*, 260–61.
[127] Mann, 262–63.

(H.J.Res. 502) and a new conditionality bill (H.R. 5318, also known as the U.S.-China Act of 1992).[128]

Once again, the joint resolution passed the House on July 21, this time by 258 to 135, but the real fight again centered on the conditionality bill and again involved a debate between diverse actors over the means to achieve diverse ends. H.R. 5318 would have renewed MFN for a year but conditioned its renewal in 1993 on China's compliance with the Universal Declaration of Human Rights, accounting for and release of Tiananmen detainees, action to prevent the export of products produced with forced labor, and cooperation in accounting for Americans missing from the Korean and Vietnam wars, as well as progress in ending religious persecution, eliminating unfair trade practices, and adhering to the Missile Technology Control Regime (MTCR) and other arms and nuclear control standards. Senator Baucus led another coalition comprised of ten senators in favor of renewing MFN while pressing China on human rights, trade issues, and proliferation using other policy tools, and once again their support for MFN renewal made the difference.[129] The Bush administration could point to the Chinese commitments that resulted in 1992 from USTR's market access and IP investigations against China, the commitments China made to cooperate on the issue of prison labor and to observe MTCR guidelines and parameters that came out of Secretary of State James Baker's November 1990 trip to Beijing, and its signing of the Nuclear Nonproliferation Treaty in March 1992.[130]

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[128] The third being S. 2808, another conditionality bill.

[129] Letter, Max Baucus, Bob Dole, Quentin Burdick, Frank Murkowski, Richard Shelby, Trent Lott, J. Bennett Johnston, Alan Simpson, Mitch McConnell, and Bill Roth to George Bush, July 10, 1992, Folder "China 1992", OA/ID CF01105-024, Subject Files, Virginia Lampley, National Security Council, Bush Presidential Records, George Bush Presidential Library. Quentin Burdick died on September 8, 1992; his wife, Jocelyn Burdick was appointed to his seat and ultimately voted to override Bush's veto of H.R. 5318. The other nine senators all voted against the veto override, which failed by just eight votes.

[130] Paul R. Paradise, *Trademark Counterfeiting, Product Piracy, and the Billion Dollar Threat to the U.S. Economy* (Greenwood Publishing Group, 1999), 49; Thomas L. Friedman, "Baker's China Trip Fails to Produce Pledge on Rights," *The New York Times*, November 18, 1991.

Initially at least, it seemed like MFN would be even more difficult to renew than in the previous year. The House passed the joint resolution disapproving the president's waiver by 258 votes to 135 on July 21 and the conditionality bill by 312 to 112 on July 23. The Senate once again only took up the conditionality bill, passing an amended version by a voice vote on September 14, implying strong support. The House then quickly agreed to the amended version, which was presented to the president on September 22. President Bush, surprising no one, vetoed the bill on September 28. The House once again easily voted to override on September 30, 345 to 74, but the bill failed in the Senate, eight votes short of the override at 59 to 40.

Thus, the Bush administration managed to maintain China's MFN status in the face of serious challenges from a diverse coalition of politicians and activists, but these victories came at a cost. On November 3, 1992, Bush lost the presidential election to Clinton, who had promised a tougher China policy, including conditions on MFN renewal. Although the election turned mostly on other issues, such as domestic economic policy, China policy seems to have played a role. After all, the majority of Americans still held a negative view of China and opposed Bush's engagement policy: polls from 1993 and 1994 showed that 65% of Americans supported placing human rights conditions on trade relations with China. Making matters worse, also in November 1992, China sold M-11 missile sales to Pakistan, breaking the MTCR commitment made to Secretary Baker the previous year, at least as the Bush administration had understood and portrayed it.[131] On the other hand, in the spring of 1992, Deng Xiaoping had embarked on his famous Southern Tour, in which he made a series of speeches in Guangzhou, Shenzhen, Zhuhai, and Shanghai in favor of further economic reforms in China, which would ultimately trigger a new

[131] Suettinger, *Beyond Tiananmen*, 142.

Table 2.1 – Congressional voting on proposed legislation seeking to disapprove or place conditions on extension of China's MFN status, 1989-1992

Bill	Votes		
▪ H.J.Res. 647, 101st Congress *Disapproving the recommendations of the President to extend nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	10/18/1990	(247-174)
▪ H.R. 4939, 101st Congress *Regarding the extension of most-favored-nation treatment to the products of the People's Republic of China, and for other purposes*	- House:	10/18/1990	(384-30)
▪ H.J.Res. 263, 102nd Congress *Disapproving the extension of nondiscriminatory treatment, (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	7/10/1991	(223-204)
▪ H.R. 2212, 102nd Congress *United States-China Act of 1991*	- House: - Senate: - Presidential veto: - House (override): - Senate (override):	7/10/1991 7/23/1991 3/2/1991 3/11/1992 3/18/1992	(312-112) (55-44) (357-61) (60-38)
▪ H.J.Res. 502, 102nd Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	7/21/1992	(258-135)
▪ H.R. 5318, 102nd Congress *United States-China Act of 1992*	- House: - Senate: - Presidential veto - House (override) - Senate (override)	7/21/1992 9/14/1992 9/28/1992 9/30/1992 10/1/1992	(339-62) (voice vote) (345-74) (59-40)

round of reforms and growth that would excite and alarm American economic interests.[132] Thus, the MFN debates would rage on through the Clinton presidency.

2.3 Applying the Speculative Politics Framework

[132] Wynne Pomeroy Waller and Marianne E. Ide, "Poll Trends: China and Human Rights," *The Public Opinion Quarterly* 59, no. 1 (1995): 143.

As the previous section showed, a close examination of the MFN debates during George H.W. Bush's presidency reveals the incompleteness of conventional IR explanations. Furthermore, as this section argues, the evidence supports the core claims of the speculative politics framework, i.e., the importance of multiple interests, causal stories, systemic biases, and foreign influence and speculative bubbles in the market for policies. The analysis here focuses on the policymaking process in addition to outcomes. In particular, to succeed the speculative politics framework has to explain the actions of the key players in the MFN debates of this period and provide additional explanatory power when compared to alternative explanations. Included as key points to examine here are Representative Pelosi's decision to make MFN an issue, the support of other key Members of Congress like Representative Pease and Senators Helms and Mitchell, the Bush administration's commitment to renewing MFN, and the compromise position taken by Senator Baucus and his coalition. Additionally, some attention is given to other important players, such as special interest groups and public opinion insofar as they influenced the policymaking process. Note that Chapter 4 includes quantitative analysis of the policy preferences of Members of Congress and the influence of their constituents.

First, actors representing economic, security, and normative interest areas all drove the market for policies, different interests were repeatedly invoked in the debates, and policy outcomes represented a mix of wins and concessions in all interest areas in the process of MFN renewal. Second, two causal stories – one pro-external pressure, the other pro-engagement – were at the center of the MFN debates. Actors with different interests formed policy coalitions united by shared stories that promised return on investment for all, and, conversely, actors who shared interests but held different causal stories disagreed over policy means. Variation in causal stories over

time also resulted in variation in policy preferences and political coalitions, notably leading to the emergence of the MFN debates in the first place. Third, regarding systemic biases, actors tended to draw on causal stories that were more available, for example tied to recent, well-publicized events or personal experience (e.g., news from the Tiananmen protests and crackdown), and belief perseverance limited updating in the face of dissonance. Finally, multiple interests, causal stories, and systemic biases together made the market for policies susceptible to manipulation and speculative bubbles. The vivid media coverage of the Tiananmen protests and crackdown burst the bubble in the view that been building since rapprochement that the Chinese leaders were only "so-called communists", after which transnational coalitions sought to bolster new causal stories and China policies, laying the groundwork for the next bubbles. The following subsections address each claim in order.

1) Multiple interests

The first claim of the speculative politics framework is that political actors are rarely driven purely by economic interest, and selling economic policies often requires appeals to non-economic factors like security and human rights concerns. This section demonstrates that the actions and rhetoric of the Bush administration, key players in Congress, and other influential actors all reflect the influence of multiple interests. Debates and decisions on MFN and other relevant policies during this period involved governmental and non-governmental actors representing a variety of interests, repeated invocation of different interest areas, and a mix of wins and concessions in each interest area.

First, actors representing different interest areas – economic, strategic, and normative – were central in the Bush administration, Congress, and outside of government. In the administration, the strategic-focused National Security Council and China desk at the State Department took the lead on China policy, including MFN. Other parts of the State Department like the Bureau of Human Rights and Humanitarian Affairs, however, were seen as less supportive of the administration's policy of unconditional MFN renewal and continued economic engagement.[133] Actors representing a variety of interest areas also drove debate in Congress, from the hawkish, highly religious Helms to the liberal, human rights-focused Pelosi, Chinese students to American religious activists, and industry groups to labor unions. The variety of Congressional committees involved in the MFN debates also reflected this intersection of interests, including the House Ways and Means Committee and its Trade Subcommittee, the Senate Finance Committee, and the House Committee on Foreign Affairs and Senate Committee on Foreign Relations, including Asia- and human rights-related subcommittees.

Next, actors repeatedly invoked strategic, normative, and economic concerns in the policymaking process. While strategic interests appear to have been the priority, the Bush administration continued to emphasize all three interest areas, both publicly and internally, when discussing and deciding its China policy, including on MFN. Again, it is only somewhat of an exaggeration to say that Bush and Scowcroft were the sole decision-makers when it came to the administration's China policy. A common joke was that Bush was the real head of the State Department's China desk.[134] Thus, it is worth focusing on them in particular, and while they appreciated

[133] Former senior U.S. State Department official, interview by author, April 13, 2016.
[134] James A. Baker, III, *The Politics of Diplomacy*, First Edition (New York: Putnam Adult, 1995), 100.

the various facets of the U.S.-China relationship, Bush and Scowcroft emphasized strategic issues in particular. They were, after all, geopolitical veterans. Both had experienced the strategic importance of U.S.-China relationship during the Cold War under Nixon, Ford, and Reagan, Scowcroft as the head of the advance team for President Richard Nixon's famous trip to China in 1972 and Bush as head of the U.S. Liaison Office in Beijing in the 1970s, the equivalent of ambassador prior to the full reestablishment of relations. Thus, the strategic aspects of U.S.-China relations continued to occupy them, even as U.S.-Soviet relations improved. As Scowcroft later described, "We were frankly worried about Gorbachev's skill. He had mesmerized Europe already. He was skilled in mollifying the Chinese and saying the Soviet Union was different, they could have a better relationship."[135] The administration also argued that "while United States-Soviet tensions may be declining, the strategic value of our relationship with China is not," in particular as regards "the proliferation of missiles and nuclear weapons, chemical weapons proliferation and environmental pollution."[136] The administration's focus on security interests was such that the Senate Majority Leader Bob Dole (R-KS) wrote to the president as the MFN debate first began in May 1990, stressing the need to "eliminate the impression that does exist in some circles that the Administration cares more about China's strategic importance than its treatment of its own citizens."[137]

Whether due to internal conviction or external pressure, the Bush administration clearly and consistently stressed normative concerns in addition to strategic interests. From the immediate response to Tiananmen to MFN debates in the

[135] Scowcroft, interview; Qichen Qian, *Ten Episodes in China's Diplomacy [Waijiao Shiji]* (Beijing: Shijie Zhishi Chubanshe, 2003), 185.
[136] Mann, *About Face*, 228.
[137] Letter, Bob Dole to George Bush, May 18, 1990, Folder "MFN to China (Some Documents from Sichan Siv) [3]", OA/ID 08128-004, Clayton Fong, White House Office of Public Liaison, Bush Presidential Records, George Bush Presidential Library.

following three years, Bush and his surrogates publicly repeated the hope that China would continue to liberalize, economically and politically.[138] Internally, the White House worried about demonstrating its focus on normative concerns, with the NSC recognizing in February 1990 that the White House needed to "improve the public perception of the president's stance on human rights and democracy with respect to China."[139] NSC Asian Affairs Director Doug Paal even urged Bush and Scowcroft in May 1990 not to support MFN renewal, writing, "We need to move early to signal to China and to the American public your strong commitment to human rights in China before human rights activists and political opponents seize the lead."[140] Although it did not go as far as to back away from the MFN fight, the Bush administration repeatedly argued that renewal of MFN promoted U.S. normative, economic, and security interests. For example, the president in a call with Speaker of the House Tom Foley (D-WA) defended his 1990 MFN waiver with the talking point: "MFN tariff status has given the Chinese the incentive to take into account U.S. interests – on fair trade practices globally, human rights, missile and arms sales, and cooperation on such regional issues as Cambodia and the Korean peninsula."[141] The White House and the China desk at the State Department worked hard to stress this argument, bringing in business groups, civil society, and even Chinese student activists to see if

[138] See, for example, Bush, "The President's News Conference"; Remarks by the President to the Business Roundtable (White House Office of the Press Secretary, June 5, 1989), Folder "Business Roundtable Education Forum 6/5/89", OA/ID 04950-005, James Pinkerton, White House Office of Policy Development, Bush Presidential Records, George Bush Presidential Library; Press Conference by the President.
[139] Memorandum, Douglas Paal to Brent Scowcroft, "China - How to Posture the President in View of Changes in Moscow," February 8, 1990, Folder "China [2]", OA/ID CF01106-002, Subject Files, Virginia Lampley, National Security Council, Bush Presidential Records, George Bush Presidential Library.
[140] Memorandum, Douglas Paal to Brent Scowcroft, "China - Game Plan for MFN."
[141] Memorandum, Brent Scowcroft to George Bush, 'China-MFN: Points to Be Made in Phone Call with Speaker Foley, May 23, 1990', May 22, 1990, Folder 'China-U.S. 0 May 1990-June 1990 [3]', OA/ID CF01317-014, Country Files, Douglas H. Paal, National Security Council, Bush Presidential Records, Bush Presidential Library.

they could be brought on board and help persuade Members of Congress to support MFN renewal.[142] Bush seems to have genuinely drawn motivation from this argument, writing in his diary in November 1989, "We've got to get the [U.S.-China] relationship back on track. It's in our strategic interest; it's in our cultural interest; it's in our commercial interest."[143] Thus, normative, geopolitical, and, to some extent, economic concerns were all consistently stressed.

Like the executive branch, Congress repeatedly emphasized normative, security, and economic concerns when it came to the question of renewing China's MFN status. The three MFN conditionality bills – H.R. 4939 in 1990, H.R. 2212 in 1991, and H.R. 5318 in 1992 – that garnered high levels of support all contained human rights and non-proliferation conditions, and H.R. 2212 and H.R. 5318 also included trade conditions. Notes taken during closed-door meetings between the White House and Members of Congress on MFN show that Members of Congress emphasized a range of issues, including human rights, industry, labor, and proliferation, suggesting that emphasis on these issues went beyond concerns about public perception.[144] When business lobbyists reached out to Congressional offices on MFN, they found some staffers and Members of Congress receptive to arguments about the economic benefits to their constituents from U.S.-China trade but also got responses like "All I want to hear are your human rights arguments" and the senator

[142] Robert Perito (former U.S. Foreign Service Officer), interview by author, Washington, DC, April 13, 2016.
[143] George Bush and Brent Scowcroft, *A World Transformed* (New York: Vintage Books, 1999), 157.
[144] Handwritten notes by Virginia Lampley on the President's meeting with bipartisan Members of Congress on MFN, June 4, 1991, Folder "[President's meeting with] Bipartisan [Group of] Congressman re: China MFN [Most Favored Nation], June 4, 1991 at 10:00 am, OA/ID CF 01362-018, Subject Files, Virginia Lampley, National Security Council, Bush Presidential Records, George Bush Presidential Library; Handwritten notes by Virginia Lampley on the President's meeting with bipartisan Members of Congress on MFN; Handwritten notes by Virginia Lampley on the President's meeting with bipartisan Members of Congress on MFN, June 7, 1991, Folder "[President's meeting with] Bipartisan [Group of] Congressman re: China MFN [Most Favored Nation], June 7, 1991 at 1:45 pm, OA/ID CF 01362-017, Subject Files, Virginia Lampley, National Security Council, Bush Presidential Records, George Bush Presidential Library.

"believes in trade sanctions" and "is not concerned with [his state's economic] interests on this issue."[145] Many business representatives therefore argued that in addition to its negative economic effects, revoking MFN would undermine reform-mined Chinese leaders and so prove counterproductive.[146] Concern about appearing insensitive to concerns about human rights and democracy also drove American businesses to limit their public support for MFN.[147]

Diverse interests were reflected not only in the mix of actors and rhetoric, but also in policy results, with gains and concessions in each interest area. First, even though MFN was maintained unconditionally, the emergence of a serious threat to its annual renewal is thought to have produced real economic costs. For example, in 1991, the Bureau of Intelligence and Research at the State Department explained, "Even if MFN status is retained this year, the possibility of diminished access to U.S. markets is a new and significant risk that will lower foreign investors' evaluations of the advantages of locating in China."[148] Economists today agree that lack of permanent, unconditional MFN decreased economic activity.[149] Furthermore, while the Bush administration focused especially on the strategic benefits of the U.S.-China relationship when renewing MFN, officials still understood the need to make concessions and show progress in multiple areas in order to minimize opposition to

[145] Memorandum, Jeff Vogt to David Demarest, Fred McClure, Nick Calio, and Boyd Hollingsworth, 'MFN Business Coalition: Legislative Findings', June 7, 1990, Folder "MFN to China (Some Documents from Sichan Siv) [2]", OA/ID 08128-003, Clayton Fong, White House Office of Public Liaison, Bush Presidential Records, Bush Presidential Library.
[146] John Kamm, Testimony to the House of Representatives Foreign Affairs Committee Hearings on China's MFN Status, May 16, 1990, Folder 'Miscellaneous MFN [Most Favored Nation] Documentation: [China - Most Favored Nation Status] [2]', OA/ID 05291-018, James Schaefer, White House Office of Public Liaison, Bush Presidential Records, Bush Presidential Library.
[147] Mann, *About Face*, 232; Mark Mohr, Tiananmen: Another Bump in China's Road to WTO Accession, interview by Charles Stuart Kennedy, October 22, 2009.
[148] U.S. Department of State, Office of Analysis for East Asia and the Pacific, Bureau of Intelligence and Research, "China Lights, Report No. 195," May 6, 1991, National Security Archive, China and the United States: From Hostility to Engagement, 1960–1998.
[149] Justin R. Pierce and Peter K. Schott, "The Surprisingly Swift Decline of US Manufacturing Employment," *American Economic Review* 106, no. 7 (July 2016): 1632–62.

Bush's China policy. For example, while the U.S. military highly valued its relationship with China, at the interagency meeting immediately following the Tiananmen crackdown in June 4, 1989, "the Defense Department volunteered that since it was the military that did the crackdown it would be inappropriate not to reflect a full shutdown of our military-to-military relationship," as well as a suspension of military technology cooperation programs.[150] These measures were among the sanctions announced on June 5.[151] Given the strategic and economic benefits of the U.S.-China relationship, explained former NSC official Douglas Paal, "there was widespread interest [in the Bush administration] in not overreacting to [Tiananmen]. But everybody for political purposes had to harrumph, and that's what we did too."[152] Thus, the national security establishment recognized the need to make concessions to those concerned about human rights and democracy in order to protect the overall U.S.-China relationship and the strategic and economic benefits it brought.

Later, after the focus of debates on China policy had turned to MFN, the Bush administration again took care to emphasize human rights and economic issues in addition to security. Prior to his December 1991 trip to Beijing, Secretary Baker sent a cable to Bush and Scowcroft, emphasizing, "The key areas where progress must be evident if we are to rebuild public support for the relationship: human rights, proliferation, and trade issues," without which there could be "possibly disastrous consequences for MFN and for U.S.-China relations."[153] Chinese Foreign Minister Qian Qichen later verified that Baker did indeed stress his need to return from Beijing

[150] Douglas Paal, interview by author, April 7, 2016.
[151] Memorandum, Jerome Silber to Dick Cheney, "Policy Options and Policy Implications of Current Situation in China," June 5, 1989, Folder "China [2]", OA/ID CF01062-013, Subject Files, Nicholas Rostow, National Security Council, Bush Presidential Records, George Bush Presidential Library.
[152] Paal, interview.
[153] Cable, James Baker to George Bush and Brent Scowcroft, "Bracing the Chinese," November 1991, Folder "China 1989 (Sensitive) [7]", OA/ID 91135-007, China, Special Separate China Notes, Brent Scowcroft, Bush Presidential Records, George Bush Presidential Library.

with deliverables in these three baskets, and ultimately the Chinese did offer limited concessions in each area.[154] When announcing and defending the annual decision to renew MFN status unconditionally, the Bush administration also stressed the concessions it had wrested from China across a range of issues, such as the release of dissidents and the MTCR non-proliferation commitment made during Baker's trip. USTR also launched two IP and market access investigations in 1991, one announced the day prior to Bush's Jackson-Vanik waiver and after an internal document discussed the possibility of using the investigation "in the MFN announcement as a 'rifle shot' to dramatize the extent of U.S. concern about recent Chinese commercial policies."[155] These actions helped convince and provide cover to the Baucus-led swing-vote coalition of senators by showing the administration was using alternative tools to MFN to make progress across this range of issues and, therefore, MFN should be maintained.

Party politics also played a role in the MFN debates, but they are compatible with the speculative politics framework. For example, while some believe Nancy Pelosi's efforts to block or condition MFN renewal were driven almost totally by deeply held personal values,[156] others argue these were calculated partisan attacks on a Republican administration.[157] However, both arguments are consistent with the multiple interests hypothesis. If Pelosi was driven not by her own sense of morality but rather her interest in getting Democrats elected, she must have believed that stressing normative concerns like human rights would help get votes. In other words,

[154] Friedman, "Baker's China Trip Fails to Produce Pledge on Rights"; Qian, *Ten Episodes in China's Diplomacy [Waijiao Shiji]*, 189.
[155] Section 301: Chinese Market Access Barriers, April 1990, Folder 'PRC [People's Republic of China] [2]', OA/ID CF01267-006, Subject Files, Warren Maruyama, White House of Policy Development, Bush Presidential Records, Bush Presidential Library.
[156] Charles M. Brain, interview by author, April 14, 2016; Sandalow, *Madam Speaker*.
[157] Mohr, Tiananmen.

whether originating from politicians or their constituents, from sincerely held moral concerns or political calculus, normative interests played a role.

This mix of actors, rhetoric, and policy gains and concessions across interest areas constitutes strong evidence for the multiple interests claim of the speculative politics framework. Meanwhile, conventional IR explanations struggle to explain the main opponents and proponents of unconditional MFN renewal, the focus on policy means, and the compromises that were required to maintain MFN during this period.

2) Causal stories

The second claim of the speculative politics framework is that actors rely on causal stories to speculate about the future and decide how to invest in policies that promote their interests. Again, causal stories refer to webs of knowledge structures, i.e., analogies and schema, that tell a coherent tale about cause and effect, enabling actors to apply previous experience to new situations, speculate about the future and the effects of possible policies, and, thus, act in a complex and uncertain world. This section demonstrates that the landscape of the MFN debates corresponds to the emergence of two main causal stories: external pressure and engagement. Actors with different interests, such as individual economic profit versus national security, formed coalitions though shared causal stories that promised a given policy would pay off for everyone, helping them avoid otherwise difficult tradeoffs and prioritization. Conversely, actors with the same interests who adhered to different causal stories disagreed about which policy they thought would best promote those interests. For example, human rights activists disagreed about the effects of renewing, revoking, or conditioning MFN. Furthermore, the emergence and evolution of causal stories drove

changes in preferences, coalitions, and policy, with, for example, the new external pressure story driving the MFN debates in the aftermath of Tiananmen.

First, the two dominant causal stories – external pressure and engagement – brought together coalitions of actors with diverse interests. The external pressure story arose in the wake of Tiananmen and the end of the Cold War and brought together Chinese student activists and the pro-Tibet lobby, as well as American human rights activists, religious groups, labor unions, and security hawks. As Zhao Haiqing and the Chinese student activist group IFCSS argued, not only had the Chinese government cracked down on civil society, it saw the private sector "as the breeding ground of political instability" and so was recentralizing the economy with the subsidization of Western aid and trade. Revoking or placing conditions on MFN "would give [reformers in China] a persuasive argument that political repression carries with it unacceptable economic costs. Conversely, a continuation of MFN privileges would only strengthen and embolden the orthodox Marxist clique that holds power in Beijing." Moreover, "contrary to claims that the non-renewal of MFN for China will hurt the Chinese government much less than the 'private sector', [IFCSS] analysis shows that the Chinese government will clearly bear the brunt of such an action," as it would need to increase subsidies to export industries, "which will in turn put a squeeze on its ability to finance its internal repression, military build-up and rising foreign debt service." Finally, "China's leadership has already demonstrated the importance it places on retaining MFN status by modifying some of its policies to keep this trading status." [158] Thus, the IFCSS strung a number of schema – that

[158] Letter, Yongchuan Liu, Lianchao Han, Haiching Zhao to George Bush, May 18, 1990, Folder "MFN to China (Some Documents from Sichan Siv) [2]", OA/ID 08128-003, Clayton Fong, White House Office of Public Liaison, Bush Presidential Records, George Bush Presidential Library; Haiqing Zhao, "Testimony to the House of Representatives Foreign Affairs Committee Hearings on China's MFN Status," May 16, 1990, Folder "MFN to China (Some Documents from Sichan Siv) [2]", OA/ID

conservative leaders will pursue repressive policies, block economic liberalization, and implement confrontational military policies, that trade and aid subsidize such behavior, and that external pressure would produce concessions and bolster the position of reformers – into a causal story that could appeal to a variety of actors, including normative, economic, and strategic actors.

The external pressure story also gave cover to Members of Congress facing pressure from business interests and even found some traction with business leaders. For example, eight Members of Congress wrote to their colleagues:

> [Unconditional MFN renewal] tells the entrenched hardliners that they need not fear Western reaction to human rights abuses. It tells the moderates and the hardliners that the ruthless oppression of dissidents will not harm international trade. It tells the hardliners that they can count on their trade surplus with the U.S. to help finance their recently announced military budget increase and to provide subsidies for their loss-making, state-owned enterprises.[159]

Meanwhile, an U.S. businessman working with foreign firms in China wrote to the president that the conservative turn in China since Tiananmen had "undermined the very basis of the reform process and any real possibility of substantial investment by prudent foreigners", and so "the majority [of my clients] feel that the preferable way for China to evolve is to put pressure on this government now in hope that in its wake, a better government will arise."[160] According to NSC staff, after Tiananmen many Americans and Chinese students in the U.S., and even the China-watching community

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08128-003, Clayton Fong, White House Office of Public Liaison, Bush Presidential Records, Bush Presidential Library.

[159] Letter, Barney Frank, W.G. Hefner, Howard Coble, Tim Valentine, Marilyn Lloyd, Lewis F. Payne, Jr., Elizabeth J. Patterson, and Cass Ballenger to Congressional Colleagues, Saying 'No' to Extending China's MFN, June 11, 1990, Folder 'China - MFN 1990 [4]', Country Files, Douglas Paal, National Security Council, Bush Presidential Records, Bush Presidential Library.

[160] Letter, David C. Buxbaum to George Bush, July 19, 1989, Folder "[Miscellaneous Handwritten Meeting Notes, Memoranda, Correspondence re: China, Japan, East Asia 1987-1990] [1] [3]", OA/ID 20428-003, Douglas Paal, National Security Council, Bush Presidential Records, George Bush Presidential Library.

"believe the collapse of the Chinese regime is just a shove away, à la East Europe".[161] Thus, some argued, threatening MFN could be the shove that leads to positive change.

Although some supported outright revocation of China's MFN status, the more popular position was conditionality. Conditionality advocates like Winston Lord agreed with the Bush administration that the commercial and personal links with the rest of the world promoted progressive forces in China but argued MFN could still be used as leverage to wrest at least some political liberalization from China in the more immediate future. Thus, the external pressure story could appeal to diverse actors and help them avoid hard choices about tradeoffs between interests by combining schema like democratization and development theories, democratic peace, and interdependence to argue that revoking or, more moderately, placing conditions on MFN would break through the conservative opposition in China, unleashing political liberalization and, therefore, economic liberalization, economic integration and development, and peace and security. The stakes even extended beyond China, as Lord warned when arguing for conditionality: if the U.S. government was seen as weak and conciliatory, not only might Beijing "conclude that there is no limit to our toleration of its abuses", but also "so might Mikhail Gorbachev, as he contemplates his policies toward the Baltic states".[162]

Recall that the MFN debate took off at a time when Americans were increasingly reassured by world events, such as détente and the fall of satellite Soviet states, that the liberal democratic, capitalist model was correct. Significant uncertainty remained, however, even within the U.S. government, regarding how best to encourage states to make the transition, and, as Chapter 1 discussed, uncertainty

[161] Memorandum, Douglas Paal to Brent Scowcroft, "China - Game Plan for MFN."
[162] Lord, "Extend Equal Trade Status for a Year, Conditionally."

increases reliance on causal stories. For example, a cable sent from the U.S. Consulate in Shenyang to the Secretary of State during the Tiananmen protests in May 1989 commented:

> Events of the past weeks have shown that Dengist programs aimed at purely economic modernization and development without a corresponding commitment to developing political institutions and nurturing a middle class have failed... By focusing on political reform first, Gorbachev may have regained the leading role for the Soviet Union in the socialist world as a model for both political -- and possibly economic -- development.[163]

Although later Gorbachev and his reforms would face their own troubles, at the time many thought that his approach of political reform first had merit and applied such thinking to China and MFN. Conditionality advocates frequently used analogies to the Soviet Union, Eastern Europe, and, to a lesser extent, South Africa as it began to reform its apartheid system in the face of international pressure.[164] These analogies combined with the schema described above to form the external pressure story, promising conditionality would yield positive results for a range of interests and actors.

The Bush administration and its allies also justified their policy of engagement with China with an expansive causal story. Having previously focused primarily on the strategic aspects of relationship, the U.S. government had to rethink its China policy after the dual blows of Tiananmen and the end of the Cold War shook the foundations of U.S.-China relations and thrust normative and, to a lesser extent,

[163] Cable, American Consulate in Shenyang to the Secretary of State, "China's Current Political Crisis -- Resolving the Mess Made by the 'Dwarf' from Sichuan and the 'Egg' from Henan," May 27, 1989, Folder "China - Part 2 of 5 Tiananmen Square Crisis (May-June 1989) [3]", OA/ID CF01722-008, Tiananmen Square Crisis Files, White House Situation Room, National Security Council, Bush Presidential Records, George Bush Presidential Library.

[164] For example, when contacted by a business lobbyist regarding MFN, Representative Jim Moody asked, "What makes the China situation different than South Africa?" Memorandum, Jeff Vogt to David Demarest, Fred McClure, Nick Calio, and Boyd Hollingsworth, "MFN Business Coalition: Legislative Findings"; Lord, "Extend Equal Trade Status for a Year, Conditionally."

economic aspects into the foreground as well. Thus, Bush argued when he announced his Jackson-Vanik waiver to renew MFN in May 1990:

> During the past 10 years, we've seen our engagement in China contribute to the forces for justice and reason that were peacefully protested in Beijing. And our responsibility to them is best met… by keeping open the channels of commerce and communication.[165]

Similarly, Bush later claimed in a speech that "the most compelling reason to renew MFN and remain engaged in China is not economic, it's not strategic, but moral. It is right to export the ideals of freedom and democracy to China."[166] This schema, a take on democratization theory, was also often reinforced with analogies to other Asian states like South Korea and Taiwan that had democratized following development. David Demarest, who served as Bush's White House Communications Director and played a key role promoting the administration's China policy, explained that this argument was important in the MFN debates:

> The thesis was the more engagement that you have on economic terms, like what would be brought with MFN, the more we would be able to move China in the appropriate political direction… So I would be looking at who will be available to the moral argument about why this is a good thing for the Chinese people, as well as the American people, that more economic engagement with China is likely to lead to more liberalization in China.[167]

White House documents corroborate Demarest, with staffers writing, "Our rhetoric should refer to the economic costs of the loss of MFN, but it should concentrate on the human rights benefits for the Chinese people. It is on this political battleground that the issue will be fought."[168]

American business interests echoed this schema of liberalization through economic engagement. The U.S.-China Business Council argued, "Withdrawal of

[165] Press Conference by the President.
[166] Memorandum, Brent Scowcroft to George Bush, "China-MFN: Points to Be Made in Phone Call with Speaker Foley, May 23, 1990"; Bush, "Remarks at the Yale University Commencement Ceremony."
[167] David Demarest, interview by author, December 14, 2016.
[168] Memorandum, Douglas Paal to Brent Scowcroft, "China - Game Plan for MFN."

MFN closes off one of the principal avenues of positive influence in China—the American business presence there. Without people-to-people contact, the progress towards political and economic reform in China over the last 10 years would have been impossible."[169] Similarly, influential business interests like the National Association of Manufacturers, the Business Coalition for U.S.-China Trade, and the American Chamber of Commerce (AmCham) all argued that revoking or placing conditions on MFN would be counterproductive because commercial contacts promote both economic and political reforms.[170] Some Chinese-American businesses also pushed for unconditional MFN renewal, and the Bush administration particularly sought their support to counter the anti-MFN Chinese student groups and argue that voting for MFN renewal did not mean indifference to the concerns of the Chinese people.[171] John Kamm, the President of AmCham Hong Kong, was particularly influential in the MFN debates, testifying three times before Congress and personally recognized by Chinese officials for his role in renewing MFN. Kamm did speak to the economic costs of revoking MFN but focused in particular on the argument that breaking off commercial engagement would disproportionally harm the relatively open Hong Kong and Guangdong and could potentially worsen the human rights situation in China. He also secured the release of numerous Chinese dissidents

[169] The United States-China Business Council, "The Cost of Removing MFN from China," April 23, 1990, Folder "China - MFN 1990 [3]", CF01317-008, Country Files, Douglas Paal, National Security Council, Bush Presidential Records, George Bush Presidential Library.
[170] Letter, Jerry Jasinowski to George Bush, May 11, 1990, Folder "MFN for People's Republic of China, 5/22 [2]", OA/ID 0719-012, Jeff Vogt, White House Office of Public Liaison, Bush Presidential Records, George Bush Presidential Library; Letter, Frank Kittredge to Douglas Paal, August 2, 1990, Folder "China - MFN 1990 [2]", CF01317-007, Country Files, Douglas Paal, National Security Council, Bush Presidential Records, George Bush Presidential Library; Kamm, "Testimony to the House of Representatives Foreign Affairs Committee Hearings on China's MFN Status."
[171] Memorandum, Bobbie Kilberg, Sichan Siv, Deb Amend, and Jeff Vogt to George Bush, "Communications Plan for China," May 30, 1990, Folder "China - MFN 1990 [1]", CF01317-006, Country Files, Douglas Paal, National Security Council, Bush Presidential Records, George Bush Presidential Library; Memorandum, Sichan Siv to George Bush, "Rep. Pelosi and San Francisco Chinese," June 6, 1990, Folder "China - MFN 1990 [2]", CF01317-007, Country Files, Douglas Paal, National Security Council, Bush Presidential Records, George Bush Presidential Library.

through dialogue with Chinese officials, helping to fend off accusations that American companies were propping up an authoritarian regime and put teeth in the rhetoric linking commercial engagement positively with human rights.[172]

The engagement story employed two more schema in order to make further connections between economic engagement, reforms, and strategic concerns. First, administration officials argued that economic engagement would make China more likely to cooperate on security issues. With the Cold War ending, this was a time of international change and uncertainty. While some argued that the U.S. could lean on China to improve human rights because China's support vis-à-vis the Soviet Union was no longer so important, the Bush administration speculated that the future would bring even more opportunities to collaborate. As Scowcroft told Foreign Minister Qian in December 1989, the change and instability in Eastern Europe "just underscores the value of the strategic relationship that we have with China", even though arguably these developments decreased China's strategic importance and increased U.S. leverage.[173] Bush also used this logic when promoting his MFN waivers, for example telling the Members of Congress in June 1991 that Chinese participation in talks on his Middle East Arms Control initiative was "a very positive development" that "responds to my efforts on behalf of MFN for China. You get more flies with honey than with vinegar."[174] As has been discussed, the Bush

[172] John Kamm, Testimony to the House of Representatives Foreign Affairs Committee Hearings on China's MFN Status, May 16, 1990, Folder 'Miscellaneous MFN [Most Favored Nation] Documentation: [China - Most Favored Nation Status] [2]', OA/ID 05291-018, James Schaefer, White House Office of Public Liaison, Bush Presidential Records, Bush Presidential Library; John Kamm (founder of The Dui Hua Foundation and former president of AmCham Hong Kong), interview by author, December 22, 2016.
[173] Memorandum of Conversation, Brent Scowcroft and Qian Qichen, December 9, 1989, Folder "China 1989 (Sensitive) [3]", OA/ID 91135-003, China Files, Special Separate China Notes Files, Brent Scowcroft Collection, Bush Presidential Records, George Bush Presidential Library.
[174] Memorandum, Douglas Paal and Virginia Lampley to Brent Scowcroft, "Revised Talking Points for June 7 Bipartisan Congressional Meeting," June 7, 1991, Folder "[President's meeting with] Bipartisan [Group of] Congressmen re: China MFN [Most Favored Nation], June 7. 1991 at 1:45 p.m.", OA/ID

administration highly valued the anticipated security benefits of U.S.-China cooperation, so this security-related schema was foundational to their decision to renew MFN unconditionally.

Second, like the external pressure story, the engagement story drew on democratic peace theory, arguing that since economic engagement would promote democratization in the long run, U.S. and Chinese strategic interests would be more in line in the future, promoting cooperation and peace. As Demarest later remembered, "Bush used to talk about never in the history of mankind have two democracies gone to war against each other," so the administration's China policy, including MFN renewal, sought to "dovetail our security interests with liberalizing China". Thus, he explained, "Sure, there are security interests, they don't go away, but that doesn't mean that there are security interests in the absence of moral interests."[175] Even the Secretary of Defense, Dick Cheney, reiterated this argument in late 1991, saying: "Stability fuels economic growth and prosperity, which in turn foster peaceful political progress and bolster the security of democratic governments."[176] Thus, according to the engagement story, unconditional MFN renewal promoted American economic, normative, and strategic interests.

This engagement story would be repeated time and time again by the Bush administration and its allies and appears to have been persuasive, or at least successful in providing administration officials, Members of Congress, and other supporters like business groups the necessary cover to support MFN renewal and still claim they were promoting American values in addition to American economic and security

CF01362-017, Subject Files, Virginia Lampley, National Security Council, Bush Presidential Records, George Bush Presidential Library.

[175] Demarest, interview.

[176] Remarks, Dick Cheney at the Foreign Correspondents Club, Tokyo, Japan, November 22, 1991, Folder "National Committee Speech [1]", OA/ID CF01031-007, Subject Files, James Keith, National Security Council, Bush Presidential Records, George Bush Presidential Library.

interests. For example, in meetings between the president and Members of Congress in June 1991, Representative Dan Coats (R-IN) said the argument that the administration was buying time for the new, liberal generation of leaders in China was persuasive, and Representative Lee Hamilton (R-IN) commented that the administration's human rights argument on MFN was impressive and should be emphasized with Congress and the public.[177] The Baucus-led coalition of senators that was crucial in sustaining Bush's vetoes of the 1991 and 1992 conditionality bills also subscribed to this logic, acknowledging problems in China but arguing that "MFN is the wrong tool for the job. Revoking MFN would not promote human rights in China. Instead, it would punish China's most progressive regions and Hong Kong" and hurt Americans economically.[178] In addition to appealing to Members of Congress and their constituents, this democratization-through-engagement schema appears to have motivated Bush administration officials, as it was used in internal documents. Bush himself seems to have truly believed in this schema of gradual democratization through engagement, dictating to his oral diary after Tiananmen: "The strength of democracy and freedom is fantastic, it's wonderful, and yet change has to be orderly in many situations. The big point is, we cannot foment revolution or it might make things worse."[179] U.S. Ambassador to China James Lilley wrote to Secretary Baker immediately after Tiananmen, also advocating continued engagement: "What we are doing is to play to our strong suit, economics, in the conviction that in the long term the Chinese cannot isolate economic modernization

[177] Handwritten notes by Virginia Lampley on the President's meeting with bipartisan Members of Congress on MFN, June 4, 1991; Handwritten notes by Virginia Lampley on the President's meeting with bipartisan Members of Congress on MFN, June 7, 1991.
[178] Letter, Max Baucus, J. Bennett Johnston, Quentin Burdick, Richard Shelby, Bob Dole, Nancy Kassebaum, Jeff Bingaman, John McCain, Bill Roth, Dick Lugar, Larry Craig, Kent Conrad, Alan Simpson, Frank Murkowski, and Orrin Hatch to George Bush.
[179] John Meacham, *Destiny and Power: The American Odyssey of George Herbert Walker Bush* (New York: Random House, 2015), 374.

from political change."[180] Even more telling, Defense Intelligence Agency analysis on the situation in China in June 1989 stated, "Pressure for political reform is inherent to an economic reform movement and will not dissipate," showing that this assumption was made even in intelligence analysis that informed defense policy.[181] Thus, causal stories cannot be dismissed as only public rhetoric for or by idealists, as there is evidence the engagement story helped actors in the Bush administration and Congress, among others, convince themselves and others that there were no difficult choices between different interests to be made because MFN renewal would promote them all.

Not only did causal stories unify actors with diverse interests, they also drove splits among actors with shared interests. For example, as previously shown, Bush and Scowcroft emphasized strategic concerns when it came to U.S.-China relations and argued that constructive engagement with China, including unconditional MFN renewal, would make China more likely to cooperate on issues like UN Security Council votes, non-proliferation, and ongoing concerns about the Soviet Union, receiving the support of geopolitical veterans like Richard Nixon and Henry Kissinger.[182] Meanwhile, allies of Nancy Pelosi and George Mitchell on MFN like Senators Jesse Helms also emphasized U.S. strategic interests but argued they would

[180] Cable, James Lilley to James Baker, Chaos Within China, June 4, 1989, Folder 'China - Part 3 of 5 Tiananmen Square Crisis (May-June 1989) [1]', OA/ID CF01722-011, Tiananmen Square Crisis, White House Situation Room, National Security Council, Bush Presidential Records, Bush Presidential Library.
[181] Cable, Defense Intelligence Agency to Various Departments and Agencies, "China in Crisis: An Initial Assessment," June 21, 1989, Folder "China - Part 5 of 5 Tiananmen Square Crisis (May-June 1989) [1]", OA/ID CF01722-020, Tiananmen Square Crisis, White House Situation Room, National Security Council, Bush Presidential Records, George Bush Presidential Library.
[182] Letter, Richard Nixon to Brent Scowcroft, September 14, 1990, Folder "China: Post-Tiananmen (October 1990)", OA/ID 91133-003, Post-Tiananmen, China Chronological Files, Brent Scowcroft Collection, Bush Presidential Records, George Bush Presidential Library; Henry Kissinger, "The Caricature of Deng as a Tyrant Is Unfair," *Washington Post*, August 1, 1989.

be best forwarded by using MFN as leverage.[183] Similarly, Chinese student activists who prioritized political reform also disagreed about how MFN related to that goal, with the IFCSS conspicuously arguing for revocation or conditions, but others calling for unconditional renewal because they differed on the question of whether threatening China's MFN status would strengthen or undermine the position of reformers in China.[184] Meanwhile, business interests were more unified in support of unconditional renewal but less significant in the debates in this period. Thus, actors with the same interests disagreed on MFN because different causal stories implied that different policies would best forward those interests.

Finally, the emergence and development of causal stories led to changes in policy preferences, coalitions, and even policy. MFN was not the subject of debate before Tiananmen and the end of the Cold War, which discredited the previous story and opened up room for new era thinking about China and U.S. foreign policy. Moreover, debate over MFN did not start immediately in 1989, when Congress could have introduced legislation to challenge Bush's Jackson-Vanik waiver of May 31. It was further dialogue among human rights activists and their allies in Congress in early 1990 that produced the external pressure story and improved it through 1991 and 1992, changing policy preferences on what had once been an uncontroversial annual renewal process.

Thus, the emergence of two causal stories and two opposing coalitions drove the MFN debates, each representing diverse interests united by shared causal stories and with actors sharing the same interests split by story disagreements. Meanwhile,

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[183] Jesse Helms, "Liberty Rides on China's Trade Status: We Can Press for Reform by Raising a Few Key Tariffs.," *Los Angeles Times*, May 17, 1991; Mann, *About Face*, 233.
[184] Letter, Yongchuan Liu, Lianchao Han, Haiching Zhao to George Bush; Memorandum, Sichan Siv to Fred McClure, "China MFN Support Letters," June 1, 1990, Folder "China - MFN 1990 [1]", CF01317-006, Country Files, Douglas Paal, National Security Council, Bush Presidential Records, George Bush Presidential Library.

the hyper-rationalist approach adopted by OEP and geopolitical explanations assumes that actors with the same interests have the same policy preferences and so struggles to explain these dynamics, while normative explanations tend to focus on logic of appropriateness rather than the logic of consequences that permeated these debates.

3) Systemic biases

The third claim of the speculative politics framework is that the market for policies is subject to systemic biases due to the human nature of the authors and adherents of causal stories. First, political actors are more likely to draw on causal stories based on highly available schema and analogies, i.e., more vivid, recent, or personal. Second, actors tend to continue relying on causal stories despite evidence to the contrary and, should dissonance mount, limit belief change. These biases do not mean that the conclusions actors draw are necessarily wrong, but the process of drawing those conclusions is biased, tending to be disproportionately influenced by available schema and analogies and slow to update. Moreover, media and political processes can further exacerbate these biases. The causal stories and policy positions adopted by the Bush administration, Members of Congress, special interests, and the public provide support for this hypothesis. Analogies to recent, vivid events like the Tiananmen crackdown in 1989 or the fall of European communist regimes influenced both causal stories. Bush and Scowcroft's personal experience with and focus on geostrategic issues, including U.S.-China cooperation in balancing against the Soviet Union, also fits with the availability heuristic. Actors were also slow to anticipate or react to changes in the economic and strategic environment, interpreting unfolding events as confirming the causal story that they already believed.

First, actors drew heavily on causal stories based on recent and vivid analogies. The violent crackdown on the democratic protestors in Tiananmen Square on June 3 and 4, 1989 produced backlash against the status quo of U.S. cooperation with China, including MFN. The new highly available images from the protests and crackdown motivated a drop of almost 40 percentage points in U.S. positive opinion on China,[185] provoked a range of sanctions, and, notably, led to the collaboration between Chinese student activists and Members of Congress like Nancy Pelosi and their challenges to MFN. The external pressure story used allusions to Tiananmen to argue that the Chinese leadership violently opposed progressive change, despite widespread domestic demand for it, and so the U.S. had to adopt stronger measures to force change in policy and in leadership. This story was bolstered by the coincidence that the annual deadline for the Jackson-Vanik waiver fell on June 3, the anniversary of crackdown, which made it more available during the annual MFN debates.

Tiananmen clearly drove the external pressure story, but it also played a role in the engagement story. While Reagan had argued that China was firmly on the reform path and therefore he could focus on the strategic aspects of the relationship, the highly available events of 1989 caused Bush administration officials to admit that the reform process was perhaps less smooth than they had hoped and forced them to place more emphasis on human rights and democracy. Additionally, the administration and its supporters pointed to the Tiananmen protests to claim that engagement was working because it helped produce the demand for democracy in the first place. Bush used the famous "Tank Man" photographs, which show an unidentified Chinese protestor blocking the progress of a column of tanks near

[185] Newport, "Americans' Unfavorable Attitudes Towards China Unchanged Ten Years After Tiananmen."

Tiananmen Square on June 5, 1989, to argue that the military showed restraint, and, thus, China was moving in the right direction, even though the photographs are often used to stress the horrors of Communist China.[186]

The end of the Cold War created other highly vivid analogies that factored into both causal stories. The fall of communist governments in Germany, Hungary, and Romania in 1989, only months after Tiananmen, made analogies to Eastern Europe highly available, despite differences between the situations. Members of Congress, Bush administration officials, and other actors used these analogies to argue that the repressive Chinese leadership – or even the entire Chinese government – would not last long. Members of Congress argued, for example, "The hardliners [in China] are not interested in the economic democracy which would… prevent the economic chaos and deterioration we've witnessed in Eastern Europe and the U.S.S.R," so the U.S. should stop subsidizing this behavior and instead use MFN as leverage to press for change.[187] The Bush administration realized that the American public was making these connections as well, acknowledging that demonstrating concern about human rights in China was "all the more important because of what has happened to the CPSU [Communist Party of the Soviet Union]."[188] However, this was not just public posturing. NSC staff argued in an internal memo that "China cannot and will not be immune to the sweeping reforms in the Communist world," and CIA director Robert Gates said the fall of communism in Eastern Europe and the Soviet Union meant that "clearly we need to be thinking about alternative futures for

[186] Bush, "The President's News Conference"; Jennifer Hubbert, "Appropriating Iconicity: Why Tank Man Still Matters," *Visual Anthropology Review* 30, no. 2 (2014): 114–126.
[187] Letter, Barney Frank, W.G. Hefner, Howard Coble, Tim Valentine, Marilyn Lloyd, Lewis F. Payne, Jr., Elizabeth J. Patterson, and Cass Ballenger to Congressional Colleagues, "Saying 'No' to Extending China's MFN."
[188] Memorandum, Douglas Paal to Brent Scowcroft, "China - How to Posture the President in View of Changes in Moscow."

China as well."[189] As James Mann argues, there was "a commonplace belief in Washington that the repressive Chinese leadership would not last long", even though, as it turned out, conservative leaders like Li Peng would remain in power for a number of years and the overall governing structure remains intact today.[190] The external pressure and engagement stories both drew on these highly available analogies and related schema, including the inevitability of democratization, the superiority of capitalism, and democratic peace, already popular in Cold War America, to conclude that transformation would come to China too, but after that the stories diverged. In the external pressure story, China's instability entailed an opportunity for change and leverage to push for it, while in the engagement story, China's transformation would happen more naturally and not through brute force. As a Bush talking point on MFN argued, "It was not our sanctions that brought about change in Eastern Europe; it was the failure of their system."[191] In addition to its use of the Eastern Europe analogy, this quote is interesting because it pushes back on the common assumption shared by both stories and that even Bush himself often paid lip service to: that the U.S. policy has significant influence on China. Because of biases like availability, actors tend to overestimate the extent to which positive outcomes were due to their own actions.[192] Thus, availability helps explain why the two dominant stories both stressed the power of U.S. policy to transform China, even

[189] Memorandum, Douglas Paal to Brent Scowcroft; "Gates Counters Criticism on Iran-Contra Actions," *Congressional Quarterly Almanac*, 1991.
[190] Mann, *About Face*, 228.
[191] Memorandum, Douglas Paal to Brent Scowcroft, "China - How to Posture the President in View of Changes in Moscow."
[192] Jervis, *Perception and Misperception in International Politics*. Jervis emphasizes the egocentrism bias, which is closely related to availability, as one's own actions tend to be more available than other potential contributing factors.

though many China experts have argued that domestic factors drive Chinese policies more than international ones.[193]

Second, actors were slow to react to evidence dissonant with their chosen causal story, often dismissing or favorably interpreting it. For example, as previously shown, in the face of a changing geostrategic situation, the Bush administration maintained its existing approach, repeatedly arguing that the change, for example, in Eastern Europe "just underscores the value of the strategic relationship that we have with China."[194] Thus, in the face of evidence that raised questions about the established story justifying cooperation with China – that it was needed to balance the Soviet Union – actors limited belief change to a slight update: that strategic cooperation with China was necessary to cope with the collapse of the Soviet Union and its satellite states. Additionally, as has also been previously touched upon, the business community was relatively quiet but unified in its support for MFN renewal during the Bush administration. A large reason for both the unity and relatively small role of business interests in the early years of the MFN debates was the difficulty of anticipating the course that Chinese policy and the Chinese economy would take, as well as the opportunities and challenges that would arise. As R.K. Morris, a veteran business lobbyist who was National Association of Manufacturers' Director for International Trade at the time, explained, trade with China was not a controversial topic at the time; the smaller American companies did not yet feel or anticipate the competitive pressure that would come from Chinese imports in the late 1990s, so "the China stuff, unlike NAFTA or the yen-dollar exchange rate, tended to be driven

[193] See, for example, Shaun Breslin, "Great Expectations: (Competing) Domestic Drivers of Chinese Policy Deliberations," *Vox EU* (blog), April 16, 2010; David Dollar, interview by author, April 11, 2016; Minxin Pei, "Exploring Emerging Domestic Drivers of Chinese Foreign Policy" (The German Marshall Fund of the United States, April 14, 2014), Asia Program Policy Brief.
[194] Memorandum of Conversation, Brent Scowcroft and Qian Qichen.

without too much opposition by the large companies that had some interest in China and without really significant opposition from other companies."[195] On the other hand though, the difficulty of anticipating the Chinese government's 1992 recommitment to economic reform and the subsequent boom in the Chinese economy limited the business community's support for MFN renewal. After all, many American companies that would increasingly rely on exports to or imports from China might have given more support to the Bush administration had they known of the coming Chinese "economic miracle". One might argue that this was just due to Tiananmen, with businesses fearing moral condemnation for supporting MFN and also concerned about retrenchment affecting economic opportunities; however, American economic interests exerted little influence over U.S. China policy even prior to the crackdown. In other words, American business interests maintained their views on the Chinese economy, and many remained on the sidelines of debates over China policy, even as reality on the ground in China changed.

Belief perseverance was also evident as each side in the MFN debates interpreted Chinese concessions to support their chosen story. While the Bush administration claimed that Chinese concessions, such as releases of political prisoners or new trade and non-proliferation commitments, showed that engagement was working, Bush critics argued that these concessions refuted "the facile myth that Chinese leaders can't be influenced by outside pressure to respect minimal human rights" because "it is Congress' forthright criticism of Chinese repression, not the Bush Administration's apologetic mumbling, that brought [these] gains."[196] Similarly, when writing to his colleagues abut the conditionality MFN bill he introduced in June

[195] R.K. Morris, interview by author, April 14, 2016.
[196] "China Listens," *The New York Times*, May 12, 1990.

1990, Representative Gus Yatron (D-PA) argued, "By making these 'concessions' [the release of political prisoners and the lifting of martial law], it seems clear that China cares about its image and values preferential trade treatment," making MFN "one of our best tools for instigating positive change in China."[197]

Thus, the causal stories and policy positions adopted by political actors during the Bush administration offer evidence of systemic biases, which are not addressed by alternative explanations. Recent, vivid events appear to have influenced both the external pressure and engagement stories, and actors like administration officials, American business interests, and Members of Congress were slow to update their causal stories and policy positions.

4) Manipulation and speculative bubbles

The final claim of the speculative politics framework is that the combination of diverse interests, causal stories, and systemic biases makes the market for policies unstable, susceptible to manipulation and speculative bubbles. Foreign actors, with the help of domestic allies, can sell a preferred policy agenda to diverse actors in the short term with highly available actions and rhetoric that resonate with its causal story. Dissonant foreign behavior is then dismissed due to belief perseverance; however, past a tipping point, it can undermine causal stories and the policy agendas, bursting the bubble. This period provides evidence that manipulation, as Chinese actions, rhetoric, and personal relationships influenced the causal stories held by key actors in the Bush administration and Congress, including Bush himself.

[197] Letter, Gus Yatron to Members of Congress, June 8, 1990, Folder "MFN for People's Republic of China, 5/22 [1]", OA/ID 07149-011, Jeff Vogt, White House Office of Public Liaison, Bush Presidential Records, George Bush Presidential Library.

Furthermore, Tiananmen appears to have burst a speculative bubble in the old cooperation story, after which actors laid the groundwork for the next bubbles.

This period offers evidence of foreign influence and even manipulation, possible because of the systemic biases at work. Chinese officials argued that only stable CCP leadership would promote economic and even political reforms, reinforcing the engagement story. For example, in May 1989, Wan Li, then Chairman of the Standing Committee of the National People's Congress, met with President Bush and Vice President Dan Quayle, and argued that "unrest disturbed China's stability and unity, which were essential to the continued buildup of the country and necessary to the development of democracy and a legal system."[198] A few days later, Wan reiterated to Secretary Baker that restoration of stability was necessary for both the continuation of China's policies of reform and opening and positive action on issues raised by the protestors like freedom of expression and assembly and democratization."[199] Deng Xiaoping also told Scowcroft and Eagleburger in July that he supported positive U.S.-China relations, but warned that China would never allow foreigners to interfere in Chinese internal affairs, no matter the cost to China.[200] This type of rhetoric was typical of the period; even when economic reforms were put on hold or U.S.-China tensions were high, Chinese officials consistently promised that reforms would continue, that they wanted positive relations with the U.S., and that

[198] Cable, Bureau of East Asian and Pacific Affairs to US Embassy in Beijing, "Vice President's Meeting with Wan Li," May 23, 1989, Folder "China - Wan Li Visit 1989", CF00318-015, Subject File, Douglas Paal, National Security Council, Bush Presidential Records, George Bush Presidential Library.
[199] Cable, Secretary of State to US Embassy in Beijing, "Secretary's Meeting with Wan Li," May 26, 1989, Folder "China - Part 2 of 5 Tiananmen Square Crisis (May-June 1989) [2]", Tiananmen Square Crisis, White House Situation Room Files, National Security Council, Bush Presidential Records, George Bush Presidential Library.
[200] Memorandum of Conversation, Deng Xiaoping with Brent Scowcroft and Lawrence Eagleburger, July 2, 1989, Folder 'China 1989 (Sensitive) [5],' OA/ID 91135-005, China Files, Brent Scowcroft Collection, Bush Presidential Records, George Bush Presidential Library; Qian, *Ten Episodes in China's Diplomacy [Waijiao Shiji]*, 175.

American pressure would not yield results. Thus, official Chinese rhetoric, intentionally or not, reinforced the engagement story by maintaining that stability, including positive U.S.-China relations, would allow the government to continue economic and political reforms, while confrontation would prove counterproductive. Meanwhile, Chinese activists like Zhao Haiqing, while less powerful, also clearly weighed into debates on China policy in Washington, offering testimony in support of the external pressure story and an end to unconditional MFN.

The Chinese government also took specific actions to bolster the engagement story and support for MFN renewal in Washington, often at the urging of pro-MFN Americans. Ambassador Lilley later recalled that Bush authorized the secret Scowcroft and Eagleburger trips to Beijing in the wake of Tiananmen in part to encourage the Chinese government to cease public executions, vivid news items that increased negative U.S. public opinion and made it difficult for the Bush administration to maintain the relationship. According to Lilley, the Chinese responded to this line of reasoning and "toned it down",[201] demonstrating the ability of transnational coordination to exploit the availability heuristic in order to influence the policy market. China scholar Rosemary Foot argues that in 1990 the Chinese leadership also used well-timed prisoner releases, lifting of martial law, the departure of Fang Lizhi and his wife, and major purchases of Boeing aircraft, as well as China's importance in issues like proliferation of weapons of mass destruction and conflict in Cambodia and on the Korean peninsula to support the annual MFN renewal efforts in the Washington.[202] A State Department intelligence report from 1991 also confirms that top Chinese leaders engaged directly in efforts to secure MFN, including pressure

[201] Ivo H. Daaler and I.M. Destler, "China Policy and the National Security Council," The National Security Council Project, Oral History Roundtables (Center for International Security Studies at Maryland and the Brookings Institution, November 4, 1999), 23.
[202] Foot, *Rights beyond Borders*, 139–40.

on Hong Kong, Japanese, and Taiwanese officials and foreign businesses to lobby for MFN renewal, a media campaign and outreach program to Members of Congress and their constituents, an expanded diplomatic dialogue on human rights, an official buying mission, and a purchase of about $240 million of U.S. wheat despite the Chinese bumper harvest the previous year.[203] Foot writes, "China's concessions at the time of MFN renewal did make a difference to the MFN outcome, and undoubtedly influenced China to continue with such tactics in subsequent years."[204]

Former President of Amcham Hong Kong John Kamm also believes that the Chinese attempted to influence the outcome of the MFN debates in various ways, such as engaging in buying missions in the U.S. and abstaining on the UN Security Council resolution authorizing use of force in the Gulf Crisis. Moreover, Kamm says, Chinese leaders saw the value of using human rights releases and human rights-related arguments to retain MFN. After all, not only is Kamm credited with the release of hundreds of Chinese political prisoners, he is also recognized in China for his role in maintaining MFN. In fact, these two accomplishments are inextricably linked, as he used the fear of losing MFN to push Chinese officials on the human rights front and then used these concessions to help defend engagement. For example, in August 1992, when pushing for leniency for Wu Jiaxiang, the last individual brought to trial in Beijing for crimes committed during the Tiananmen protests, Kamm told Chinese official Zhou Jue that a long sentence would recall memories of the 1989 crackdown, while a ruling releasing him for time served would get positive headlines in foreign media. Zhou said he would do what he could, Wu was released, and media coverage was indeed positive. Chinese officials, while often

[203] U.S. Department of State, Office of Analysis for East Asia and the Pacific, Bureau of Intelligence and Research, "China Lights, Report No. 196," May 23, 1991, 196, National Security Archive, China and the United States: From Hostility to Engagement, 1960–1998.
[204] Foot, *Rights beyond Borders*, 140.

reluctant to make concessions, understood their value and, thus, appreciated Kamm's contribution to MFN renewal. After Bush's veto of the 1991 conditionality bill survived the veto override vote in March 1992, Kamm met with a senior Chinese economic official based in Hong Kong, who offered Kamm his choice of lucrative positions in Hong Kong essentially as payment for helping secure MFN. Although Kamm turned this offer down and asked instead for more prisoner releases, this episode demonstrates the Chinese government's attempts to influence debates in Washington on China policy by bolstering the engagement narrative.[205] Thus, concessions were the product of transnational efforts, including Chinese actors intent on maintaining MFN and Americans like Bush and Kamm who sought progress on a range of issues like human rights and the trade balance.

President Bush himself is a good example of the power of highly available personal experiences and foreign influence. Bush spent almost half of his political career prior to his presidency working on foreign affairs, including a year as Chief of the U.S. Liaison Office in Beijing, so it is unsurprising that when it came to determining U.S. China policy he was particularly attuned to the challenges the Chinese leadership faced. Furthermore, Bush has admitted to being influenced by his personal relationships with Chinese officials. Bush wrote in *A World Transformed*:

> When Deng called me a *lao pengyou*, an old friend of China, I felt the phrase was not just the usual flattery, but a recognition that I understood the importance of the US-China relationship and the need to keep it on track. I will always have great respect for the positive changes that this strong leader, who had his own ups and downs, brought to China.[206]

This quote is quite interesting. In it, Bush makes clear that he is aware that the Chinese term "*lao pengyou*" or "old friend" is commonly used by Chinese officials to

[205] Kamm, interview.
[206] Bush and Scowcroft, *A World Transformed*, 94.

flatter and manipulate their foreign counterparts. Richard Solomon, the Assistant Secretary of State for East Asian and Pacific Affairs at the time, has warned:

> In managing a negotiation [Chinese officials] attempt to identify a sympathetic counterpart official in a foreign government and work to cultivate a personal relationship and a sense of "friendship" and obligation; they then attempt to manipulate feelings of good will, obligation, guilt, or dependence to achieve their negotiating objectives.[207]

Similarly, Career Foreign Service officer Paul Kreisberg has written, "Being a Chinese 'friend', whether as a state or individual, often means accepting or at least not opposing Chinese views, or contributing in some concrete way toward objectives – trade, investment, political goals… – of importance to China or the individual in question."[208] Moreover, "a real friend is expected to assume certain obligations: to be supportive, sympathetic, and helpful in avoiding trouble in relationships, in backing friends when they are under pressure."[209] Solomon advised U.S. officials to "resist the flattery of being an 'old friend' or the sentimentality that Chinese hospitality readily evokes", which are meant to produce "a strong sense of obligation for the 'old friend' to provide support and assistance to China."[210] Chinese officials frequently stressed their old relationship with Bush and other U.S. officials, emphasizing the detail that Bush used to bicycle through Beijing back when he was chief of the Liaison Office and even gifting him with a bicycle when he visited China shortly after becoming president in February 1989. Thus, in *A World Transformed*, Bush essentially admits that he understood that what the Chinese were doing and yet was

[207] Richard H. Solomon, *Chinese Negotiating Behavior: Pursuing Interests Through "Old Friends"* (US Institute of Peace Press, 1999), 4.
[208] Paul H. Kreisberg, "China's Negotiating Behavior," in *Chinese Foreign Policy: Theory and Practice*, ed. Thomas W. Robinson and David Shambaugh (Oxford: Oxford University Press, 1994), 459.
[209] Kreisberg, 459.
[210] Solomon, *Chinese Negotiating Behavior*, 4, 9.

influenced by it anyway because, when applied to him it "was not just the usual flattery". Bush biographer Jon Meacham echoes this conclusion:

> [Bush] knew Deng and Deng's colleagues from the old days in China; his quiet belief in the Chinese leader's ultimate good intentions was a key factor in the moderate American response [to Tiananmen]. 'Had I not met the man… I think I would have been less convinced that we should keep relations with them going after Tiananmen Square,' Bush [said] in 2005.[211]

Similarly, Scowcroft has said, "Were we [President Bush and I] moved by our relationship with China [in our response to Tiananmen]? I can't rule that out. Probably so. I would plead that it was hardheaded realism, not romanticism, but it certainly played a role."[212] Thus, there is evidence that Chinese attempts to stress available personal experiences helped them promote the Bush administration's belief in the engagement story by reinforcing the view that Chinese leaders like Deng were committed to a course of deepening reform and international cooperation. To be clear, the argument here is that strategic concerns were important drivers of Bush's policy of engagement with China, but that these highly available personal experiences and relationships and Chinese efforts to exploit them also contributed. Additionally, the analysis does not make judgments about the "correctness" of this policy, nor does it rule out that personal relationships and U.S. emphasis on them could have also affected Chinese officials as well, or that some Chinese actors may have been sincere in their hopes for future reforms.

Furthermore, there is evidence of bubble behavior in this period. First, an older version of the engagement causal story appears to have justified U.S.-China cooperation prior to Tiananmen. Of course, strategic factors motivated Nixon and Kissinger as they reestablished relations with China, and China's Reform and

[211] Meacham, *Destiny and Power: The American Odyssey of George Herbert Walker Bush*, 374.
[212] Scowcroft, interview.

Opening Up later added an economic element, but Reagan extended the story with a moral, speculative element. Outside of the public eye, tensions and mistrust between American and Chinese officials still existed, but the Reagan administration saw U.S.-China cooperation as strategically important and so publicly portrayed China as a steadily liberalizing, friendly country to maintain support for bilateral relations. Chinese reforms – mostly economic but some political – certainly played a role here, but so too did the actions and rhetoric of Chinese leaders and their relationships with U.S. officials. For example, the polished Zhou Enlai captivated many Western diplomats, with Kissinger himself writing that he has "encountered no more a compelling figure than Zhou."[213] Meanwhile, Ezra Vogel has argued that Deng Xiaoping's willingness to don a cowboy hat while visiting a Texas rodeo in 1979 "signaled to the U.S. public that he was not only good-humored, but, after all, less like one of 'those Communists' and more like 'us.'"[214] Thus, James Mann argues:

> Reagan's remark about 'so-called Communists' epitomized the delusions and the China euphoria that swept America during the 1980s. The effect was damaging. America believed China was changing its political system more than it in fact was. The disillusionment would come in 1989.[215]

In other words, the highly available images of Tiananmen burst the speculative bubble, producing a drop of almost 40 percentage points in positive opinion on China among the American public,[216] who realized that CCP officials were not only "so-called communists." Even China experts, who should be the last to buy into an overextended story given their grasp of the limits of Chinese reforms, were shocked and angry, with Bush NSC officials complaining that, "all China experts… deserted the administration" because they were "traumatized by the repression since

[213] Henry Kissinger, *On China* (New York: Penguin Press, 2011), 241.
[214] Vogel, *Deng Xiaoping and the Transformation of China*, 345.
[215] Mann, *About Face*, 147.
[216] Newport, "Americans' Unfavorable Attitudes Towards China Unchanged Ten Years After Tiananmen."

Tiananmen. They are hurt, angry and vengeful as a group."[217] Thus, use of a causal story to justify cooperation with China during the Cold War had paid off in the short term, with high levels of public support, but had a serious cost when Tiananmen burst the bubble, with the resulting backlash fueling the rise of new stories and policies.

Additionally, the beginnings of the next two bubbles can be traced to this period. First, a small bubble in the external pressure story had already begun, which would culminate in President Clinton's adoption of a conditionality approach to MFN in 1993, followed by deflation of the bubble and cancellation of the policy in 1994 when it failed to produce as much as had been anticipated. After all, during Bush's presidency, the external pressure story had made sweeping promises of change in China on normative, economic, and security issues, championed by a transnational alliance of Chinese and American activists and bolstered by highly available images from Tiananmen to the Berlin Wall. As Chapter 3 details, as the gap between those promises and the reality of the policy results grew apparent and dissonance mounted, this bubble would burst, and Clinton converted to the engagement story and policy agenda, taking both even further than Bush had with grand promises about the merits of ushering China into the WTO.

Thus, a second, longer-term, larger bubble in the engagement story also has its origins in this period. As has been shown, the engagement story promised that U.S. engagement would transform China, making it more economically and politically open, as well as peaceful and cooperative. According to Gregory Mastel, a staffer for Senator Baucus from 1989 to 1994, the promise of political transformation was the most persuasive line of reasoning on MFN, but it was overstated, leading to

[217] Memorandum, Douglas Paal to Brent Scowcroft, "China - Game Plan for MFN"; Scowcroft, interview.

disappointment in the following decades as actors realized that these speculative payoffs had not materialized.[218] However, former NSC director Doug Paal disagrees:

> I think engagement has paid off. Now it depends what you thought the payoff was. [Reporter and author] Jim Mann made a big thing out of we were promising everybody democracy. You'd find it damned hard to find anything where we said China was going to turn democratic as a result of this. But would China's life be better for a lot of people? Would China be less threatening to its neighborhood, if it's more content internally? … We've had examples of similarly structured states in Taiwan, Korea, Singapore, and Japan becoming intra-party democracies and then multi-party democracies over long stretches of time, and one hopes that'll happen in China. China is just so many factors larger, more complicated, and messier that to try to make a 'by 2020, this'll happen', that's crazy.[219]

Similarly, John Kamm explains:

> What I tried to do was point out was that the very worst period for human rights in China happened to be the period when the United States and China were completely cut off. That lead me to the conclusion that the worst thing we could do for human rights would be to cut off the relationship… That is slightly different from saying that, well, if you maintain the relationship, it will get better.[220]

Certainly no one promised a specific timeline on democratization in China, and there has been economic progress that may not have happened without continued U.S. engagement. However, Bush did declare on June 5, 1989 that the "genie of democracy can't be put back in the bottle," likely aiming to build support for his China policy but also stoking hopes that political liberalization in China was on the way. New era thinking also appears to have fueled the bubble in its early phase, with the end of the Cold War ushering in a wave of political and economic reform and global stability that many believed would inevitably come to China. The unwillingness of actors on both sides of the MFN debate to question the idea that the U.S. could guide China towards greater liberalization also suggests bubble dynamics.

[218] Gregory Mastel (former chief of staff for Senator Max Baucus), interview by author, April 5, 2016.
[219] Paal, interview.
[220] Kamm, interview.

Moreover, subsequent rhetoric and exuberance outstripped the initial, more measured promises of the engagement story; this was just the beginning, when it still faced a real challenge from the external pressure story. Subsequent chapters will provide further evidence of bubble dynamics, detailing engagement's boom under the Clinton administration and bust following the pinnacle of the WTO accession.

Conclusion

This chapter has examined the shattering of the American consensus on China policy following Tiananmen and the end of the Cold War, as well as the emergence of the annual China MFN debates during the Bush presidency, and presented evidence supporting the core claims of the speculative politics framework over alternative explanations. First, analysis points strongly to the role of geopolitical, normative, and economic interests on both sides of the MFN debates. Second, two causal stories – external pressure and engagement – helped translate those interests into policy preferences by speculating about China's future and the ability of U.S. policy to affect it, thereby shaping individual policy preferences and, thus, policy outcomes. Third, evidence points to the influence of the availability heuristic and belief perseverance playing a role in selection and updating of these causal stories. Finally, manipulation and speculative bubble dynamics appear to be factors, with Tiananmen shattering the view popularized by the Reagan administration that China was only a "so-called communist" country, followed by Chinese attempts to influence the post-Tiananmen debate and the stirrings of new bubbles. Bush managed to maintain MFN without conditions, fending off serious Congressional threats in both 1991 and 1992 by a handful of votes; like Reagan, he turned to a causal story that made sweeping

promises across strategic, economic, and normative issue areas, which helped him secure key votes in Congress. However, also like Reagan, Bush, along with the Chinese officials that bolstered this engagement story, bought this short-term win at a long-term cost: protectionist backlash when the engagement bubble burst in the post-WTO accession period. Meanwhile, Clinton publicly offered support for the external pressure story during the 1992 election, buying himself some political points, but later would also face backlash when the promised results of his linkage policy failed to materialize.

Chapter 3

The Triumph of Engagement: China's Most Favored Nation Status and World Trade Organization Accession During the Bill Clinton Administration

Bill Clinton played a central role in not one, but two bubbles in U.S. economic policy towards China, laying the foundation for U.S. engagement with China for the next fifteen years. During the 1993 presidential campaign, Clinton criticized President George H.W. Bush for coddling the "butchers of Beijing" and promised a tougher, external pressure approach to China would produce better results; however, a year after signing an Executive Order linking renewal of China's Most Favored Nation (MFN) status to progress in human rights, President Clinton became a convert to the engagement story. He not only ended up advocating unconditional MFN renewal, he made China's accession to the World Trade Organization (WTO) a key part of his legacy as president, signing a bilateral trade deal that he called "a hundred-to-nothing deal for America" but that the Trump administration today calls a mistake.[221]

This chapter examines the triumph of engagement over an external pressure approach in U.S. economic policy toward China during this period, from Clinton's linkage policy in 1993 to China's WTO accession in 2001, and presents evidence supporting the core claims of the speculative politics framework over alternative explanations. Clinton's 1993 linkage policy represented the peak of adherence to the external pressure story, only for the bubble to burst in 1994 as U.S. threats failed to produce the expected concessions from the Chinese government and Clinton reversed

[221] William J. Clinton, "The President's News Conference," (March 29, 2000); United States Trade Representative, "2017 Report to Congress on China's WTO Compliance," January 2018, 2.

himself. Despite its initial tough talk on China, the Clinton administration ultimately played a major role in the bubble in the engagement story, promising that China's accession to the WTO would producing sweeping economic and even political liberalization and, therefore, increased international stability and cooperation. After all, the administration reasoned, trying to control the flow of ideas in a global economy and the internet age would be "like trying to nail jello to the wall."[222] Charismatic Chinese leaders like Zhu Rongji helped sell this story of transformation with strategic prisoner releases, trade missions, and promises of further reforms, even as they continued policies of political repression and state-led development. While such promises helped stitch together a diverse coalition in support of the WTO accession and establishment of permanent MFN (also known was permanent normal trade relations or PNTR), they also laid the foundation for the backlash seen in China policy a decade and a half later.

This chapter proceeds as follows. First, it summarizes the key events of the period, demonstrating how conventional explanations fall short. Then, analyzing evidence from archival research and elite interviews, it argues for key claims of the speculative politics framework: the importance of multiple interests, causal stories, systemic biases, and manipulation and speculative bubbles.

3.1 From Butchers of Beijing to Most Favored Nation

This section lays out the history of Clinton's linkage and de-linkage of

[222] Press Release, Office of the Press Secretary, the White House, "Remarks by the President on China, Paul H. Nitze School of Advanced International Studies, Washington, DC," March 8, 2000, Folder "China Permanent Normal Trade Relations (PNTR) Resource Book, Spring 2000 [Binder 1] [2]", OA/ID 40753, General Files, China Permanent Trade Status, Clinton Presidential Records, Bill Clinton Presidential Library.

China's MFN status and human rights issues, showing the limitations of existing theoretical approaches: open economy politics (OEP), geopolitical, and normative. First, all three single-issue explanations fit poorly with the clear role of security, normative, and economic interests and actors in debates and decisions on MFN. Second, limits to rationality – including overconfidence and overcorrection, as well as availability and causal storytelling – are discernable in in the Clinton administration's linkage policy and haphazard reversal, making rationalist OEP and geopolitical approaches a poor fit. Finally, debates on China's MFN status centered on which means would produce the desired outcomes, i.e., the logic of consequences, rather than the logic of appropriateness central to normative IR explanations.

Bill Clinton brought with him to the White House the pressure of sweeping campaign promises and a wide coalition of both liberal activists and economic interests, which were reflected in both his personnel and his policies. Clinton appointed Anthony Lake, a former foreign service officer, as national security advisor and director of the National Security Council (NSC), and Samuel Berger, a trade lawyer and experienced political operator, as Lake's deputy. After running on economic issues and the slogan, "It's the economy, stupid!", Clinton quickly set up a National Economic Council (NEC) in parallel with the established NSC, with Goldman Sachs alumnus Robert Rubin as NEC Director. As he had criticized President Bush for "coddling tyrants from Baghdad to Beijing", Clinton also appointed Winston Lord as Assistant Secretary of State for East Asian and Pacific Affairs; Lord was U.S. Ambassador to China under both Ronald Reagan and George H.W. Bush and had become a major critic of Bush's China policy and forceful advocate for conditional renewal of China's MFN status.[223] Clinton's Secretaries of

[223] See, for example, Lord, "Extend Equal Trade Status for a Year, Conditionally."

State and Defense, Warren Christopher and Les Aspin, the latter of whom was quickly replaced by William Perry, did not occupy particularly influential roles in China policy, and Clinton, unlike his immediate predecessor, was also not deeply involved.[224]

Initially, Lord at the State Department and Lake at the NSC took the lead on China. Lord, exercising policy influence atypical for an Assistant Secretary, led the interagency senior steering group that worked on developing the new administration's China policy, including on MFN renewal, which had its annual statutory deadline in June. By early May of 1993, the decision was to renew MFN that year, citing small Chinese human rights concessions to date, and to make MFN renewal the following year conditional on improvements in human rights that were less stringent than previous MFN bills and the administration viewed as reasonable and achievable. This policy, which had both input and support from influential Members of Congress like Representative Nancy Pelosi (D-CA) and Senate Majority Leader George Mitchell (D-ME), represented a compromise between a number of goals, including improving human rights, maintaining the bilateral economic and strategic relationship, exerting executive authority over foreign policy, and demonstrating a united front with the Democratic Congress.[225] On May 28, 1993, President Clinton signed a presidential determination renewing China's MFN status and an executive order imposing seven human rights-related conditions on renewal in 1994, subject to the assessment of the

[224] Peter W. Rodman, *Presidential Command: Power, Leadership, and the Making of Foreign Policy from Richard Nixon to George W. Bush* (New York: Vintage Books, 2009), 205–8.
[225] James Lilley and Robert Suettinger quoted in Ivo H. Daaler and I.M. Destler, "China Policy and the National Security Council," The National Security Council Project, Oral History Roundtables (Center for International Security Studies at Maryland and the Brookings Institution, November 4, 1999), 30, 32; David M. Lampton, *Same Bed, Different Dreams: Managing U.S.- China Relations, 1989-2000* (Berkeley: University of California Press, 2002), 39; Wenzhao Tao, *History of Sino-American Relations [Zhongmei Guanxi Shi]* (Shanghai: Shanghai Renmin Chuban She, 2004), 238–39.

Secretary of State.[226] Two conditions – that extension would promote the freedom of emigration objectives of the Jackson-Vanik amendment, and China complied with a 1992 bilateral agreement on prison labor – were mandatory for a positive recommendation of MFN renewal by the Secretary of State, while China had only to make "overall, significant progress" with respect to the other five conditions, namely, improving adherence to the Universal Declaration of Human Rights (UDHR), releasing and accounting for political and religious prisoners, ensuring humane treatment of prisoners, protecting Tibet's religion and culture, and permitting international radio and television broadcasts into China. At the time, many viewed Clinton's decision positively, with a *Wall Street Journal/NBC News* poll showing that the American public supported conditioning economic ties with China on improved human rights by a ratio of over two to one, and the *New York Times* Editorial Board declaring that by imposing "reasonable and attainable", Clinton had kept faith with both his campaign commitments and American principles.[227]

On May 26, 1994, however, Clinton announced a near total reversal: he would renew China's MFN status even though China had not met all the conditions laid out in the 1993 executive order.[228] The previous year had seen a great deal of vacillation on the part of the Clinton administration, some concessions by the Chinese, and a huge lobbying effort by U.S. economic interests. The administration had advocated enlargement of market democracies and MFN conditioned on human rights improvements on the one hand, but also enhanced engagement with Chinese

[226] Presidential Determination No. 93-23, 3 C.F.R. 982-983 (1993); Exec. Order No. 12850, 3 C.F.R. 983 (1993).
[227] Winston Lord, quoted in Daaler and Destler, "The National Security Council Project," 31; Editorial Board, "On China: Mr. Clinton Keeps Faith," *New York Times*, May 30, 1993; Albert R. Hunt, "Clinton's High-Stakes China Gambit," *Wall Street Journal*, December 16, 1993.
[228] William J. Clinton, "The President's News Conference", the White House, Washington, DC, May 26, 1994.

leadership and reevaluation of U.S. unilateralism in Asia on the other.[229] The U.S. Ambassador to China, Stapleton Roy, frustrated with Washington's indecision and inability to send clear guidance for him to convey to the Chinese, had even told the *New York Times* that he could not predict whether China would satisfy the standard of "overall, significant progress" because the administration had not defined the phrase.[230] Meanwhile, China had offered a number of concessions on human rights – including the release of several Tiananmen-era political prisoners and Tibetan dissidents and public declaration of adherence to the UDHR – but also tried to encourage political opposition to the administration's linkage policy, including via President Jiang Zemin's visit to a Boeing facility when attending the November 1993 Asia-Pacific Economic Cooperation (APEC) leader's meeting in Seattle and the hosting of German Chancellor Helmut Kohl that same month, with nearly $3 billion in business contracts signed.[231] Noting the rapid growth in China triggered by renewed dedication to economic reforms following Deng Xiaoping's 1992 Southern Tour, the business community also increasingly weighed in, as did economic officials at the NEC and Treasury and Commerce Departments. From March to May 1994, close to 800 American companies and industry groups called and wrote letters to the administration asking for de-linkage.[232] After Secretary Christopher's visit to Beijing in March 1994 – widely reported as a failure – the writing was on the wall for the linkage policy.

[229] Anthony Lake, "From Containment to Enlargement," Johns Hopkins University, School of Advanced International Studies, Washington, DC, September 21, 1993; Hobart Rowen, "The Beginnings of a Trade Truce?" *The Washington Post*, May 15, 1994; Elaine Sciolino, "Clinton and China: How Promise Self-Destructed," *The New York Times*, May 29, 1994.
[230] Stapleton Roy (former U.S. Ambassador to China), interview by author, April 7, 2016; Patrick E. Tyler, "Rights in China Improve, Envoy Says," *The New York Times*, January 1, 1994.
[231] Tao, *History of Sino-American Relations [Zhongmei Guanxi Shi]*, 245.
[232] Tao, 248.

The ultimate result of this internal division and external pressure was Clinton's public announcement in May that linkage had been "constructive" but had "reached the end of [its] usefulness".[233] The widespread belief, however, was that the policy had failed. Clinton, like his predecessor, now argued that MFN renewal would promote progress in human rights in the long term, responsible Chinese behavior on the global stage, and other U.S. interests. Meanwhile, the administration would maintain existing Tiananmen sanctions, such as the arms ban and U.S. opposition to non-basic human needs loans to China by international financial institutions, increase international broadcasting into China via Voice of America and a new Radio Free Asia, work with the American business community to develop voluntary business principles for American companies to advance human rights in China, and press China on human rights issues, including at the United Nations (UN) Human Rights Council (UNHRC).[234] Although some opposed Clinton's new policy, the House bill to disapprove his extension of MFN (H.J.Res. 373) failed by a significant margin, as did the Pelosi-led effort to deny MFN status at least to products produced, manufactured, or exported by the Chinese military and state-owned enterprises (SOEs) (H.R. 4590, including amendments).[235]

Thus, in both Clinton's break with his predecessor's policy of unconditional MFN renewal in 1993 and his near 180-degree reversal a year later, there are a number of key facts that any robust analysis must explain but existing IR explanations do not. Single-issue area explanations would struggle to address the strong influence of economic, security, and normative interests and actors in Clinton's MFN policy, as

[233] Clinton, "The President's News Conference," May 26, 1994.
[234] Clinton; White House, "Fact Sheet: China MFN Decision," May 28, 1994, Digital National Security Archive, China and the United States (1960-1998).
[235] Kerry Dumbaugh, "China's Most-Favored-Nation (MFN) Status: Congressional Consideration, 1989-1998" (Congressional Research Service, August 1, 1998), 25–26.

well as the interventions of foreign actors in domestic debates. Additionally, a rational choice-based approach would not expect the initial overconfidence in the linkage strategy, and a normative explanation based on the logic of appropriateness does not account for the sudden collapse of support for linkage when opponents framed it as ineffective.

3.2 Towards WTO Accession and PNTR

Following Clinton's decision in 1994 to delink MFN from human rights, his administration still faced annual battles to defend renewal against Congressional opponents, but the votes never came close to ending MFN (see Table 3.1). The next, more significant challenge was negotiating – and then selling to Congress – China's accession to the WTO. Like MFN linkage before it, however, this case also demonstrates a number of features – including multiple interests, limits to rationality, and the logic of consequences – that make existing IR approaches a poor fit.

China was one of the 23 original signatories to the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT), in 1948, but the Republic of China government withdrew from the GATT system following the Communist revolution in 1949. The Communist government in Beijing never recognized the ROC's withdrawal decision, and in 1986 – following the start of China's Reform and Opening under Deng Xiaoping and concurrent with the launch of the Uruguay Round negotiations that would ultimately lead to the creation of the WTO – notified the GATT of its desire to resume its status as a GATT member.[236] China needed to reach

[236] "WTO Successfully Concludes Negotiations on China's Entry" (World Trade Organization, September 17, 2001).

Table 3.1 – Congressional voting on proposed legislation seeking to disapprove extension of China's MFN status and to establish PNTR, 1993-2000

Bill	Votes		
▪ H.J.Res. 208, 103rd Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	7/21/1993	(105-318)
▪ H.J.Res. 373, 103rd Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	8/9/1994	(75-356)
▪ H.J.Res. 96, 104th Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House (table):	7/20/1995	(321-107)
▪ H.J.Res. 182, 104th Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	6/27/1996	(141-286)
▪ H.J.Res. 79, 105th Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	6/24/1997	(173-259)
▪ H.J.Res. 121, 105th Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	7/22/1998	(166-264)
▪ H.J.Res. 57, 106th Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	7/27/1999	(170-260)
▪ H.J.Res. 103, 106th Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	7/18/2000	(147-281)
▪ H.R. 4444, 106th Congress *To authorize extension of nondiscriminatory treatment (normal trade relations treatment) People's Republic of China and to establish a framework for relations between the United States and the People's Republic of China*	- House: - Senate:	5/24/2000 9/19/2000	(237-197) (83-15)

an agreement on accession commitments with a Working Group composed of GATT members, as well as bilateral agreements with each individual GATT member, with the U.S. being the largest hurdle; moreover, China aimed to do so prior to January 1, 1995, the date that the GATT was set to become the WTO. Indeed, the Office of the U.S. Trade Representative (USTR) had been close to the "final stage of negotiations" with China in mid-1989, when the Tiananmen protests and their violent repression made reaching a deal politically difficult for the U.S., while also triggering several years of retrenchment in Chinese economic reforms.[237] Thus, thanks to both economic and normative factors, what might have been a relatively smooth three- or four-year process to rejoin the GATT became a fifteen-year effort to accede to the WTO.

From the beginning of the Clinton administration, USTR saw China's GATT/WTO accession as both a major challenge and key priority due to China's economic and political significance and its liberalizing but still highly statist economy. Charlene Barshefsky, who served as a Deputy USTR from 1993 to 1996 and then as the USTR from 1997 to 2001, raised China's GATT accession as a multilateral priority item in her first conversations with Mickey Kantor, immediately following his nomination to be the USTR in December 1992.[238] Talks resumed in 1993, but a number of hurdles remained. By 1994, the Chinese reforms and economic growth had taken off again following Deng's 1992 Southern Tour and the MFN linkage issue was resolved, but USTR panned Chinese offers as "seriously deficient" and in internal and external discussions continued to insist that China accede to the

[237] Mark Mohr, Tiananmen: Another Bump in China's Road to WTO Accession, interview by Charles Stuart Kennedy, October 22, 2009.
[238] Charlene Barshefsky, interview by Russell L. Riley and Kimberly Elliot, March 2, 2005, William J. Clinton Oral History Project, Miller Center, University of Virginia; former senior U.S. trade official, interview by author, April 13, 2016.

WTO on commercially meaningful terms.[239] Indeed, in 1995, Barshefsky developed and presented to her counterpart, Trade Minister Wu Yi, an accession "road map" to demonstrate the kinds of deep and comprehensive commitments necessary to reach a bilateral agreement. Barshefsky framed the paper and her accompanying remarks to emphasize how the WTO accession would be consistent with Chinese reform agenda; however, it would take some time for even reform-minded counterparts like then-Vice Premier Zhu Rongji to digest the information and push for the necessary changes in internal debates.[240] The NSC and State Department also weighed in on the WTO negotiations, but USTR was skeptical of them for wanting to give away concessions to China for political reasons. According to one former senior official, "It wasn't that we wanted to give anything away to the Chinese, but we had a better understanding of what the Chinese were going through and the limits of what was feasible." State Department and NSC officials leaned on USTR to conclude a deal more quickly, for example proposing that the U.S. pursue a framework in which China would cut its average tariff rate over time, which would allow the two sides to reach the broader outlines of an agreement more quickly. USTR continued to insist that a deal be concluded only on "commercially meaningful terms", as they understood the term and often characterized State Department and NSC views as willing to compromise on something less than that.[241]

Meanwhile, as it had under the Bush administration, the U.S. pressed China on intellectual property (IP) issues. Focusing on copyright piracy and trademark

[239] "Barshefsky Blasts China for Inadequate Offers in WTO Talks," *Inside U.S. Trade*, December 2, 1994; Charan Devereaux, Robert Z. Lawrence, and Michael Watkins, *Case Studies in US Trade Negotiation* (Washington, DC: Institute for International Economics, 2006), 261; former senior U.S. trade official, interview, April 13, 2016.
[240] Barshefsky, interview, March 2, 2005; former senior U.S. trade official, interview, April 13, 2016; Devereaux, Lawrence, and Watkins, *Case Studies in US Trade Negotiation*, 263.
[241] Former senior official, interview by author, April 19, 2016.

infringement in particular, USTR designated China as a Special 301 "Priority Foreign Country" in June 1994, triggering a Section 301 investigation and a threat of 100% retaliatory tariffs on $1.1 billion in Chinese imports.[242] The two sides quickly reached an agreement on IP rights enforcement and market access for IP-related products.[243] Some U.S. companies claimed that piracy in China had not just continued but had worsened since the 1995 agreement, however, causing USTR to designate China again as a Special 301 "Priority Foreign Country" in April 1996, leading once more to a Section 301 investigation and a threat of import quotas on $2 billion in Chinese imports. Once again, the two countries reached an accord on improved enforcement in June 1996, forestalling the implementation of the quotas and, according to USTR, leading to substantial improvements in IP protections in China.[244]

Chinese reforms continued, as did WTO accession negotiations, and by 1999, U.S. and Chinese leadership at the highest levels had decided it was time to reach a deal.[245] A flurry of activity ensued, including at least six Secretary or Deputy Secretary-level meetings between January and March 1999. Most importantly, Zhu Rongji, now Premier, visited Washington on April 7 and 8, 1999 in the hopes of sealing a deal, meeting with President Clinton and other U.S. officials. By that point, even USTR believed China had made adequately sweeping commitments and the

[242] Office of the U.S. Trade Representative, "Special 301 Report," April 30, 1994, 301; Office of the U.S. Trade Representative, "Determination of Action Concerning the People's Republic of China's Protection of Intellectual Property and Provision of Market Access to Persons Who Rely on Intellectual Property Protection" (60 FRN 7230, February 7, 1995).
[243] Office of the U.S. Trade Representative, "Termination of Section 301 Investigation and Action Regarding the People's Republic of China's Protection of Intellectual Property and Provision and Market Access to Persons Who Rely on Intellectual Property Protection" (60 FRN 12582, March 7, 1995).
[244] Office of the U.S. Trade Representative, "Special 301 Report," April 30, 1996, 301; Office of the U.S. Trade Representative, "Request for Public Comment and Notice of Public Hearing: Determination Involving Expeditious Action; Proposed Determination Concerning What Further Action To Take Under Section 301(a) in Response to the People's Republic of China's Unsatisfactory Implementation of the 1995 Agreement on Enforcement of Intellectual Property and Market Access" (96 FRN 12572, May 17, 1996); Devereaux, Lawrence, and Watkins, *Case Studies in US Trade Negotiation*, 260.
[245] Malcolm Lee, interview by author, April 22, 2016; Devereaux, Lawrence, and Watkins, *Case Studies in US Trade Negotiation*, 267.

administration should conclude the agreement during Zhu's visit, as did officials like Sandy Berger and Kenneth Lieberthal at the National Security Council and Secretary Madeleine Albright at the State Department.[246] At the last minute, however, Clinton, decided not to conclude the agreement during Zhu's visit, citing a few outstanding substantive issues.[247] White House Chief of Staff John Podesta, Secretary Bob Rubin and Deputy Secretary Larry Summers at the Treasury Department, and Gene Sperling at the National Economic Council had counseled Clinton to postpone signing the deal, primarily citing political concerns like a widespread view that if the administration concluded negotiations now, it would be seen as a rushed, weak deal, as well as potential Congressional opposition and strain on the Democratic caucus, with many Democrats concerned about human rights and labor interests and Republicans alarmed about recent security and espionage-related accusations.[248]

Despite the political calculus behind the decision, the optics ended up poor for both the U.S. and Chinese sides. Press reported that Clinton had snubbed Zhu, embarrassing and infuriating the Chinese delegation and undercutting reform-minded Chinese leaders. Worse, a 17-page summary of China's concessions to date was posted (possibly without authorization) on the USTR website; it had been drafted to show the extent of Chinese commitments and generate domestic U.S. support for the deal, and it was effective in doing so but embarrassed both sides. Clinton became the target of criticism from the business community for failing to sign such a good agreement and Zhu the subject of his colleagues' outrage for giving away too

[246] Devereaux, Lawrence, and Watkins, *Case Studies in US Trade Negotiation*, 270; Kenneth Lieberthal (former senior Clinton White House official), interview by author, April 5, 2016.
[247] Joint United States-China Statement: Status of Negotiations on China's Accession to the World Trade Organization, April 8, 1999.
[248] Barshefsky, interview; Devereaux, Lawrence, and Watkins, *Case Studies in US Trade Negotiation*, 268–72; Lieberthal, interview.

much.[249] Still, this upheaval might have ultimately made it easier for the U.S. to close the negotiations given the increased public and congressional support. The Clinton administration made serious efforts to hold the deal together and move to close it in the following days and weeks, including sending officials to Beiing, but the Chinese were not receptive.[250] Moreover, the difficult political calculus for the Chinese side regarding closing a deal following Zhu's failed visit suddenly morphed into an absolute impossibility. On May 7, 1999 as part of the North Atlantic Treaty Organization (NATO) bombing of Yugoslavia, U.S. bombers mistakenly targeted the Chinese embassy in Belgrade, killing three Chinese reporters, sparking protests across China, and causing the Chinese government to cut off a number of bilateral discussions with the United States, including the WTO accession negotiations.[251] Chinese and American negotiators would not meet again until Clinton and President Jiang Zemin spoke on September 11, 1999 on the sidelines of the Asia-Pacific Economic Cooperation (APEC) Ministerial Meeting, paving the way for negotiators to sign an agreement on November 15, 1999 in Beijing, but only after Barshefsky, who with Sperling led the U.S. delegation, twice threatened to depart, even sending luggage to the airport.[252] In the end, the final deal was only marginally different than what had been on the table in April, with a 49 percent foreign investment cap in telecommunications services instead of 50 percent, as well as some changes to textiles

[249] Devereaux, Lawrence, and Watkins, *Case Studies in US Trade Negotiation*, 272–73.
[250] Barshefsky, interview; Devereaux, Lawrence, and Watkins, *Case Studies in US Trade Negotiation*, 273-274; former Clinton administration official, interview by author, April 22, 2016; former senior U.S. trade official, interview.
[251] Devereaux, Lawrence, and Watkins, *Case Studies in US Trade Negotiation*, 274–75; Kerry Dumbaugh, "Chinese Embassy Bombing in Belgrade: Compensation Issues" (Congressional Research Service, April 12, 2000), 3.
[252] Barshefsky, interview; Devereaux, Lawrence, and Watkins, *Case Studies in US Trade Negotiation*, 275–76; The White House, "U.S. - China Bilateral WTO Agreement," November 15, 1999.

and financial sector commitments and antidumping and safeguard provisions.[253] Nonetheless, the agreement contained numerous sweeping commitments, including double-digit tariff cuts on agricultural and industrial products, significant paring back of investment restrictions in service sectors, liberalization of the Chinese trading rights and distribution systems, 15 years of authorized use of the existing U.S. antidumping methodology, which treated China as a non-market economy, and 12 years of authorized use of China-specific, product-specific safeguards.[254]

The battle was not over yet, however. Although Congress did not have authority over China's accession to the WTO, WTO rules require members to grant MFN treatment "immediately and unconditionally" to products of all contracting parties.[255] Thus, the Clinton administration argued, in order for the U.S. to benefit from China's WTO accession commitments, Congress needed to exempt China from the annual Jackson-Vanik review process and establish PNTR for China. It would not be an easy lift, with a 2000 Pew Research Center survey showing that only 28% of Americans supported extending PNTR to China, while 56% were opposed. The Clinton administration created a PNTR "war room" led by Commerce Secretary Bill Daley and developed and deployed the argument that China's economic integration via WTO accession and PNTR would be an unqualified win for the U.S. economy while also promoting Chinese political liberalization and responsible international behavior.[256] Experts and activists weighed in, and special interests lobbied heavily,

[253] Barshefsky, interview; Devereaux, Lawrence, and Watkins, *Case Studies in US Trade Negotiation*, 277; Michael Laris, "China, U.S. Agree on Historic Trade Deal," *Washington Post*, November 15, 1999.
[254] Fact Sheet, the White House, "Summary of U.S.-China Bilateral WTO Agreement," February 2, 2000.
[255] GATT 1994: General Agreement on Tariffs and Trade, April 15, 1994, Article I.
[256] Resource Book, the White House, "China Permanent Normal Trade Relations," Spring 2000, Folder "China Permanent Normal Trade Relations (PNTR) Resource Book, Spring 2000 [Binder 1] [1]", OA/ID 40753, General Files, China Permanent Trade Status, Clinton Presidential Records, George Bush Presidential Library.

with the U.S. Chamber of Commerce and the Business Roundtable alone spending close to $10 million on pro-PNTR advertising and labor spending about $2 million.[257] Ultimately, H.R. 4444 – a bipartisan compromise brokered by Representatives Sandy Levin (D-MI) and Doug Bereuter (R-NE) that authorized extension of PNTR status to China upon accession to the WTO but also established a congressional-executive commission to monitor human rights in China, codified the product-specific safeguard in China's accession protocol, and included monitoring and enforcement provisions – passed the House 237 to 197 and the Senate 83 to 15 and was signed into law by President Clinton on October 10, 2000. Thus, on December 11, 2001, after fifteen years of negotiations, China acceded to the WTO and was granted PNTR status by the U.S. effective January 1, 2002, and the American president who had campaigned against unconditional trade with the "butchers of Beijing" left office with China's WTO accession – and the hope that China's WTO commitments would contribute to positive economic and political transformation there – as a key part of his legacy.[258]

As with MFN linkage and de-linkage, existing IR approaches clearly struggle to explain many of the key facts in China's accession to the WTO and establishment of PNTR. First, diverse interests and actors were central to all the key debates and decisions. From the struggle to conclude the U.S.-China bilateral WTO agreement and to compromise to secure congressional approval for PNTR, economic, security, and diplomatic officials and private actors like interest groups, activists, and experts all played decisive roles, as did economic, security, and normative arguments, dynamics that single-issue IR explanations cannot capture. Moreover, such arguments centered on the logic of consequences (i.e., what policy would best

[257] Devereaux, Lawrence, and Watkins, *Case Studies in US Trade Negotiation*, 277–91.
[258] Press Release, World Trade Organization, "WTO Ministerial Conference Approves China's Accession," November 10, 2001; Statement, Deputy Press Secretary, the White House, "President Bush Grants Permanent Normal Trade Relations Status to China," December 27, 2001.

promote goals like Chinese human rights and U.S. economic growth) rather than the logic of appropriateness (i.e., regardless of consequences, should the U.S. treat an oppressive regime like China like a normal trading partner), which is the focus of many normative IR explanations. Finally, there is a pattern of behaviors not in line with the assumptions of rationality made by OEP and geopolitical explanations, including Clinton's pronounced swing from opposing unconditional MFN renewal to championing China's WTO accession and the sweeping promises made by his administration about the transformative effects of China's integration with the global economy and new technologies like the internet. Indeed, speaking about China's WTO accession and PNTR in 2000, Clinton declared, "All I can tell you is I believe that if we do this, 20 years from now we will wonder why we ever had a serious debate about it. If we don't do it, 20 years from now we'll still be kicking ourselves for being so dumb."[259] Just 17 years later, however, in the annual report to Congress on China's WTO compliance required by the same bill that established PNTR for China, USTR stated that "it seems clear that the United States erred in supporting China's entry into the WTO on terms that have proven to be ineffective in securing China's embrace of an open, market-oriented trade regime."[260] Thus, storytelling and speculation, overconfidence and overcorrection render existing IR explanations a poor fit for this case; instead, the next section turns to the speculative politics framework for insight into the key causal mechanisms at work.

3.3 Applying the Speculative Politics Framework

[259] Remarks by the President to the Democratic Leadership Council Conference, "New Challenges of the New Economy," April 3, 2000, Folder "China Permanent Normal Trade Relations (PNTR) Resource Book, Spring 2000 [Binder 1] [4]", OA/ID 40753, General Files, China Permanent Trade Status, Clinton Presidential Records, Bill Clinton Presidential Library.
[260] United States Trade Representative, "2017 Report to Congress on China's WTO Compliance."

This section argues that the speculative politics framework explains the key debates and decisions behind MFN linkage and de-linkage, as well as China's WTO accession and establishment of PNTR. As the previous chapter argued, the vivid media coverage of the Tiananmen protests and their repression in 1989, along with the end of the Cold War, had splintered the established consensus on U.S. China policy, allowing for the emergence of two new causal stories, external pressure and engagement. While sharing goals like national security and political and economic liberalization and even some schema like interdependence and democratic peace theory, the two stories offered competing worldviews and, thus, policy prescriptions. Clinton's election in 1992 and announcement of the MFN linkage policy in 1993 represented major victories for the external pressure story, only for the bubble to burst in 1994 when a transnational alliance successfully cast linkage as a failure and the Clinton administration scrambled, awkwardly and belatedly, to reverse course. Thus, the way was paved for the engagement story to take hold as the new consensus, culminating in China's WTO accession and establishment of PNTR.

The evidence – including the decisive actions of key players like President Clinton, senior administration officials, Members of Congress, and special interests, activists, and experts – supports the four core claims of this new framework, i.e., the importance of multiple interests, causal stories, systemic biases, and manipulation and speculative bubbles in the market for policies. First, multiple interests clearly played decisive roles in these cases, with actors representing economic, security, and normative interests all driving the market for policies, key debates involving constant invocation of these diverse interests, and policy decisions like MFN linkage and de-linkage and establishment of PNTR representing a mix of wins and concessions for all interests. Second, competition between two causal stories was at the core of the

Clinton administration's economic policies towards China, with the external pressure story leading to the linkage policy, and the engagement story driving de-linkage and then support for the WTO deal and PNTR. Both causal stories united actors with different interests by promising return on investment for all, and, conversely, actors with shared goals but distinct causal beliefs disagreed on policy means. Additionally, variation in causal stories over time also resulted in variation in policy preferences, notably leading to Clinton's retreat from MFN linkage and to his embrace of WTO accession. Third, systemic biases like availability and belief perseverance appear to have driven the selection of causal stories, with, for example, China's spectacular economic growth and increasing U.S.-China business and official contacts in 1993 and 1994 contributing to support for de-linkage, and excitement about the power of the internet factoring into the rationale for supporting China's WTO accession and PNTR. Finally, the influence of multiple interests, causal stories, and systemic biases caused the market for policies to be susceptible to manipulation and speculative bubbles, which arose in both the external pressure story, leading to MFN linkage and de-linkage, and later the engagement story, culminating in China's WTO accession and PNTR. The following subsections address each claim in order.

1) Multiple interests

The first claim of the speculative politics framework is that political actors are rarely driven purely by economic interest, and selling economic policies often requires appeals to non-economic factors like security and human rights concerns. This section argues that the actions and rhetoric of the Clinton administration, Congress, and other influential actors indicate the influence of diverse interests.

Actors representing a variety of interests were consistently involved and influential, those different interests were continuously invoked, and policy decisions resulted in a mix of wins and concessions for each interest area. The point is not that all interests and actors were equally influential. Indeed, corporate interests in particular grew increasingly powerful and were crucial to securing congressional support for PNTR; however, business groups succeeded in large part because they were able to harness human rights and geopolitics in their arguments for engagement.

First, actors representing diverse interest areas – economic, strategic, and normative – were central, driving forces in policy debates and decisions by the Clinton administration and Congress. In the early days of the Clinton administration, the State Department and National Security Council took the lead on China policy, including MFN linkage, representing normative and strategic interests, but economic agencies like the National Economic Council, Commerce Department, and USTR also took an increasingly active role, pushing for MFN de-linkage and WTO accession. Congressional debates and votes also hinged on the decisions of diverse actors, including influential Members of Congress like the liberal, human rights-focused Pelosi, hawkish, anti-Communists Senator Jesse Helms (R-NC) and House Majority Whip Tom DeLay (R-TX), labor-oriented Representatives Levin and David Bonior (D-MI), and pro-business, pro-agriculture Bereuter. Additionally, numerous non-governmental actors played key roles in shaping views in the White House and on Capitol Hill on MFN, WTO accession, and PNTR, from Chinese and American activists and academics to business and labor groups. Indeed, according to internal correspondence, the White House made sure to stress support for WTO accession and PNTR from the business community as well as "the non-corporate variety, e.g. human

rights activists, environmentalists, rule of law experts, religious leaders, democracy NGOs, security/nonpro [nonproliferation] experts, etc."[261]

Moreover, these key influencers and decision-makers continuously invoked all economic, strategic, and normative interests when explaining their policy positions. According to a memo from his National Security Advisor Anthony Lake, when Clinton announced his linkage policy in 1993, the goal was to send "a strong signal" to China that the administration was "dissatisfied with its progress on human rights, proliferation and trade".[262] Similarly, when announcing de-linkage a year later, Clinton promised that MFN renewal would serve "to advance our security, to advance our prosperity, to advance our ideals".[263] In the annual MFN debates, the White House continued to argue that "normal trade treatment is the best way to integrate China further into the international order, secure our interests, and advance our ideals."[264] When it came to the debate over China's WTO accession and PNTR, business interests lobbied heavily, pushing the economic interest angle but also making sure to stress the anticipated strategic and normative payoffs. For example, the President of the U.S.-China Business Council, Robert Kapp, argued before the Senate Foreign Relations Committee that "those who object most strongly to conditions which they find offensive or troubling or morally problematic in China ought to be at the forefront of the effort to establish PNTR for China" because "the

[261] Email, James Keith to Malcolm Lee, "China WTO Quotes," December 7, 1999, Folder "[10/30/1999-12/07/1999]", OA/ID 620000, Exchange-Record (Sept 97-Jan 01) ([China, WTO, Barshefsky, Kantor]), NSC Emails, Clinton Presidential Records, Bill Clinton Presidential Library.
[262] Memorandum, Anthony Lake to Bill Clinton, "China MFN Event," May 28, 1993, Folder "China [2]", OA/ID 3103, Press (Philip J. (PJ) Crowley), National Security Council, Clinton Presidential Records, Bill Clinton Presidential Library.
[263] Clinton, "The President's News Conference," May 26, 1994.
[264] Email, James Keith to Malcolm Lee, Tomasz Malinowski, David Leavy, Miles Lackey, Gary Samore, Maureen Tucker, NSC Legislative Affairs Office, NSC Public Affairs Office, NSC Speechwriters Office, and NSC Export Controls Office, "Announcement of Annual Renewal of NTR for China," May 24, 1999, Folder "China (April to August 1999, Post Zhu Visit) [14]", OA/ID CF 1176, Malcolm Lee, National Economic Council, Clinton Presidential Records, Bill Clinton Presidential Library.

WTO agreement that the United States signed with China last November is the single most positive and impressive example of favorable American influence over China's domestic behavior that we have seen since the establishment of diplomatic relations."[265] Likewise, in a speech on this subject in May 2000, Clinton's closing argument was:

> … if you believe in a future of greater openness and freedom for the people of China, you ought to be for this agreement. If you believe in a future of greater prosperity for the American people, you certainly should be for this agreement. If you believe in a future of peace and security for Asia and the world, you should be for this agreement.[266]

In Congressional debates, members of both the House and the Senate also raised economic, strategic, and normative interests when speaking in favor and against the PNTR bill.[267] Although pro-trade business interests clearly grew more influential in U.S. China policy over the course of the 1990s, other interest areas continued to matter; for example, Senator Jim Jeffords (R-VT), a dedicated free trader with a track record of voting for unconditional MFN renewal, voted against PNTR in 2000 because of China's political imprisonment of Ngawang Choephel, a Tibetan Fulbright student at Middlebury College, from 1995 to 2002.[268] Thus, even industry groups with strong economic arguments that they could make to the Clinton administration and to Congress also had to speak to these other interests. As one key business

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[265] U.S. Congress, Senate, Committee on Foreign Relations, *Giving the People's Republic of China Permanent MFN: Implications for U.S. Policy*, 106th Cong., 2nd sess., April 11, 2000, 24.
[266] Press Release, Office of the Press Secretary, the White House, "Remarks by the President on China, Paul H. Nitze School of Advanced International Studies, Washington, DC."
[267] See, for example, remarks by Representatives Levin, Pelosi, Bill Archer (R-TX), and Dana Rohrabacher (R-CA), as well as Senators Helms and Mark DeWine (R-OH). U.S. House of Representatives, "Authorizing Extension of Nondiscriminatory Treatment (Normal Trade Relations Treatment) to the People's Republic of China," *Congressional Record*, 106th Cong., 2nd sess., 146, no. 65 (March 23, 2000): H3596–3615; U.S. Senate, "To Authorize Extension of Nondiscriminatory Treatment to the People's Republic of China--Resumed," *Congressional Record*, 106th Cong., 2nd sess., 145, no. 111 (September 19, 2000): S8667–8723.
[268] U.S. Congress, Senate, Committee on Foreign Relations, To Authorize Extension Of Nondiscriminatory Treatment to the People's Republic of China--Resumed".

representative admitted, "If you pitch dollars versus freedom, people generally in the end come down to freedom, as they should, I guess."[269]

Finally, the diverse interests and actors involved in these policy debates also drove policy outcomes, which reflected a mix of wins and concessions across interest areas. When the new administration developed its MFN policy in 1993, the compromise was that MFN would be renewed that year, pleasing engagement-oriented security interests and business interests, but renewal in the following year would be conditioned upon human rights improvements, satisfying labor, human rights activists, and security hawks. In 1994, when Clinton de-linked MFN from human rights, he argued that MFN would promote human rights improvements in China and also announced a number of other policies aimed at encouraging such improvements. For example, although pressing China to respect human rights at the UNHRC was a much less direct form of external pressure, according to China scholar Rosemary Foot, China's vigorous efforts to split the Western bloc in the UNHRC, including by offering additional bilateral dialogues on human rights, "demonstrated indisputably the power of this non-coercive shaming process as well as the utility of the institutions that had provided the platform from which to shame, to effect change in China's behaviour, and to offer compromise in its strict interpretation of state sovereignty".[270] For those concerned about the economic challenges China presented to the U.S., the Clinton administration's IP-focused Section 301 investigations and the resulting bilateral IP accords offered an alternative to threatening MFN; indeed, the Special 301 report that designated China as an IP "Priority Foreign Country" and trigged the Section 301 investigation was released only a few weeks before Clinton's

[269] Robert S. Ross, ed., *After the Cold War: Domestic Factors and U.S.-China Relations*, Studies on Contemporary China (Armonk, NY; London: MESharpe, 1998), 55.
[270] Rosemary Foot, *Rights beyond Borders: The Global Community and the Struggle over Human Rights in China* (Oxford: Oxford University Press, 2000), 189, 221.

de-linkage announcement in 1994.[271] Through 1993 and 1994, the administration also imposed sanctions on China and conducted negotiations regarding sale of missile technology to Pakistan.[272]

China's WTO accession and PNTR deal represented an even more significant compromise between the array of American interests. Not only did USTR need to balance the interests of exporting and import-competing industries when negotiating with its Chinese counterparts, the Clinton administration and Congress had to accommodate numerous other concerns when finalizing the bilateral agreement with China and when passing the PNTR bill. In negotiating with the Chinese, USTR emphasized anti-dumping and safeguard mechanisms that were priority items for labor interests and, thus, many congressional Democrats, and the safeguard mechanism in particular was emphasized when it was enshrined into law in the PNTR bill, along with a number of monitoring and enforcement provisions.[273] Furthermore, the final bipartisan compromise on PNTR involved the establishment of the Congressional-Executive Commission on China, modeled on the Helsinki Commission, to monitor human rights in China, and the defense appropriations legislation that passed that same month created the U.S.-China Economic and Security Review Commission to inform and advise Congress regarding the national security implications of the U.S.-China economic relationship.[274] Again, this is not to

[271] Office of the U.S. Trade Representative, "Special 301 Report," April 30, 1994; Clinton, "The President's News Conference," May 26, 1994.
[272] "China: Possible Missile Technology Transfers Under U.S. Satellite Export Policy -- Actions and Chronology," October 6, 2003, Congressional Research Service.
[273] Devereaux, Lawrence, and Watkins, *Case Studies in US Trade Negotiation*, 283–84.
[274] *To Authorize Extension of Nondiscriminatory Treatment (Normal Trade Relations Treatment) to the People's Republic of China, and to Establish a Framework for Relations between the United States and the People's Republic of China*, 22 U.S.C. § 6911-6919 (2000); *Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001*, 22 U.S.C. § 7002 (2000); Lee, interview; Email, Sharon Yuan to Lael Brainard, Malcolm Lee, Melissa Green, and Brian Barreto, "Inside Trade- China WTO," May 7, 1999, Folder "China (April to August 1999, Post Zhu Visit) [1]", OA/ID CF 1176, Malcolm Lee, National Economic Council, Clinton Presidential Records, Bill Clinton Presidential Library.

say that all interests were equally powerful. Corporate interests, in particular, were clearly crucial to securing PNTR; however, as Mike Jendrzejczyk of Human Rights Watch explained, business groups were effective precisely because they played on the normative field, reconfiguring the debate "to say that trade itself was a human rights policy… and therefore were able to turn the argument around and succeeded to a great extent."[275] Thus, although corporate interests and some political activists and strategic thinkers in favor of MFN and, later, PNTR ultimately achieved their main policy goals, these were not unqualified victories but rather a compromise reflecting the influence of diverse interests.

2) Causal stories

The second claim of the speculative politics framework is that, in order to promote their diverse interests, actors use causal stories to speculate about the future and decide in which policies to invest. Recall that this dissertation defines causal stories as webs of knowledge structures, i.e., analogies and schema, that tell a coherent tale about cause and effect, allowing actors to apply previous experience to new situations, speculate about the future and the effects of policy options, and, thus, act in a complex and uncertain world. This section shows that, as with China's MFN status during the Bush administration, debates and decisions over MFN, WTO accession, and PNTR during the Clinton administration reflect ongoing competition between two main causal stories: external pressure and engagement. Some actors with divergent interests formed coalitions based on shared causal stories that promised certain policies would benefit all, while other actors who shared interests

[275] Ross, *After the Cold War*, 55.

but adhered to different causal stories splintered over the question of which policies would best promote those interests, with, for example, some of the human rights constituency using the external pressure story to argue against MFN renewal and later PNTR, while others argued in favor due to the persuasiveness of the engagement story. Finally, the rise and fall of causal stories produced changes in policy preferences, political coalitions, and policy outcomes, most obviously with the Clinton administration's about face as the favored causal story switched from external pressure to engagement and China policy evolved rapidly from MFN linkage to de-linkage to WTO accession and PNTR.

First, the two key causal stories – external pressure and engagement – united actors with distinct interests in support of shared policy preferences, arguing that a single policy approach could forward all of their interests and, thus, prioritization was unnecessary. As Chapter 2 discussed, in the wake of Tiananmen and as the Cold War ended, the external pressure story gained traction with a diverse coalition of activists, labor interests, and security hawks. This causal story wove together schema like democratization and development theories, democratic peace, and interdependence, as well as analogies to Eastern Europe, to argue that application of external pressure, such as by revoking or placing conditions on MFN, could force the Chinese government to make human rights concessions and weaken conservative leaders in China, unleashing economic and political liberalization and, therefore, increase common interests and cooperation between the United States and China. After Clinton took office, the external pressure story continued to bring together actors with different interests who wanted to use China's MFN status and WTO accession to push for internal changes. The key administration officials who developed the MFN linkage policy in 1993, National Security Advisor Anthony Lake and Deputy

Secretary of State Winston Lord, reflected the external pressure story's broad appeal to strategic and normative interests. Furthermore, the political leaders who signed off on the policy – Clinton, Pelosi, and Mitchell – all represented a mix of constituencies, including liberals and activists, as well as labor and business interests. After all, Clinton had run on a platform of economic growth but also bashed Bush for coddling dictators, and, as James Mann argues:

> On China, Clinton took office believing he could have everything and please everyone. He saw no conflict between American ideals and American commerce, or between his desire to please the Chinese students, whom he had so carefully courted during the campaign, and the business community whose support he had also assiduously cultivated.[276]

Even leaders of the external pressure caucus Pelosi and Mitchell understood that ending MFN for China would have undesirable economic consequences and articulated in meetings with Lord that they preferred a policy of achievable conditions that would enable the Chinese government to make concessions on human rights while still allowing the U.S. government to maintain MFN.[277]

Similarly, the engagement story brought together a diverse coalition in favor of unconditional MFN renewal for China and, later, WTO accession and PNTR. Again, Chapter 2 discussed the origins of this causal story during the Bush administration. Like the external pressure story, the engagement story utilized schema like democratic peace and interdependence, as well as a belief in inherent synergy between economic and political liberalization; however, unlike the external pressure story, the engagement story advocated a different strategic approach and sequencing, with economic engagement, reforms, and growth coming first but ultimately leading to political reforms. For example, the Clinton administration's

[276] Mann, *About Face*, 275.
[277] Robert Perito (former U.S. Foreign Service Officer), interview by author, April 13, 2016.

annual National Security Strategies focused on the three "mutually supportive" overarching goals: sustaining American security, bolstering economic growth, and promoting democracy. As these important guiding documents on foreign policy and national security issues reasoned, "secure nations are more likely to support free trade and maintain democratic structures," "nations growing economies and strong trade ties are more likely to feel secure and to work toward freedom," and "democratic states are less likely to threaten our interests and more likely to cooperate with the U.S. to meet security threats and promote sustainable development." Indeed, Clinton's first three National Security Strategies were entitled "A National Security Strategy of Engagement and Enlargement".[278]

During Clinton's presidency, the engagement story helped build an increasingly strong coalition of business interests, security-focused actors, and even some human rights advocates in favor of increasing trade with China and bringing it further into the global economy and international economic institutions like the WTO. According to multiple members of Clinton's PNTR team, building coalitions in Congress involved layering of different constituencies; for MFN and PNTR, that meant identifying the free traders but also making the argument that trade and trade agreements can yield military and diplomatic benefits and also promote rule of law and advance human rights.[279] Ultimately, the compromise that secured PNTR passage in Congress was developed and promoted by legislative leaders like labor-focused Sandy Levin, free trader Doug Bereuter, and anti-communist Tom DeLay,

[278] The White House, "A National Security Strategy of Engagement and Enlargement," July 1994; The White House, "A National Security Strategy of Engagement and Enlargement," February 1995; The White House, "A National Security Strategy of Engagement and Enlargement," February 1996; The White House, "A National Security Strategy for a New Century," May 1997; The White House, "A National Security Strategy for a New Century," October 1998; The White House, "A National Security Strategy for a New Century," December 1999; The White House, "A National Security Strategy for a Global Age," December 2000.

[279] Charles M. Brain, interview by author, April 14, 2016; former senior Clinton administration official, interview by author, April 21, 2016.

with big investments of political capital by the business community.[280] Clinton and his administration also drew on a number of analogies, such as the apparent failure of sanctions to produce political change in Cuba and Haiti and the transformative power of the internet in the United States, to argue that engagement was the most promising policy.[281] Urging passage of PNTR, Clinton declared his belief that "the choice between economic rights and human rights, between economic security and national security, is a false one," and Ford, Bush, and Carter similarly reasoned:

> To earn the support of the American people, our engagement with China must advance specific goals: global non-proliferation, stability in the Taiwan strait and the region, the safety of our allies, the prosperity of our nation and the creation of new job opportunities, the health of our environment, and the universal values of human rights and freedom. In the current debate, we do not believe these goals are in conflict. Each is advanced by bringing China into the WTO on the terms America has negotiated. Each is advanced by granting China PNTR.[282]

Thus, by seemingly harmonizing economic, strategic, and normative goals, the engagement story allowed adherents to make unqualified arguments in favor of MFN and PNTR in order to appeal to the broadest possible audience.

Second, the two competing causal stories also drove disagreements among actors with shared interests. For example, the NSC under National Security Advisor Anthony Lake and the Defense Department under Defense Secretaries Les Aspin and William Perry disagreed on China policy during the first year of the Clinton presidency, with Lake mistrusting the repressive Chinese government and favoring external pressure to create political change, while Aspin and Perry supported a policy

[280] Devereaux, Lawrence, and Watkins, *Case Studies in US Trade Negotiation*, 283–278.
[281] Barshefsky, interview; Press Release, Office of the Press Secretary, the White House, "Remarks by the President on China, Paul H. Nitze School of Advanced International Studies, Washington, DC."
[282] Press Release, Office of the Press Secretary, the White House, "Remarks by the President on China, Paul H. Nitze School of Advanced International Studies, Washington, DC"; Letter, Gerald Ford, Jimmy Carter, and George Bush, May 8, 2000, Folder "China - WTO / PNTR 2000", OA/ID 3138, Asian Affairs (Jarrett), National Security Council, Clinton Presidential Records, Bill Clinton Presidential Library.

of enhanced engagement with the Chinese military to increase mutual understanding with this important rising power.[283] The human rights community also split between the engagement and external pressure stories when it came to MFN, WTO accession, and PNTR for China. On the one hand, some Chinese and American activists argued that the United States should place human rights conditions on trade with China, with many like Xiao Qiang of Human Rights in China and the Independent Federation of Chinese Students and Scholars (IFCSS), former Chinese political detainees Harry Wu and Wei Jingsheng, and Human Rights Watch (HRW) Washington director Mike Jendrzejczyk arguing that the U.S. government should increase pressure on the Chinese government regarding human rights, including by conditioning MFN and PNTR on human rights improvements. Jendrzejczyk, for example, argued before Congress, "It makes little sense to bring China into the WTO and expect it to abide by global trading rules when Beijing flaunts international rules of human rights with impunity."[284] On the other hand, a number of other activists supported unconditional MFN, WTO accession, and PNTR. For example, Chinese journalist and activist Dai Qing wrote in the *Los Angeles Times*:

> As a Chinese environmentalist and human rights activist, I disagree with their [PNTR opponents'] position, although I am fully sympathetic with their causes… The disagreement is with the means of improving human rights, including labor rights, implementing environmental protection and promoting democracy and freedom. I believe that permanent normal trade status, with its implication of openness and fairness, is among the most powerful means of promoting freedom in China.[285]

[283] Chas W. Freeman Jr., interview by author, April 12, 2016.
[284] Mike Jendrzejczyk, "Testimony before the House Committee on Ways and Means, China's Accession to the WTO and Human Rights," Human Rights Watch, February 16, 2000; U.S. Congress, House of Representatives, Committee on International Relations, *Human Rights in China and Tibet*, 106th Cong., 2nd sess., GPO No. 106-114, March 2, 2000.
[285] Dai Qing, "Keep the Doors to China Wide Open: Solidifying Trade Status Would Keep Pressure on Beijing to Improve on Rights and the Environment," *Los Angeles Times*, April 20, 2000.

The support of mainland Chinese activists like Dai, as well as those in Taiwan and Hong Kong, was crucial in the MFN and PNTR fights, and Clinton officials and allies in Congress frequently quoted them when making engagement argument.

Finally, the rise and fall of causal stories drove changes in actors' policy preferences and in policy outcomes. Most importantly, over the course of the Clinton presidency, growing skepticism towards the external pressure story and the rising popularity of the engagement story drove the policy shift from MFN linkage to de-linkage to WTO accession. Clinton himself had a significant change of views in 1994, ultimately leading to his decision to de-link MFN from human rights. He and many others had assumed that China would negotiate over the MFN human rights conditions, but by Spring 1994 the prevailing view was that the policy was failing. Then-Deputy USTR Barshefsky recalls that Clinton, having heard from advisors on both sides of the debate, was frustrated and felt compelled to do a lot of reading on his own to come up with the answer.[286] This rethinking resulted in a new embrace of engagement, embodied in de-linkage and, later, China's WTO accession and PNTR. The shift in views was heartfelt, according to National Security Advisor Lake, who had been a key advocate for linkage in 1993 but remembers "meeting with some of the Chinese human rights activists here in the United States" in 1994 "and actually convincing them, because I believed it at the time, that this [renewing MFN and taking other actions on human rights] was a better policy than what we were trying before."[287]

Economic actors also had a shift in perspective, although more subtle than that of Clinton and Lake. In 1993, the business community had not fought all that hard

[286] Barshefsky, interview, March 2, 2005; former senior U.S. trade official, interview, April 13, 2016.
[287] Anthony Lake, interview by Russell L. Riley et al., May 21, 2002, William J. Clinton Oral History Project, Miller Centre, University of Virginia.

against Clinton's linkage policy, nor had economic officials pushed back much internally; however, by 1994, they increasingly recognized the opportunities for American businesses in a rapidly developing China and, accordingly, lobbied hard for MFN renewal. Moreover, that idea of a rapidly transforming China – including the role of American businesses in that transformation – was a crucial part of the engagement story and a key factor in changing congressional views on MFN. Even among Members of Congress who may have backtracked fundamentally due to economic interests, many needed a normative rationale to justify the change of heart to their constituencies and, possibly, even themselves.[288] Importantly, pro-engagement actors successfully used the experience of linkage to argue that the external pressure story was fundamentally flawed, critically wounding the opposition such that MFN revocation bills were never again a close question. Many insiders, including both supporters of the linkage policy like Lord and skeptics like Roy, have argued that the linkage policy was greatly flawed in execution, including the lack of clarity in the administration's asks to the Chinese, as well as its obvious internal divisions and growing indecision in 1994.[289] In other words, there was room for debate in both the post-mortem of the linkage policy and decisions about future policy. Thus, competition over framing, i.e., between causal stories, is key to understanding the shifting policy preferences and outcomes over the course of the Clinton presidency.

3) Systemic biases

[288] Ross, *After the Cold War*, 56.
[289] Roy, interview; Lord, quoted in Daaler and Destler, "The National Security Council Project," 32–33.

The third claim of the speculative politics framework is that, due to the human nature of its participants and the imperfections of their institutions, the market for policies is subject to systemic biases. This dissertation focuses in particular on two biases – the availability heuristic and belief perseverance – that impact the development and popularity of causal stories and, thus, certain policy preferences. First, political actors are more likely to draw on causal stories involving highly available schema and analogies, i.e., that are more vivid, recent, or personal. Second, actors tend to continue relying on causal stories despite evidence to the contrary and, should dissonance mount, limit belief change. The causal stories and the policy positions adopted by actors like Clinton, Members of Congress, and special interests offer evidence for this hypothesis. As explained in Chapter 2, analogies to recent, vivid events like the Tiananmen crackdown and fall of communism in Eastern Europe greatly influenced the two main causal stories. Additionally, during the Clinton presidency, analogies to other recent, closer-to-home experiences like U.S. policy in Cuba and the U.S. experience with the internet also shaped key actors' selection of causal stories, as did the personal experiences of the increasing number of Americans visiting China. Actors were also slow to anticipate or react to evidence dissonant with their established causal story, most notably reflected by the Clinton administration's rather late and haphazard reversal on MFN linkage in 1994.

First, actors drew heavily on causal stories based on recent and vivid analogies and schema, especially those related to personal experience. As Chapter 2 discussed, both the engagement and external pressure stories were deeply shaped by the Tiananmen Square protests and crackdown and the end of the Cold War, as well as related theories about democratization and development. These two recent and highly vivid events and associated schema continued to influence U.S. China policy during

the Clinton administration, including playing an important role in Clinton's MFN linkage policy. For example, in announcing his linkage policy, Clinton promised:

> My administration is committed to supporting peaceful democratic and promarket reform. I believe we will yet see these principles prevail in China. For in the past few years, we have witnessed a pivot point in history as other Communist regimes across the map have ceded to the power of democracy and markets.[290]

A number of new events and ideas, however, also influenced the market for policies, promoting the engagement story among key actors in the business community and Congress, and even Clinton himself. Deng Xiaoping's Southern Tour had breathed new life into economic liberalization in 1992 following the post-Tiananmen retrenchment, and with impressive economic growth in 1993 and 1994, as well as increasing distance from Tiananmen, growing numbers of Americans visited China. According to Stapleton Roy, the U.S. Ambassador to China at the time, these Americans, from ordinary tourists to CEOs and China-focused academics, were surprised to find much better conditions on the ground in China than presented in the media back home.[291] Congressional delegations to China also increased, with 48 Members of Congress conducting official foreign travel to China between Clinton's announcement of the linkage policy in May 1993 and his announcement of de-linkage in May 1994, up from just 10 the year prior, and a number of those congressional visitors who had previously voted for MFN revocation changed their stance in 1994.[292] These highly available personal experiences contributed to a growing view

[290] Statement, Bill Clinton, "Most-Favored-Nation Trade Status for China" (U.S. Government Printing Office, May 28, 1993), 3 C.F.R. 981-982, Administration of William J. Clinton.
[291] Roy, interview.
[292] Official trips to China made by Members of Congress are taken from House of Representatives Foreign Travel Reports and Senate Foreign Currency Reports found in the *Congressional Record*. Representatives who voted against MFN revocation in 1994 after a trip to China but had voted for it previously include Gary Ackerman (D-NY), James Moran (D-VA), and Constance Morella (R-MD). Far more Members of Congress had voted for revocation through 1992 but voted against it in 1993 in support of Clinton's conditionality policy, some of whom might have revolted when he announced de-linkage the following year without a change of mind themselves. See Chapter 4 for further analysis.

of a rapidly modernizing China – including the role of American businesses in that transformation – that was a crucial part of the engagement story.

Clinton also drew on highly available analogies in making his decision to de-link MFN from human rights. As previously discussed, in Spring 1994, Clinton was dissatisfied with the conflicting advice on MFN offered by his top officials and did some independent reading and thinking about the issue. As Barshefsky recalls, in a key meeting in the Situation Room, Clinton declared his inclination to de-link MFN from human rights, arguing:

> Think about a country like Cuba or Haiti where you try and go in and foster human rights, even by aggressive acts. How successful have we been? … He said, If we can't change these small countries, and these countries are pinpricks on a map— I'll never forget that—*pinpricks on a map* —this is the way we're going to change China? No. The way you change China is you engage with them, you bring them into the tent, and you help mold them to the extent you can. The way you change China is to give their people enough opportunity and enough exposure to the outside world that they begin to see there's another way.[293]

Cuba and Haiti were highly available analogies for Clinton in 1994. Cuban sanctions had been an important issue for candidate Clinton in 1992, who needed support from the Cuban-American community in Florida. Clinton continued to support the embargo once in office, at least in part for political reasons, but reportedly he and his foreign policy team were unhappy with the policy, thereby making the analogy fresh and, likely, emotionally charged, regardless of whether it was a good fit for the China case.[294] U.S. sanctions against Haiti also constituted a highly available analogy for the Clinton administration, which had pursued a gradual tightening of multilateral, plurilateral, and unilateral trade embargoes against Haiti but was frustrated by the lack of results. Negative political fallout from his handling of Haitian refugees would

[293] Barshefsky, interview.
[294] Walt Vanderbush and Patrick J. Haney, "Policy Toward Cuba in the Clinton Administration," *Political Science Quarterly* 114, no. 3 (1999): 394–97.

have also kept the country in the forefront of Clinton's mind.[295] Furthermore, Barshefsky's strong recollection of his use of the visual reference to "pinpricks on a map" points to the vividness of this analogy between geographical size and U.S. influence, even if such an analogy ignores complexities and counterarguments, such as the difficulty of maintaining authoritarian rule over a large country. Thus, a number of highly available analogies appear to have contributed to Clinton's decision to de-link MFN from human rights.

Furthermore, the Clinton administration made frequent use of analogies and schema related to the internet when trying to sell China's WTO accession and PNTR. For example, when promoting PNTR in March 2000, Clinton argued, "We know how much the Internet has changed America, and we are already an open society. Imagine how much it could change China."[296] Administration officials like Secretary of State Madeleine Albright, USTR Barshefsky, National Security Advisor Sandy Berger, and NEC Director Gene Sperling all echoed this view about the revolutionary potential of the internet in China.[297] This analogy between the internet's impact on American society and potential impact in China overlooked a number of counterarguments, including the many differences between the two countries, as well as the negative impacts on the United States, such as the spread of disinformation; however, it was highly available to many Americans at the time given personal experience and excitement about the new technology. The Clinton administration recognized the

[295] Morris Morley and Chris McGillion, "'Disobedient' Generals and the Politics of Redemocratization: The Clinton Administration and Haiti," *Political Science Quarterly* 112, no. 3 (1997): 363–84.
[296] Press Release, Office of the Press Secretary, the White House, "Remarks by the President on China, Paul H. Nitze School of Advanced International Studies, Washington, DC."
[297] Madeleine Albright, *Madam Secretary* (New York: Pan Books, 2004), 435; Briefing, Charlene Barshefksy to the National Conference of Editorial Writers at the U.S. Department of State, "U.S.-China Trade Relations," March 10, 2000, U.S. Department of State Website Archive; Remarks, Sandy Berger to the Woodrow Wilson Center for Scholars, "Permanent Trade Relations Status for China," February 2, 2000, U.S. Department of State Website Archive; Remarks, Gene Sperling to the Committee for Economic Development, "PNTR and the Prospects for a More Open China," May 18, 2000, Clinton White House Website Archive.

societal, economic, and political potential of the internet and took pride in its internet-related policy initiatives. With strong involvement from technophile Vice President Al Gore, the administration invested in internet infrastructure, established e-commerce friendly tax policy, launched the first White House website, and helped pass major telecommunications legislation, which Clinton declared would "strengthen our economy, our society, our families, and our democracy."[298] This enthusiasm reinforced the engagement story in the MFN and PNTR debates, adding to established schema linking international engagement and development with democratization.

Second, actors reacted slowly to evidence dissonant with their chosen causal story, often dismissing or favorably interpreting new, challenging information and, should it accumulate, minimizing belief and policy change. Belief perseverance was evident in both the development of the MFN linkage policy in 1993 and the de-linkage decision a year later. As the new administration set about developing its MFN policy in early 1993, it also maintained formal and informal communications with the Chinese government, conveying fourteen priority areas where progress would be necessary for a more moderate U.S. approach, including issues like political prisoners, jamming of Voice of American broadcasts, prison labor, and missile sales. The Chinese government responded negatively, calling it a "coercive ultimatum" and issuing its own list of seven areas of dissatisfaction with the U.S.; although a few dissidents of interest to Washington were released, these were modest gestures. After last-ditch effort talks between Winston Lord and Chinese counterparts in Beijing in early May made no progress, the Clinton administration decided to move forward

[298] Remarks, Bill Clinton, "The President's Internet Address," July 8, 2000, 1395-1396, Public Papers of the Presidents of the United States, William J. Clinton, 200-2001; Fact Sheet, The White House, "The Clinton-Gore Administration: Unleashing the New Economy and Expanding Access to Technology," January 2001, Clinton White House Website Archive; Statement, Bill Clinton, "Statement on Signing the Telecommunications Act of 1996," February 8, 1996, The American Presidency Project, University of California, Santa Barbara.

with the linkage executive order, renewing MFN despite the lack of progress on key issues while also codifying those same conditions that the Chinese had just rejected.[299] Adhering to the external pressure story, the Clinton administration wanted both to achieve progress on human rights and to maintain trade and assumed that the Chinese would make sufficient concessions when the latter was conditioned on the former. Moreover, the Clinton administration did not update this thinking even when the Chinese government did not make concessions as expected in 1993; instead, minimal changes were made to the policy approach, with MFN renewed that year and similar conditions placed on renewal the following year.

This is not to say misplaced assumptions and belief perseverance ruled out all political and strategic thinking. Clinton's 1993 executive order clearly reflects a great deal of thought as to how to impose conditions that could maintain unity within the Democratic caucus while offering some flexibility on foreign policy; however, the fact that administration officials, Members of Congress, and others believed so strongly that these conditions were realistic and achievable by 1994, despite Chinese rejections in 1993, reflects belief perseverance. Moreover, Deputy National Security Advisor Sandy Berger's claim several years later that Clinton's linkage policy was a strategic success because it prevented MFN revocation in 1993 appears revisionist. In 1992, the House of Representatives had voted for revocation with a far from veto-proof majority (258-135 on H.J.Res. 502) and the Senate had never taken it the resolution, making it far from likely that Congress would have voted to revoke MFN in 1993, much less been able to overcome a veto, had Clinton not imposed conditions

[299] Don Oberdorfer, "Replaying the China Card: How Washington and Beijing Avoided Diplomatic Disaster," *The Washington Post*, November 7, 1993; David M. Lampton, "China Policy in Clinton's First Year," in *Beyond MFN: Trade with China and American Interests*, ed. James R. Lilley and Wendell L. Willkie II (Washington, D.C: The AEI Press, 1994), 20–24, 26–27; Lampton, *Same Bed, Different Dreams*, 39–40.

on renewal. The 1992 conditions bill (H.R. 5318) had in fact passed both the House and the Senate, but the Senate had by a significant margin failed to override Bush's veto (59-40), meaning that Clinton would have also been unlikely to suffer a veto override on a conditionality bill. Thus, if Clinton had thought conditions were truly unworkable and would just delay a painful fight, he could have taken different action in 1993 or, at minimum, properly laid the groundwork for a reversal in 1994.[300]

Instead, the haphazard process of de-linkage in 1994 reflected belief perseverance as well. Again, there was widespread confidence that the Chinese would negotiate and could meet the conditions spelled out in Clinton's executive order.[301] Thus, although the State Department was already concerned in January 1994 that the Chinese were "less then adequately engaged about MFN renewal",[302] it was not until March that the administration – rather than just individual officials – began to seriously rethink the linkage policy, and not until April that Clinton himself weighed in to settle the debate between the pro- and anti-linkage factions of his foreign policy team. The delayed response was costly to the administration. Domestically, Clinton was angry that he had to "eat crow",[303] and Christopher and Lord felt undermined; internationally, the U.S. may have been able to wrest more concessions from the Chinese in 1994 with a more coherent approach and, longer-term, suffered a blow to its credibility.[304]

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[300] Jim Mann, "China Called Clinton's Bluff on Human Rights," *Los Angeles Times*, September 10, 1996.
[301] See, for example, Memorandum from John Shattuck to the Secretary of State, "Status Report on China MFN Conditions," November 1993, Digital National Security Archive, China and the United States (1960-1998); Editorial Board, "On China," *New York Times.*
[302] Department of State, Secret, Briefing Paper, "China: MFN Conditions: Human Rights," January 1994, Digital National Security Archive, China and the United States (1960-1998).
[303] Robert Suettinger (former National Security Council and National Intelligence Council official), interview by author, April 25, 2016.
[304] Warren Christopher, *Chances of a Lifetime* (New York: Scribner, 2001), 346–48; Daaler and Destler, "The National Security Council Project," 32–33.

Even when Clinton did finally rethink his beliefs and his policy in Spring 1994, rather than reassessing his fundamental economic, geopolitical, and normative goals and the assumption that they naturally reinforce one another, he adjusted his tactical approach to those goals. Instead of using conditions on MFN to push for political liberalization, which in turn could contribute to economic reforms, economic development, mutually beneficial economic relations, and overlapping strategic interests (i.e., the external pressure story), Clinton now embraced an approach of furthering economic relations first, which could similarly trigger a virtuous cycle of economic development, economic reform, mutually beneficial economic relations, and overlapping strategic interests (i.e., the engagement story). Thus, despite a difficult year which might have raised questions, Clinton maintained belief in key schema, including that economic development, economic liberalization, political liberalization, and international peace and cooperation were all positively linked.[305] Others also engaged in limited updating; for example, Pelosi and her allies in Congress only updated their tactics slightly in response to China's lack of progress on human rights from 1993 to 1994, not the overall strategy or fundamental goals: they proposed revocation of MFN status but only for the Chinese military, defense industrial trading companies, and SOEs (H.Amdt. 830 to H.R. 4590).

Belief perseverance continued to impact debates over China's WTO accession and PNTR. For example, speaking in favor of PNTR in 2000 by pointing to the transformative power of the internet in China, Clinton acknowledged Chinese censorship efforts but interpreted this potentially dissonant information such that it further confirmed his engagement argument:

> Now, there's no question China has been trying to crack down on the Internet – good luck. That's sort of like trying to nail Jello to the wall. But I would

[305] Lake, interview.

> argue to you that their effort to do that just proves how real these changes are and how much they threaten the status quo. It's not an argument for slowing down the effort to bring China into the world, it's an argument for accelerating that effort. In the knowledge economy, economic innovation and political empowerment, whether anyone likes it or not, will inevitably go hand in hand.[306]

Furthermore, the Clinton administration continued to see China as a medium-sized international player whose size and continued growth would certainly make it increasingly important economically and strategically; however, American officials did not fully appreciate the scale of China's future economic growth or the impact that growth would have on the U.S. economy, international institutions like the WTO, and regional and global security. According to Chas Freeman, who served as Assistant Secretary of Defense for International Security Affairs in the Clinton administration, at the time, the United States "didn't see China as a force beyond their borders except in the UN"; indeed, Freeman was criticized by administration colleagues for overestimating China's future growth, when, in fact, even he underestimated it.[307] Optimistic beliefs about the trajectory of China's economic reforms were also quite sticky. At the time, officials like Zhu Rongji were implementing major reform of China's SOEs, dubbed "grasp the large and let go the small", but the United States hopefully placed more emphasis on the latter, i.e., the privatization of small SOEs, and largely ignoring the former, which referred to the retention of large-scale SOEs in key sectors, hinting at the national champions strategy to come in the following years.[308] Indeed in 1998, former president George H.W. Bush met with Zhu and asked the Chinese premier how China's "privatization"

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[306] Press Release, Office of the Press Secretary, the White House, "Remarks by the President on China, Paul H. Nitze School of Advanced International Studies, Washington, DC."
[307] Freeman, interview.
[308] Joint Press Conference, Bill Clinton and Zhu Rongji, The White House, Office of the Press Secretary, April 8, 1999, Clinton White House Website Archive; Sarah Eaton, "Political Economy of the Advancing State: The Case of China's Airlines Reform," *The China Journal*, no. 69 (January 2013): 64–86.

program was going; when Zhu responded that China was "corporatizing" its large state assets, which was simply another way of "realizing state ownership", Bush reportedly responded with "a nudge and a wink", still believing that China was pursuing full privatization under a different label.[309] Similarly, on the day of the Senate vote on the PNTR bill in 2000, Clinton promised that with China's WTO accession, "outside competition will speed the demise of China's huge state industries,"[310] reflecting the common belief in the U.S. that that China's SOEs were being phased out and that economic engagement would only speed this process. In fact, China's approach to state ownership was far from settled, and many Chinese officials saw the WTO accession as a reason to further consolidate and support SOEs in key industries in order to compete with foreign multinationals.[311] Thus, once again, established, persistent views about China and its place in the international order helped promote American support for engagement as U.S. actors focused on how China policy might promote mutually beneficial outcomes, while placing less emphasis on potential strategic and economic competition and confrontation.

4) Manipulation and speculative bubbles

The final claim of the speculative politics framework is that, due to dynamics like diverse interests, causal stories, and systemic biases, the market for policies is unstable, subject to manipulation and speculative bubbles. Powerful actors, especially relevant foreign actors, can act as "insider traders", selling a preferred policy agenda

[309] Peter Hartcher, "In China, the Party Always Starts at the Top," The Sydney Morning Herald, June 7, 2010.
[310] Bill Clinton, "Permanent Normal Trade Relations Vote," C-SPAN, September 19, 2000.
[311] Sarah Eaton, *The Advance of the State in Contemporary China: State-Market Relations in the Reform Era* (Cambridge University Press, 2016), 36–38, 48–51.

to diverse actors in the short term with highly available actions and rhetoric that resonate with the associated causal story. Once a causal story is established, contrary foreign behavior can be dismissed due to belief perseverance; however, past a tipping point, dissonance can burst the bubble, undermining the established causal story and policy agenda. The period of Clinton's presidency offers evidence of manipulation, with highly available Chinese actions, rhetoric, and personal relationships influencing the causal stories held by key actors in the administration, Congress, the private sector, and civil society. Furthermore, bubble dynamics are evident, including in Clinton's linkage policy, rapidly followed by de-linkage, as well as the increasing exuberance about China's WTO accession towards the end of Clinton's presidency.

The Chinese government consistently sought to influence U.S. debates on China policy and, for the most part, was quite successful in bolstering the engagement story and, thus, support for MFN renewal and WTO accession. As it had during the Bush presidency, the Chinese government continued to take targeted, minor actions in U.S. priority areas, trying to offer enough to satisfy the Clinton administration and Members of Congress while also not conceding so much as to seriously impact Chinese domestic interests or embolden the United States into asking for more. Leading up to Clinton's first MFN decision in 1993, the Chinese government declared it would not capitulate to a "coercive ultimatum" by the U.S.; however, it did release a number of political prisoners of interest to Washington, including granting early parole to Wang Dan, one of the most visible student leaders of the 1989 Tiananmen protests.[312] Chinese officials also sought to activate allies in the American business community and Congress, purchasing 2 million tons of U.S. wheat, spending $314 million in automobile purchases from General Motors, Ford, and Chrysler, and

[312] Oberdorfer, "Replaying the China Card"; Suettinger, *Beyond Tiananmen*, 165.

concluding deals worth billions of dollars with other U.S. companies like AT&T, Coca-Cola, and General Electric.[313] As one Chinese official rather frankly stated: "The Chinese market is a big cake. Come early and you get a big piece. I hope our two countries have good relations, but it takes two to tango!"[314] Additionally, China made clear to the U.S. that its cooperation at the UN Security Council on crucial issues like Korean nuclear proliferation and Cambodian peace depended on the overall tenor of bilateral relations, including MFN renewal.[315] Thus, China offered or dangled concessions across U.S. economic, geopolitical, and normative interest areas and seemed to strike the right balance, doing just enough for pro-engagement Americans to point to China's actions and say that it was headed in the right direction while also pushing back on the external pressure story with negative rhetoric and limited concessions. Although this approach did not prevent Clinton's announcement of the linkage policy in 1993, it did create pressure that contributed to his decision to renew MFN that year. Moreover, the Chinese government was competing with Chinese dissidents for influence over U.S. policymakers, dissidents who had access to both powerful Members of Congress and key administration officials and could use their position as "insiders" in the push for Chinese political liberalization to promote the external pressure story.[316]

Chinese interventions also clearly contributed to Clinton's decision in 1994 to de-link MFN from human rights. China maintained its approach, offering small human rights gestures like releasing some political prisoners, allowing site visits to address U.S. concerns about prison labor exports, and declaring adherence to the

[313] Lampton, "China Policy in Clinton's First Year," 22–23.
[314] Conversation with senior Chinese official in Beijing, April 1993, quoted in Lampton, 22.
[315] Lampton, *Same Bed, Different Dreams*, 40–41.
[316] Lampton, 72–73.

UDHR;[317] at the same time, especially in 1994, China pushed back on U.S. demands, calculating that a harder line would energize pro-engagement Americans, such as corporate interests.[318] Most notably, Chinese actions contributed to the disastrous March 1994 trip of Secretary Christopher to Beijing, the perceived failure of which was likely the final nail in the coffin of the linkage policy.[319] Christopher's visit was intended to serve as a close to final warning that the China had to meet the seven conditions or lose MFN, but his Chinese counterparts pushed back, detaining two American journalists for several hours and arresting several Chinese dissidents immediately prior to Christopher's arrival and telling Christopher that China's human rights policy was none of his business and China was prepared to lose MFN status. The mood was so poor, Christopher's security detail even got into shoving matches with their Chinese counterparts. On the final day, Foreign Minister Qian Qichen promised to release two dissidents but conditioned the release on zero publicity.[320] As Christopher recalls, even though they did ultimately offer some concessions, "Officially, the Chinese wanted to be free to continue denouncing my efforts, to characterize them as a failure."[321] While this stipulation surely reflects the Chinese government's preoccupation with domestic public opinion, the approach also succeeded in shaping U.S. perceptions, with the American press reporting on the trip as a "diplomatic mugging", and Clinton venting to aides in the Oval Office, "What the hell is Chris doing there now?"[322] Thus, Christopher returned to find a Washington increasingly opposed to continued linkage, where even some Chinese

[317] Memorandum from John Shattuck to the Secretary of State, "Status Report on China MFN Conditions"; Department of State, Office of the Secretary, "China's MFN Status: Summary of the Report and Recommendations of Secretary of State Warren Christopher," May 26, 1994, Digital National Security Archive, China and the United States (1960-1998).
[318] Lampton, *Same Bed, Different Dreams*, 45.
[319] Christopher, *Chances of a Lifetime*, 346–48.
[320] Christopher, 341–46.
[321] Christopher, 346.
[322] Christopher, 346; Sciolino, "Clinton and China."

dissidents and other human rights activists were turning towards engagement. In contrast, when traveling to the United States to attend Richard Nixon's funeral in April 1994, Vice Premier Zou Jiahua brought a list of goods that China would purchase if bilateral relations were positive, dangling the carrot of engagement's economic benefits. Just weeks after Clinton announced MFN renewal and de-linkage, China also encouraged North Korea to cooperate with international efforts on nuclear proliferation and made a point of informing the United States that it had done so, apparently trying to demonstrate further benefits from the MFN decision.[323] Thus, highly available Chinese rhetoric and actions worked against the external pressure story by making the linkage policy and its advocates appear ineffective, while also bolstering the engagement story by showing how engagement could contribute to economic ties and security cooperation.

The Chinese government continued to consolidate its array of allies and arguments as the decade unfolded and the push for WTO accession intensified. Starting in 1995, Chinese leadership developed a plan to study and lobby U.S. Members of Congress, creating a leading working group focused on Congress, welcoming more congressional delegations, and designating congressional liaison officers at the Chinese Embassy in Washington.[324] Additionally, a Senate investigation in 1997 and 1998 found some evidence of Chinese government efforts to identify and develop candidates sympathetic to China for future federal elections and make covert, illegal campaign finance contributions, although such alleged moves arguably backfired, drumming up anti-China sentiment in Washington when

[323] Jim Mann, "China Assisted U.S. Efforts on N. Korea, Officials Say: Beijing Reportedly Recommended Freezing of Nculear Program--After Clinton Renewed Its Trade Status," *Los Angeles Times*, June 29, 1994.
[324] Brian Duffy and Bob Woodward, "FBI Warned Six on Hill about China Money," *Washington Post*, March 9, 1997; Richard Bernstein and Ross H. Munro, *The Coming Conflict with China*, 1st Vintage ed. (New York: Vintage Books, 1998), 124–25.

discovered.[325] John Kamm, an American businessman working to secure the release of Chinese political prisoners, also heard that Zhu Rongji took a personal interest in the discussions over the release of these prisoners, which Kamm interpreted as indicating that the Chinese leadership "saw that the road to MFN and WTO ran through human rights."[326]

At the same time, the Chinese government leaned heavily on the American business community, especially when it came to the WTO accession and passage of PNTR. When Clinton declined to finalize the bilateral WTO agreement with Zhu in April 1999, Zhu continued on to a six-city tour of the United States, during which he attended events with thousands of businesspeople, including the CEOs of companies like Motorola and United Airlines, and urged farmers and business representatives to tell Clinton to complete the deal.[327] Reporting on the start of PNTR lobbying efforts in May 1999, *Inside U.S. Trade* cited sources explaining that Boeing's leading role in the pro-PNTR effort would increase its standing with the Chinese government, potentially affecting subsequent purchasing decisions.[328] Similarly, Richard Bernstein and Ross Munro quote former U.S. Ambassador to China James Lilley:

> If a consultant wants to get a competitive contract for his client, say the chairman of a major American corporation, part of the deal is that the consultant will speak out for China or that he will deliver congressional or media delegations to China.[329]

Furthermore, Chinese officials publicly and privately suggested that China was committed to long-term economic and even political reforms. In negotiations

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[325] U.S. Senate Committee on Governmental Affairs, 105th Congress, 2d session, "Investigation of Illegal or Improper Activities in Connection with 1996 Federal Election Campaigns, Final Report," March 10, 1998; Duffy and Woodward, "FBI Warned Six on Hill about China Money."
[326] John Kamm (founder of The Dui Hua Foundation and former president of AmCham Hong Kong), interview by author, December 22, 2016.
[327] Devereaux, Lawrence, and Watkins, *Case Studies in US Trade Negotiation*, 272.
[328] "Congress Wrestles with New Way to Debate China After MFN Process," *Inside U.S. Trade*, May 7, 1999.
[329] Richard Bernstein, The Coming Conflict with China, interview by Brian Lamb, C-SPAN, April 7, 1997.

with the U.S. counterparts, Chinese negotiators argued for compromise by suggesting that further reforms – i.e., beyond what was committed to in China's WTO accession protocol – could be possible after China acceded. According to an internal administration readout, Chinese Minister of Foreign Trade and Economic Co-operation Shi Guangsheng told USTR Barshefsky that "China will not do what it cannot do, but will keep its promises" and, moreover, "may be able to do more after [it gets] into [the] WTO", reinforcing one of the engagement story's key schema, that economic engagement would help guide China down a path of continually deepening economic reforms, which Clinton officials and allies would repeatedly argue when promoting passage of PNTR.[330] In a speech at the Asia Society in 1997, President Jiang Zemin promised that China would continue market-oriented reform and opening, and even enlarge democracy and rule of law.[331] Again, this analysis does not make judgments about the "correctness" of the Clinton administration's policy, nor does it rule out that U.S. officials were also affected the views and policies of Chinese officials as well, or that some Chinese actors may have been sincere in their hopes for future reforms. Nonetheless, Chinese influence on U.S. debates and policy related to China should not be ignored. Although it meant making some concessions, Chinese officials made significant, largely successful efforts that helped weaken the external pressure story and bolster engagement, culminating in China's WTO accession and establishment of PNTR.

Moreover, there is evidence of two speculative bubbles: one in the external pressure story peaking with the linkage policy and another in the engagement story,

[330] Email, Malcolm Lee to Bathsheba Crocker, Mona Sutphen, James Keith, and Holly Hammonds, "China WTO Talks Status," September 27, 1999, Folder "[China-WTO-1999 [1]", OA/ID 2970, Asian Affairs (Holly Smith), National Security Council, Clinton Presidential Records, Bill Clinton Presidential Library.
[331] "Speech by President Jiang Zemin of The People's Republic of China," Asia Society, October 30, 1997.

peaking with China's WTO accession and congressional approval of PNTR. First, the external pressure story drew strength from new era thinking, leading to overselling and overconfidence, until enough dissonance accumulated to burst the bubble. As has been discussed previously, the end of the Cold War and the third wave of democratization led to a sense of triumph for liberal democratic, capitalist systems, as well as a growing consensus that political and economic liberalization was therefore inevitable. In this context, the Tiananmen protests and crackdown signaled to many Americans the fragility of communist rule in China. As David Lampton writes:

> The implicit theory [behind MFN linkage] was that the combination of threatened economic pain and public shame would prove powerful levers over Beijing in the human rights domain. A further implicit assumption was that the Chinese regime was "transitional," as Winston Lord put it, later explaining to me that, "I was over optimistic about Li Peng going. If you told me Li Peng [would be] there ten years later I would [have been] surprised."[332]

Development and technology were transforming China, and the United States was the victor in the Cold War and unipolar power in this new, post-Cold War era, as Clinton argued when announcing MFN linkage:

> We are hopeful that China's process of development and economic reform will be accompanied by greater political freedom. In some ways, this process has begun. An emerging Chinese middle class points the antennae of new televisions towards Hong Kong to pick up broadcasts of CNN. Cellular phones and fax machines carry implicit notions of freer communications.[333]

The external pressure story had emerged after Tiananmen, but with Clinton's election, confidence and consensus only grew, with more than three-fourths of newspaper editorials supporting the linkage policy.[334] Indeed, given the political atmosphere in early 1993, those in the administration who thought the policy was unwise found it

[332] Lampton, *Same Bed, Different Dreams*, 136.
[333] Statement, Bill Clinton, "Most-Favored-Nation Trade Status for China."
[334] Memorandum, Don Steinberg to Anthony Lake, "Press Support for Clinton Action on China MFN," June 14, 1993, Folder "China [3]", OA/ID 3103, Press (Philip J. (PJ) Crowley, National Security Council, Clinton Presidential Records, Bill Clinton Presidential Library.

difficult to speak up,[335] suggesting that the consensus had assumed bubble-like attributes. Although linkage was widely praised as a practical compromise that would promote human rights while taking into account U.S. economic and strategic interests, with hindsight and the lens of the speculative politics framework, this view appears to reflect immense confidence in the claim of the external pressure story that no compromise between varied U.S. interests was necessary.

As the second half of 1993 unfolded and then the first half of 1994, the landscape changed rapidly, ultimately causing the bubble to implode and Clinton to de-link MFN from human rights. According to Stapleton Roy, U.S. Ambassador to China at the time, with China's rapid growth in 1993 and 1994 came increasing numbers of visiting Americans, who were all surprised to find much better conditions on the ground in China than was being presented back home. The dissonant, highly available information affected many. Roy explains:

> I mean everyone. The CEOs in top companies, professors of China, who should know something about China, and ordinary tourists. I saw a lot of these people. I've never encountered in my foreign service career such a sense of there being a presented a picture that was not consistent with conditions in China.[336]

At the same time, as described above, the Chinese government was taking actions to poke holes in the external pressure story and bolster the engagement story; however, thanks to belief perseverance, the administration was slow to update its views and its policy, leading to an awkward and costly reversal in Spring 1994.

Moreover, as expected with the bursting of a bubble, views swung away from the external pressure story and towards its competitor, engagement. The Clinton administration embraced unconditional MFN renewal for China in 1994 and, later,

[335] Roy, interview.
[336] Roy.

WTO accession and PNTR, never again attempting to use the threat of trade restrictions to push for political liberalization. The failure of the linkage policy was seen as a repudiation of the external pressure story, even though a number of advocates and opponents of linkage have argued that the policy was not inherently flawed but rather doomed due to poor implementation. Ambassador Roy worked with Chinese counterparts in Beijing to make progress in the seven areas identified by Clinton's executive order and found them willing to engage on the question; the problem, in his view and Robert Suettinger's, was that Washington would not clarify important points, such as the standard China needed to meet in each area and whether linkage would apply to MFN renewal in 1995.[337] Meanwhile, Warren Christopher and Winston Lord from the State Department felt that their efforts with the Chinese had been undermined by economic officials and corporate interests, and have even mildly criticized Clinton for failing to enforce discipline within his administration and support the diplomats who were executing his policy.[338] Thus, as predicted by the speculative politics framework, actors did not engage in fully rational updating; instead, consensus shifted rapidly as bust followed boom. Even so, the external pressure bubble was relatively small and short-lived, and so its implosion did not lead to reevaluation of the fundamental assumptions shared by the external pressure and engagement stories, including perceived causal links between economic development, economic reform, democratization, and international cooperation and peace.

Second, the bust in the external pressure story was followed by an even greater boom in the engagement story, culminating in China's accession to the WTO and establishment of PNTR. As discussed in this chapter and the previous one, new

[337] Roy; Suettinger, interview.
[338] Christopher, *Chances of a Lifetime*, 346–47; Lord, quoted in Daaler and Destler, "The National Security Council Project," 33.

era thinking and encouragement by the Chinese government fueled the engagement story, a process that accelerated during Clinton's presidency. For example, during a speech in 1999, Clinton acknowledged a number of challenges in U.S.-China relations but explained his support for China's WTO accession by invoking new era thinking:

> We have every reason to approach our challenges with confidence and with patience. Our country, after all, now, is at the height of its power and the peak of its prosperity. Democratic values are ascendant throughout much of the world. And while we cannot know where China is heading for sure, the forces pulling China toward integration and openness are more powerful today than ever before.[339]

As touched upon previously, the dawn of the internet age also contributed to new era thinking, with officials using the U.S. experience to analogize about the potential liberalizing impact of the new technology on China and confidently dismiss Chinese censorship attempts as fruitless. Chinese officials also helped bolster the engagement story, notably implying that WTO accession could allow China to make economic reforms beyond its accession protocol commitments. This hope was reflected in the Clinton administration's argument that denying China PNTR would strengthen the position of hardliners in China and granting PNTR would aid reformers like Zhu Rongji, who would continue down the path of economic reform and therefore increase economic interdependence and pressures for political liberalization.[340] By 2000, when the Clinton administration and many other pro-engagement actors were out in full force to support the passage of PNTR, even though some actors were skeptical, it

[339] Remarks, Bill Clinton at the Mayflower Hotel, Washington, DC, The White House, Office of the Press Secretary, "Remarks by the President in Foreign Policy Speech," April 7, 1999, Folder "China (April 1999, Zhu Bilateral) [9]", OA/ID 1176, CF Malcom Lee, National Economic Council, Clinton Presidential Records, Bill Clinton Presidential Library.

[340] See, for example, Email, Malcolm Lee to Bathsheba Crocker, Mona Sutphen, James Keith, and Holly Hammonds, "China WTO Talks Status"; Press Release, Office of the Press Secretary, the White House, "Remarks by the President on China, Paul H. Nitze School of Advanced International Studies, Washington, DC"; Remarks, Bill Clinton, Jimmy Carter, Gerald Ford, Al Gore, Madeleine Albright, Henry Kissinger, and James Baker, The White House, Office of the Press Secretary, "Distinguished Americans in Support of China PNTR," May 9, 2000, Folder "China Permanent Normal Trade Relations (PNTR) Resource Book, June 2000 [Binder 1] [1]", OA/ID 40753, General Files, China Permanent Trade Status, Clinton Presidential Records, Bill Clinton Presidential Library.

was difficult for them to swim against this rising tide. For example, Charlene Barshefsky believes that Congress deferred to the specialized knowledge of administration officials who worked on China policy and promised that WTO accession would help yield all these benefits:

> What really became the ace was that members of Congress are reluctant to let their own judgment of the security implications of a given piece of legislation override that of the president of the United States, the secretary of defense, and the secretary of state.[341]

Heeding these arguments, the House and the Senate passed PNTR by wide margins, with Clinton triumphantly declaring that the WTO accession and PNTR would "extend economic prosperity at home and promote economic freedom in China, increasing the prospects for openness in China and a more peaceful future for all of us."[342] Some of these statements may have been those of rational actors making sales pitches, but that does not undermine the fact that these messages had receptive audiences and, spoken sincerely or not, fed the hype. The bubble would eventually burst, but it would take years of mounting dissonance, as subsequent chapters address.

Thus, manipulation and speculative bubbles shaped policy debates and decisions, with the Chinese government ultimately succeeding in securing unconditional MFN and, later, WTO accession and PNTR as the external pressure bubble imploded and gave way to a growing bubble in engagement.

Conclusion

This chapter has detailed the triumph of the engagement story over the external pressure story as the key driver of U.S. economic policy towards China

[341] Devereaux, Lawrence, and Watkins, *Case Studies in US Trade Negotiation*, 289.
[342] Bill Clinton, "Permanent Normal Trade Relations Vote."

during the Clinton presidency, offering support for the core claims of the speculative politics framework. First, evidence strongly indicates the role of economic, geopolitical, and normative interests in debates and decisions on policies like MFN linkage and WTO accession. Second, two related but competing causal stories – external pressure and engagement – continued to help translate those interests into policy preferences by speculating about China's future and the ability of U.S. policy to affect it, thereby shaping individual policy preferences and, ultimately, policy outcomes. Third, analysis shows the influence of systemic biases like availability and belief perseverance in the selection and updating of causal stories and, thus policies. Finally, manipulation and speculative bubbles also drove the major policies of this period, including the rise and abrupt fall of the external pressure story and the linkage policy it justified from 1993 to 1994, followed by the increasing popularity of the engagement story, which helped justify U.S. support for China's WTO accession and establishment of PNTR. Clinton made China's WTO accession a key part of his legacy, arguing that China's WTO commitments would create large economic gains for the United States, while also helping China develop and integrate into the international community, which would increase demands for political reform. Indeed, in 2000, Clinton predicted that two decades later, Americans would wonder why they ever seriously debated China's WTO accession and PNTR.[343] As the following chapters show, the next two administrations maintained an engagement approach for the most part, but frustration built as China failed to meet these high expectations, leading to the rethinking that Clinton had optimistically promised would not occur.

[343] Remarks by the President to the Democratic Leadership Council Conference, "New Challenges of the New Economy."

Chapter 4

Quantifying Speculation: Congressional Voting on China's Most-Favored-Nation Status and Permanent Normal Trade Relations, 1990-2000

What has driven U.S. economic policy towards China in the post-Cold War era? More generally, what factors drive preferences on international economic policy? These are key questions not only for policymakers, but also for academics, especially those in the field of international political economy (IPE). This dissertation has proposed the speculative politics framework in order to expand upon the foundation of IPE's open economy politics (OEP) paradigm, as well as other areas of scholarship, by examining the role of non-economic interests in addition to economic ones in the politics of foreign economic policymaking, while also taking into account the influence of beliefs and biases. This chapter analyzes U.S. Congressional voting on the renewal of China's Most-Favored-Nation (MFN) status from 1990 to 2000, as well as the establishment of permanent MFN (also known as permanent normal trade relations or PTNR), and tests the drivers of legislators' policy preferences hypothesized by the OEP paradigm and the speculative politics framework. Thus, quantitative analysis in this chapter complements the previous qualitative work.

The speculative politics framework developed in this dissertation models foreign economic policymaking as a market for policies and makes the following four key claims:

1. *Multiple interests:* Political actors are rarely driven purely by economic interest, and selling economic policies often requires appeals to non-economic factors like security and human rights concerns.

2. *Causal stories:* Causal stories help actors speculate about the future and decide how to invest their political capital in policies that promote their interests. Thus, along with interests, causal stories drive policy preferences, political coalitions, and, ultimately, policy.
3. *Systemic biases:* The market for policies is inefficient in that it is subject to systemic biases due to the human nature of the authors and adherents of causal stories, as well as the imperfections of their institutions. *A)* Political actors are more likely to draw on causal stories based on highly available schema and analogies, i.e., those that are more vivid, recent, or personal. *B)* Actors also tend to continue relying on causal stories despite evidence to the contrary and, should dissonance mount, limit belief change.
4. *Manipulation and speculative bubbles:* The inefficiencies in the market for policies make it susceptible to market failures. *A)* Foreign actors can bolster a causal story and the policy agenda it justifies with highly available consonant actions and rhetoric, especially with the help of domestic allies. *B)* However, past a tipping point, foreign political actors can undermine the causal story and the policy agenda it justifies with dissonant behavior.

In contrast, OEP analyses, which typically center on quantitative survey or voting analyses, assume that rational actors with economic interests are the central drivers of economic policy.[344] This chapter tests the claims of speculative politics framework against the OEP alternative, using OEP analytical tools. The chapter focuses on the build-up of the pro-engagement bubble in the 1990s, when the engagement story won over diverse interests and actors in support of MFN, with the help of the availability heuristic and the intervention of foreign actors. Due to data limitations, this chapter

[344] For more detail on the speculative politics framework and alternatives, see Chapter 2.

focuses less on belief perseverance (Claim 3, Part B) or the bust side of speculative bubbles (Claim 4, Part B), as those dynamics came into play primarily after the period examined here. Thus, this chapter uses statistical analysis to answer three questions. First, do non-economic concerns like human rights and security matter in addition to economic interests? Second, do causal stories – specifically, the external pressure and engagement stories, which made different predictions about the unconditional renewal, conditional renewal, and revocation of China's MFN status – drive policy preferences, independently of interests? Third, can highly available experiences and foreign actors influence voting?

This decade of debates on China's MFN status and WTO accession constitute a case that is important to understand in its own right, as well as a key test for the speculative politics framework. As has been previously discussed, the mutual conferral of MFN status anchors the U.S.-China trade relationship, not to mention the global trading system. Annual voting in Congress on identical bills over a decade of great change in U.S. and international politics also makes this a useful case, as the claims of the speculative politics framework can be analyzed using OEP's analytical tools. Following the 1989 Tiananmen protests and subsequent repression, as well as the end of the Cold War, Americans began to question the basis of the U.S.-China relationship, and qualitative evidence points to the importance of special interests, including non-economic ones, in U.S. China policy, as well as views about the future of China and the international order and how the U.S. could shape it. Was all that just cover for the interests of materially-driven and rational economic actors, like the pro-trade business community and more protectionist labor unions, or was a deeper debate about the merits of engagement versus external pressure unfolding? Analysis of this

case thus yields important theoretical contributions, as well as insight into today's debates about globalization and China's rise.

Statistical modeling of Congressional voting on China's MFN status from 1990 to 2000, as well as voting on the establishment of PNTR in 2000, shows that votes reflect both economic *and* non-economic interests. Furthermore, ideological centrism also was associated with an increasing commitment to economic openness, a trend that does not reduce to underlying interests. Instead, as Chapters 2 and 3 have shown with qualitative evidence, causal stories played a key role, with a centrist consensus emerging that held that economic engagement with China not only benefitted the American economy, but also advanced American values and American security. Finally, the statistical results here show that voting also varied with exposure to the Chinese government, evidence of both the availability heuristic and foreign manipulation. Thus, this quantitative analysis serves as an important test for the key claims of the speculative politics framework and builds on recent work seeking to incorporate non-material and non-rational approaches into OEP, helping bring it into dialogue with other areas of scholarship, from realism and constructivism to psychology and behavioral economics.

The chapter proceeds as follows. First, it explains the case selection and reviews existing quantitative analyses of the MFN debates. Second, it describes the data and methodology. Finally, it lays out the results of its analysis and concludes.

4.1 The MFN Debates

This chapter tests most of the key components of the speculative politics framework – i.e., non-economic interests, causal stories, the availability heuristic, and

foreign influence – using the case of U.S. Congressional voting on China's MFN status from 1990 to 2000, as well as voting on the establishment of PTNR in 2000. This section provides a brief history of the MFN debates, discusses case selection, and reviews existing studies.

Chapters 2 and 3 examine the history of the MFN debates in more detail, but a short summary may be helpful here. After rapprochement in 1972 and Chinese "Reform and Opening Up" in the 1970s and 1980s, U.S.-China relations seemed to be on track. The Chinese government's violent suppression of the student-led Tiananmen Square protests on June 3-4, 1989, however, dealt a serious blow to the burgeoning relationship. The end of the Cold War – and, with it, the end of the U.S.-China alliance against the Soviet Union – exacerbated tensions. Notably, the renewal of China's MFN trading status became controversial. Later renamed Normal Trade Relations or NTR, MFN status entails trade advantages equal to the "most favored nation", including the lowest tariffs and highest quotas available to any nation, and is considered the backbone of the open global trading system. A legacy of the Cold War, the Jackson-Vanik amendment to the U.S. Trade Act of 1974 denies MFN status to non-market economies like China that restrict emigration but allows the president to grant countries a yearly waiver to these provisions, conditional upon a lack of contrary Congressional legislation. Since the late 1970s, China had been granted such a waiver each year without much debate, but after Tiananmen MFN renewal became an annual battle in Washington. In the following years, Congress voted against President George H.W. Bush's decision to renew MFN but failed to muster the numbers needed to override the presidential veto. The Bush administration and its allies on Capitol Hill argued that the loss of MFN would be counterproductive and strengthen the position of hardliners in the Chinese government, but critics like his

1992 presidential election opponent, Bill Clinton, hammered Bush for "coddling dictators" like the "butchers of Beijing" and maintained that MFN renewal allowed conservatives in China to "argue that they can repress and reap commercial benefits, too."[345] As president, Clinton signed an Executive Order in 1993 linking the renewal of MFN the following year to human rights improvements, only to reverse himself and renew MFN in 1994 despite China's lack of progress. Votes on resolutions seeking to revoke MFN continued for the rest of the decade, but meanwhile U.S. and Chinese negotiators reached a bilateral agreement on World Trade Organization (WTO) accession in November 1999. After intense debate, in 2000, Congress voted to grant PNTR to China as part of its WTO accession, exempting it from Jackson-Vanik and bringing the annual debates to a close.[346]

Why use Congressional voting on China's MFN status to test the speculative politics framework? After all, the executive branch arguably controlled China policy during this period, with Congress failing to overcome Bush's veto in order to pass legislation conditioning or blocking MFN renewal and, later, to send bills to Clinton at all. Furthermore, one might argue that Congress knew that the president would always veto any bill threatening MFN and, thus, could play up their anti-China voting record to their constituencies without any real repercussions. But should one really expect Members of Congress to benefit from showing off an anti-China record? U.S. public opinion on China has indeed remained quite negative since Tiananmen, but special interests tend to dominate issues like trade. Histories of this period also show

[345] Memorandum, Brent Scowcroft to George Bush, "China-MFN: Points to Be Made at Republican Leadership Meeting," May 22, 1990, Folder "China: Non-Tiananmen (May 1990)", OA/ID 91134-004, China Chronological Files, Brent Scowcroft Collection, George Bush Presidential Library; Lord, "Extend Equal Trade Status for a Year, Conditionally."
[346] For more on the history of the MFN debates, see Chapters 2 and 3, as well as Destler, *American Trade Politics*; Devereaux, Lawrence, and Watkins, *Case Studies in US Trade Negotiation*; Suettinger, *Beyond Tiananmen*; Tao, *History of Sino-American Relations [Zhongmei Guanxi Shi]*.

that business, labor, and civil society groups were all lobbying hard on MFN legislation, implying that they cared how their representatives voted, even if those votes were largely symbolic. Indeed, some argued that even if MFN was preserved, the mere fact of it being threatened with close votes created economic repercussions for both the Chinese economy and U.S. businesses.[347] To the extent that the presidential veto freed legislators from the responsibility of policy implications, Members of Congress could afford to pander to their constituencies or express their ideals, making it an ideal case in which to test the strength of these various influences. Additionally, the MFN debates occurred in the larger context of accelerating globalization and discussions around it. In 1990, only 2,190 scholarly articles and books were published on globalization, according to Google Scholar; by 2000, that number had jumped to 53,100. U.S. China policy was a key area of these discussions. Would openness and engagement open up opportunities in the Chinese markets or help Chinese competitors? Would it promote capitalism, liberal democracy, and peace or coddle an undemocratic, communist Party-state? Was this debate just the latest product of class conflict and special interest politics or was there a genuine disagreement about the effects of globalization and how the U.S. ought to respond to it? Thus, this case has important theoretical implications and also provides insight into how the U.S. debated and responded to key international changes like the end of the Cold War, the rise of China, and deepening globalization, all of which have significant implications for today's politics. Finally, the choice of this case has some practical reasoning behind it: it offers excellent data. With annual votes on identical

[347] Justin R. Pierce and Peter K. Schott, "The Surprisingly Swift Decline of US Manufacturing Employment," *American Economic Review* 106, no. 7 (July 2016): 1632–62; U.S. Department of State, Office of Analysis for East Asia and the Pacific, Bureau of Intelligence and Research, "China Lights, Report No. 195," May 6, 1991, National Security Archive, China and the United States: From Hostility to Engagement, 1960–1998.

bills, it allows for an analysis grounded in OEP methodology that examines how the characteristics of legislators and their constituencies varied with voting over the course of a decade.

Two papers have analyzed Congressional voting on China's MFN status, laying groundwork for this chapter. First, Baldwin and Maggee (2000) focused U.S. Congressional voting on MFN renewal in 1993, as well votes on the North American Free Trade Agreement (NAFTA) and the Uruguay Round, building a model with a number of political, ideological, and economic predictors.[348] Their findings suggest the importance of legislators' political party affiliation, constituency demographics, campaign contributions, and positions on economic and national security issues. However, such findings would be greatly strengthened by expanding the analysis to the full decade of voting and by including more precise economic indicators based on the specific factors and factor endowment models.[349] Interestingly, Baldwin and Maggee found that the share of population of Hispanic origin had a statistically significant positive effect on NAFTA support, although they do not adopt such an approach for MFN voting. As discussed later, this chapter builds on their work and tests the hypothesis that legislators with larger Chinese-Americans constituencies were more likely to oppose unconditional MFN renewal.

[348] Robert E. Baldwin and Christopher S. Magee, "Is Trade Policy for Sale? Congressional Voting on Recent Trade Bills," *Public Choice* 105, no. 1–2 (2000): 79–101.

[349] Expanding the dataset is especially important since 1993 was the year President Clinton signed an executive order that linked 1994 renewal of China's MFN status to progress on human rights, significantly decreasing the urgency of passing an equivalent bill and, thus, changing the voting dynamics. Regarding their OEP variables, Baldwin and Magee include the ratio of employment in export industries to import industries, as well as sector employment variables, but they do not include factor endowment model (i.e., proxies for ownership of land, labor, and capital) or trade variables specific to trade with China, versus global trade levels. Moreover, as their labor, national security, business, and conservative ratings of Members of Congress are highly correlated, it becomes difficult to interpret their coefficients.

Second, Timothy Nokken (2003) used probit analysis of Congressional voting on MFN to argue that party politics and political ideology played a major role.[350] More conservative Members of Congress and those in the president's party were found to be more likely to support unconditional MFN renewal. More importantly, ideologically radical legislators from both parties appear more likely to have opposed MFN, suggesting, Nokken posits, a new dimension of political conflict in the U.S. over globalization, an argument that only seems more apt today. Indeed, as this dissertation has argued, this divide may have been driven by the growing mainstream consensus, which stated that economic openness and engagement could create economic gains, economic and political liberalization, and even peace, as well as the far right and left's willingness to question that mainstream view. Moderates in Congress and the White House trusted in the transformative powers of trade, growth, and the internet, while hardliners on the left and right like Representative Pete Stark and Senator Jesse Helms argued that MFN was a policy of appeasement doomed to failure. However, further work is required to support what Nokken calls an "ends against the middle" dynamic. It might be explained by the typical underlying economic interests and politics associated with trade, as Nokken only includes one economic variable – the percentage of blue-collar workers in a district – as a control.[351] Moreover, it is not clear whether this dynamic is driven by different views

[350] Timothy P. Nokken, "The Ideological Ends Against the Middle: House Roll Call Votes on Normal Trade Relation Status for China, 1990-2000," *Congress & the Presidency* 30, no. 2 (September 1, 2003): 53–70.

[351] Nokken also does not include three MFN bills: H.R. 2212 in 1991, H.R. 5318 in 1992, and H.J.Res. 103 in 2000. Xie (2006) also built on Nokken's model to test for differences between voting in the House and Senate and between votes on MFN renewal and PNTR, arguing for the primary influence of party politics and ideology over constituents' economic interests. However, Xie only examined voting on two bills and, like Nokken, included only a few economic variables in his model. Xie includes whether the Member of Congress belonged to the president's party, the percentage of unionized workers in the home state of the Member of Congress, the percentage of blue-collar workers in the Congressional district, and the percentage of wholesale/retail employment in a district, as well as an interaction term between labor union contributions and political party.

on globalization or rather the far left's outrage at Chinese human rights violations and the far right's anti-communism. Also, on a methodological note, even if competing causal stories about globalization are a driving force here, might those divergent beliefs be better captured by level of education, which has been used in other studies as a measure of beliefs, rather than by a proxy like political centrism versus radicalism, as hypothesized here?[352] Thus, this chapter seeks to build on both these existing studies, which present some interesting but somewhat inconclusive arguments about the factors that drove positions in the MFN debates.

2.2 Data and Methodology

An important contribution of this chapter is the analytical approach it brings to the study of trade policy preferences. The three central empirical propositions are that 1) non-economic interests, 2) causal stories about globalization, and 3) exposure to foreign actors shape trade policy preferences, even when controlling for other economic and political interests. The key independent variables are 1) OEP economic interest measures; 2) constituency in military service, constituency of Chinese descent, and membership in key issue-area focused Congressional committees and subcommittees as proxies for different interests; 3) interactions between political party, political ideology, and year of the vote to test for an emerging mainstream consensus on the merits of globalization; and 4) Congressional visits to China as a

[352] Hainmuller and Hiscox (2006) argue that education is a good predictor of trade preferences because it signals exposure to economic ideas and information about the effects of trade. Their finding that education is a good predictor for trade preferences of those working age (who have active skills-based economic interests when it comes to trade) and the retired (who do not) lends weight to their ideas-based (versus interest-based) explanation. Similarly, Mansfield and Mutz (2009) argue that education level is a good proxy for views like nationalism, isolationism, and ethnocentrism, which drive trade preferences.

measure of interactions with Chinese officials. The dependent variable is Congressional voting on bills that would condition or revoke China's MFN status. The data are in a panel format, and the unit of analysis is legislator-vote for resolutions from 1990 to 2000. As the dependent variable is binary (yea or nay votes), logistic models are estimated. This section discusses the details of the models, including the dependent and independent variables.

Dependent variable

The dependent variable is Congressional voting on bills affecting renewal of China's MFN status. Votes are coded 1 if their effect would to be to support revocation of or placement of conditions on China's MFN status, 0 if their effect would be to oppose such measures or establish PNTR, and NA if the Member of Congress did not vote or voted "present".[353] Votes on symbolic bills that would produce no policy changes, such as a "sense of the Senate", are not included. Remaining are votes on eleven resolutions that attempted to revoke China's MFN status, votes on two conditionality bills from 1991 to 1993, and votes on H.R. 4444 in 2000, the bill that established PNTR as part of China's WTO accession (see Table 4.1). The eleven resolutions seeking to revoke MFN status are identical, reading:

> Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the Congress does not approve the extension of the authority contained in section 402(c) of the Trade Act of 1974 recommended by the President to the Congress on *date*, with respect to the People's Republic of China.

The votes on these resolutions were all only in the House of Representatives and include ten on bill passage and one on a motion to table the 1995 bill, although results

[353] Of 4,340 legislator-votes, only 91 are coded as NA.

Table 4.1 – Congressional voting on China's MFN status, 1990-2000

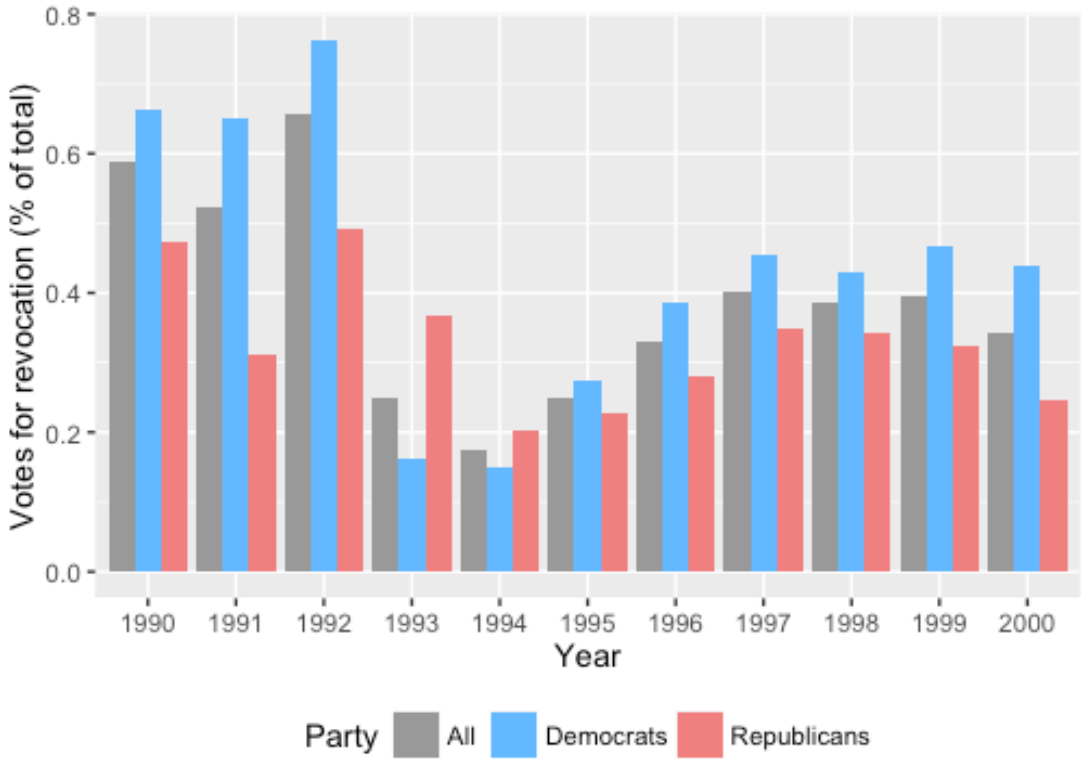
Bill	Votes		
▪ H.J.Res. 647, 101st Congress *Disapproving the recommendations of the President to extend nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	10/18/1990	(247-174)
▪ H.R. 4939, 101st Congress *Regarding the extension of most-favored-nation treatment to the products of the People's Republic of China and for other purposes*	- House:	10/18/1990	(384-30)
▪ H.J.Res. 263, 102nd Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	7/10/1991	(223-204)
▪ H.R. 2212, 102nd Congress *United States-China Act of 1991*	- House: - Senate: - Presidential veto: - House (override): - Senate (override):	7/10/1991 7/23/1991 3/2/1991 3/11/1992 3/18/1992	(312-112) (55-44) (357-61) (60-38)
▪ H.J.Res. 502, 102nd Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	7/21/1992	(258-135)
▪ H.R. 5318, 102nd Congress *United States-China Act of 1992*	- House: - Senate: - Presidential veto - House (override) - Senate (override)	7/21/1992 9/14/1992 9/28/1992 9/30/1992 10/1/1992	(339-62) (voice vote) (345-74) (59-40)
▪ H.J.Res. 208, 103rd Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	7/21/1993	(105-318)
▪ H.J.Res. 373, 103rd Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	8/9/1994	(75-356)
▪ H.J.Res. 96, 104th Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House (table):	7/20/1995	(321-107)

▪ H.J.Res. 182, 104th Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	6/27/1996	(141-286)
▪ H.J.Res. 79, 105th Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	6/24/1997	(173-259)
▪ H.J.Res. 121, 105th Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	7/22/1998	(166-264)
▪ H.J.Res. 57, 106th Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	7/27/1999	(170-260)
▪ H.J.Res. 103, 106th Congress *Disapproving the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China*	- House:	7/18/2000	(147-281)
▪ H.R. 4444, 106th Congress *To authorize extension of nondiscriminatory treatment (normal trade relations treatment) People's Republic of China and to establish a framework for relations between the United States and the People's Republic of China*	- House: - Senate:	5/24/2000 9/19/2000	(237-197) (83-15)

are robust to exclusion of the latter. The votes on the two conditionality bills and the 2000 bill authorizing PNTR are treated separately and as a point of comparison, as they are substantively different.

Figure 4.1 shows broad trends in preferences on the revocation of China's MFN status, such as the tendency for Democrats to support revocation more than Republicans. There was also a marked decline in support for revocation legislation in 1993, when Clinton signed his Executive Order with its own human rights conditions as an alternative to legislation. This decline persisted even after Clinton reversed

Figure 4.1 – Congressional voting on MFN revocation by party, 1990-2000



himself and "de-linked" trade from human rights in 1994, only for anti-MFN sentiment to creep up over the second half of the decade. But what drove these voting patterns? The next section turns to the independent variables.

Independent variables: economic interests

This analysis includes economic interest-based explanatory variables from both the factor endowment and specific factors models of the OEP paradigm. The variables used are drawn from existing OEP scholarship,[354] although some adaptation and compromises are needed given the availability of data, especially for

[354] See, for example, Hiscox, "Commerce, Coalitions, and Factor Mobility"; Anna Maria Mayda and Dani Rodrik, "Why Are Some People (and Countries) More Protectionist than Others?," *European Economic Review* 49, no. 6 (2005): 1393–1430; Milner and Tingley, "Who Supports Global Economic Engagement?"

Congressional district-level and China-specific trade data. Several new variables are also introduced in order to more fully capture the economic interests at stake here.

According to the OEP paradigm, individuals' competitiveness in global markets and, thus, their trade policy preferences are determined by the factors they own – land, labor, and capital – and how mobile the factors are.[355] If those factors are mobile, i.e., easily transferred between industries, owners of factors with which the domestic economy is relatively well-endowed benefit from the exporting opportunities associated with free trade, while those that own relatively scarce factors face increased competition from imports (the Heckscher-Ohlin or factor endowment model). If factors are more immobile, the question instead becomes whether the specific industries to which factors are tied are export-oriented and therefore pro-trade or import-competing and pro-protections (the Ricardo-Viner or specific factors model). Typically, a combination of the two dynamics is at work. Note that a key assumption of OEP, which this chapter adopts, is that legislators, seeking votes, campaign contributions, and policy-relevant information, respond to pressures from their constituencies and well-organized, knowledgeable special interests in particular.

For the factor endowment model, the importance of land in the constituency of the Member of Congress is estimated using the total market value of agricultural products sold as a share of the gross product of the home state of the Member of Congress.[356] As China is relatively poorly endowed in terms of arable land per capita and the U.S. land-rich, this variable is expected to be negatively associated with

[355] Hiscox, "Commerce, Coalitions, and Factor Mobility."
[356] For total market value of agricultural products sold in each state, linear approximations based on the 1987, 1992, 1997, and 2002 Censuses of Agriculture were used. The U.S. Department of Commerce's Bureau of Economic Analysis has annual estimates of gross state product. However, the Bureau of Economic Analysis changed its industry definitions from the Standard Industrial Classification (SIC) to the North American Industry Classification (NAICs) in 1997, which should have a slight impact on gross state product estimates. Thus, pre-1997 gross product for each state were corrected slightly by multiplying the SIC-based gross product by the ratio of NAICS-based gross product and SIC-based

support for MFN revocation. The importance of labor in the constituency of the Member of Congress is estimated using the total employment in manufacturing as a share of state population.[357] As China is relatively labor-rich compared to the U.S., this variable should be positively associated with support for MFN revocation.[358]

The influence of education, measured using the share of Congressional district population 25 years of age and above with a college degree or higher, is also included.[359] Educational attainment is often used as an indicator of the economic interests of high-skilled versus low-skilled labor under the factor endowment model, with low-wage, low-skilled labor, being relatively scarce in developed economies like the U.S., standing to lose from trade liberalization and increased international competition; however, some scholars have argued that higher education also exposes people to positive causal beliefs about globalization, and, thus, is associated with support for trade and immigration for reasons other than economic interest.[360] In the case of the MFN debates, however, educated elites appear to have been divided over whether free trade or human rights should be prioritized in the short run and whether engagement or conditionality would promote reform in China in the long run, so only a small negative effect on support for MFN revocation, if any, is expected.

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gross product for that state in 1997, the only year in which there are is data for both. For robustness, models are also run without the 1998-2000 data.

[357] Data from the Annual Survey of Manufacturers and the Population Division of the U.S. Census Bureau.

[358] The importance of capital in a constituency is particularly difficult to estimate and often omitted from OEP models. Regressions were run using Hiscox's (2002) proxy of total value-added in manufacturing minus wage payments, all as a share of state income, which, as China is relatively capital-poor and the U.S. capital-rich, an OEP approach would expect to be positively associated with unconditional support for MFN renewal. However, it is consistently negatively associated with support for MFN renewal, which may be an interesting finding or a problem with the proxy in this case. As it is not central to this chapter, it is excluded, but all findings are robust to its inclusion. Furthermore, the corporate donations variable helps capture the influence of capital owners, as U.S. corporations are major investors in China.

[359] Linear interpolation is used as the data is taken from the 1990 and 2000 Censuses of Population and Housing.

[360] Jens Hainmueller and Michael J. Hiscox, "Learning to Love Globalization: Education and Individual Attitudes toward International Trade," *International Organization* 60, no. 02 (2006): 469–498; Hainmueller and Hiscox, "Educated Preferences"; Mansfield and Mutz, "Support for Free Trade."

Additionally, the shares of contributions made to each Member of Congress in their latest campaign by "labor" and "corporate" organizations as classified by the U.S. Federal Election Commission (FEC) are included, which helps measure the influence of labor and capital owners and is expected to be positively and negatively associated with support for MFN revocation, respectively.[361]

For the specific factors model, measures of the strength of China exporting and import-competing industries in the home state of the Member of Congress are included. Ideally, the sum of each industry's exports or imports to China as a share of that industry's total value by Congressional district would be used; however, data that granular does not exist. Thus, for exports, the sum of the share each industry comprises of the state economy in that year (i.e., the industry's importance in the home state of the Member of Congress) weighted by the share that that industry's national exports to China comprise of national industry value (i.e., the importance of exports to China for the industry on the national level) is used. Similarly, for imports, the sum of the share each industry comprises of the state economy weighted by the share that that industry's national imports from China comprise of national industry value is used.[362] Exporting industries are expected to support unconditional MFN renewal and import-competing industries to support revocation or conditions.

To provide a more robust comparison between the speculative politics framework and a rational- and material-based approach, several new independent variables are introduced. Lagged variables measuring future levels of trade are also

[361] Campaign contribution data obtained from the FEC.
[362] Data from the U.S. Department of Commerce's Bureau of Economic Analysis and Robert C. Feenstra, John Romalis, and Peter K. Schott, "U.S. Imports, Exports, and Tariff Data, 1989-2001" (National Bureau of Economic Research, Working Paper No. 9387, December 2002). Again, the Bureau of Economic Analysis changed its industry definitions from NAICS to SIC in 1997. To cope with this change, SIC and NAICs data was compiled into consistent industry groupings and then the ratio of NAICS- or SIC-based gross product in 1997 was used to account for this change in measurement. For robustness, models are also run without the 1998-2000 data.

incorporated to see if businesses and workers managed to anticipate future levels of trade and acted accordingly.[363] However, given high levels of uncertainty and complexity surrounding the Chinese market and Chinese policy, as well as the effects of globalization more generally the speculative politics framework expects that actors relied on current levels of trade, which are highly available, as well as subjective beliefs about the future in addition to – and perhaps more than – accurate forecasts.

Interactions between the labor and corporate donation variables and year of the vote are also included. The qualitative evidence presented in previous chapters indicates that economic interest groups' excitement and concern about the Chinese economy increased over this decade, even when using other economic variables to control for economic realities like rising trade volumes. Such a quantitative finding would provide further evidence of limits to rationality and bubble dynamics, with actors changing the intensity of their policy preferences in response to implied non-economic inputs.

Independent variables: non-economic interests

Several variables – two demographic and three for Congressional committee membership – are used to test for non-economic interests that appear to have driven opposition to MFN renewal. First, veterans as a share of district population is included as a proxy for national security concerns.[364] After controlling for economic

[363] Importance of future exports to (imports from) China were estimated as the sum of the share each industry comprises of the state economy in the year of the vote weighted by the average share that that state industry's exports to (imports from) China would comprise of state industry value (average from 2008-2013). Data from USA Trade Online and the U.S. Department of Commerce's Bureau of Economic Analysis.

[364] The measure was created using linear approximations based on data from the 1990 and 2000 Censuses of Population and Housing. Included were civilians who had served but were not then serving on active duty in the U.S. Armed Forces.

factors like educational attainment and unemployment that can drive military enlistment, as well as non-economic factors like party and political ideology that are also correlated, constituencies with greater levels of military service are expect to place a greater emphasis on security issues and, thus, be more likely to oppose unconditional MFN status for a repressive, communist state.[365] Voters who have served in the military or who have family or friends in the military should be primed to focus on security dimensions of issues relative to more civilian-dominated constituencies. They are also relatively shielded from the economic impact of trade, as military jobs offer veterans benefits and cannot be outsourced, so their opposition to unconditional MFN renewal is harder to connect with economic interests, which are included as controls anyway. Military experience has been shown to be associated with distinct policy preferences regarding the use of force, so it is plausible that military constituencies might view trade with strategically-important actors differently as well.[366] Including such a variable can help explain the voting behavior of representatives like Joel Hefley of Colorado, who voted against MFN renewal for ten years straight and then against PNTR, despite significant corporate donations and agricultural interests and relatively weak labor interests in his district, as well as party loyalty to President Bush, who supported ongoing economic engagement with China. Hefley's position, according to his staffer, was based on "China's threats to Taiwan,

[365] Security-based arguments were made in favor of MFN renewal by defense officials in the Bush administration, showing that a focus on the implications of MFN for U.S. strategic interests did not necessarily entail opposition to MFN renewal. The popular view, however, seems to have been that with the end of the Cold War, the U.S. did not need to rely upon and accommodate this repressive communist regime; thus, military experience should be associated with opposition to MFN renewal.
[366] See Christopher Gelpi and Peter D. Feaver, "Speak Softly and Carry a Big Stick? Veterans in the Political Elite and the American Use of Force," *The American Political Science Review* 96, no. 4 (2002): 779–93; Thomas J. Hayes and Benjamin G. Bishin, "Issue Salience, Subconstituency Politics, and Legislative Representation," *Congress & the Presidency* 39, no. 2 (May 1, 2012): 133–59. Both studies use a veterans variable as a narrow proxy for concern with troops' safety and national security. Additionally, while military constituencies may be motivated by economic self-interest to support military spending or veterans benefits, such logic does not apply to the case of MFN renewal.

its arms sales and its alleged espionage in the United States", i.e., security concerns, which is perhaps unsurprising given that during this period military veterans constituted approximately 17 percent of his constituency.[367] Thus, this variable is a narrow but useful proxy for security interests and a test for the influence of non-economic interests in MFN voting.

Second, a demographic variable is included to capture some of the normative concerns in play. Arguably labor may have opposed unconditional MFN renewal for normative reasons, but it is difficult to parse because labor had economic motives as well, i.e., concern about competing with low-skilled, low-paid Chinese workers, as predicted by the factor endowment model. However, it has also been suggested that Chinese-Americans were more concerned about human rights and democracy in China, affecting the position of representatives like Nancy Pelosi, who sponsored legislation aimed at protecting the immigration status of Chinese students and anti-MFN bills after being approached by Chinese foreign students and Chinese-American constituents and famously unfurled a pro-democracy banner in Tiananmen Square while on a trip to China in 1991, and whose district includes San Francisco's Chinatown.[368] Thus, Chinese-American constituency is used as a proxy for Chinese and Chinese-American activism and should be associated with voting against unconditional MFN renewal, even when controlling for economic factors, suggesting normative motivations.[369] Indeed, such a negative relationship would be found in

[367] Matthew Vita, "On China Bill, A Different Sort Of Trade Gap," *The Washington Post*, April 23, 2000.
[368] Foot, *Rights beyond Borders*, 125.
[369] Unfortunately, data on Chinese descent exists only at the state level, while data on the more general category of Asian or Pacific Islander descent was collected at the level of Congressional district. Thus, the share of the Congressional district population of Chinese descent was estimated by weighting the share of Congressional district population of Asian or Pacific Islander descent by the share that people of Chinese descent comprise of the state population of Asian or Pacific Islander descent, with linear approximations based on data from the 1990 and 2000 Censuses of Population and Housing. For robustness, the models are also run instead with the share of district population of Asian or Pacific Islander descent and the share of state population of Chinese descent, producing similar results.

spite of economic interests, as many Chinese-American businesses were involved in trade with China, and Chinese-Americans might have personal investment in China's economic growth through family ties.

An interaction variable can help further test the economic and normative interests at stake here. The interaction between the Chinese-American constituency and constituency education level variables is expected to be associated with support for revocation or conditionality, as educated Chinese-Americans and Chinese activists opposed MFN renewal even though, from an OEP perspective, it would be lower-skilled workers that would benefit from reduced trade with China. Of course, Chinese-Americans and Chinese activists were not the only actors driven by normative concerns, but this variable represent a useful test; if a relationship is found here, it is likely that non-economic, normative concerns drove the policy preferences of an even larger portion of the population.

Additionally, membership on certain Congressional committees and subcommittees is also used as a measure of focus on different issue areas, whether through the self-selection of Congressmen joining the committee or their education and socialization after joining. Membership on the Subcommittee on Trade of the House Ways and Means Committee is used as a proxy for economic interests and a globalist view, and thus should be associated with support for unconditional MFN renewal. Membership on the House Armed Services Committee is used as another proxy for emphasis on security issues and a hawkish position, and therefore is expected to be associated with support for conditions on or revocation of MFN renewal. Finally, membership on the Subcommittee on Human Rights of the House

Foreign Relations Committee is used as a proxy for strong normative concerns, and thus should be associated with support for revocation or conditionality.[370]

Independent variables: causal stories and speculative bubbles

Next, to test the influence of evolving and competing causal stories about globalization, two new variables are introduced. First, to test for the bubble in MFN revocation and conditionality policies and the external pressure story that justified them, a variable is included that is coded 1 in 1990, 2 in 1991, 3 in 1992, and 0 otherwise, which should have a positive relationship with support for MFN revocation. As Chapter 3 discussed, this small bubble peaked with Clinton's 1993 executive order linking MFN renewal with progress on human rights, and it burst in 1994 as it became clear that China would not meet the conditions and many came to believe the policy was not yielding results; however, many Congressional advocates of revocation and conditionality supported Clinton's executive order and so did not vote for the 1993 revocation resolution, so the variable used here peaks in 1992.

Second, to capture the engagement bubble, the dynamic, weighted, nominal, three-step estimation, or DW-NOMINATE score, of each Member of Congress is included, as well as interactions with political party and year. DW-NOMINATE is a program primarily used to estimate liberal-versus-conservative preferences on economic issues based on roll call voting in U.S. Congress and ranges from -1 (far

[370] Due to intermittent reorganization, specifically membership on the following subcommittees is used: in the 101st and 102nd Congresses, the Subcommittee on Human Rights and International Organizations, in the 103rd, the Subcommittee on International Security, International Organizations and Human Rights, in the 104th, 105th, and 106th, the Subcommittee on International Operations and Human Rights. 104th. The House Committee on Foreign Affairs was renamed the House Committee on International Relations during the 104th, 105th, and 106th Congresses. Data from the U.S. House of Representatives, History, Art & Archives.

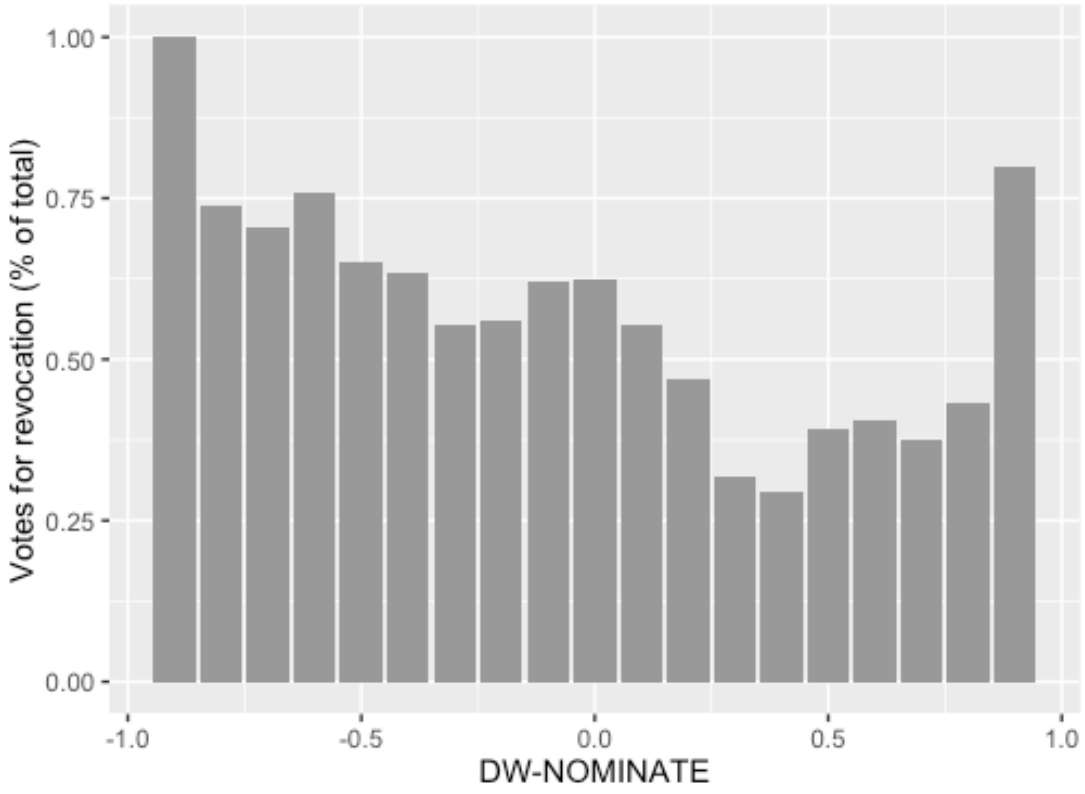
left) to 1 (far right).[371] By itself, DW-NOMINATE may be negatively associated with support for revocation and conditionality legislation, as conservatives have tended to rely on the support of pro-trade business constituencies and liberals on protectionist labor. However, drawing on Nokken (2003), the interaction between DW-NOMINATE and political party should also have a positive effect, i.e., that the ideological division on trade occurs along a new dimension, with centrists versus radicals rather than right versus left, even when controlling for interests.[372] As previous chapters have argued, centrists of both parties increasingly took up the causal story that said economic openness and engagement were a net positive and that liberal democracy and capitalism would win out in an open, globalized international system. Meanwhile, as outsiders, politically radical Americans and their representatives were more skeptical of that growing consensus, questioning if free trade was really a net good that promoted economic growth, capitalism, and liberal democracy rather than bolstering repressive, non-capitalist, and potentially dangerous regimes.[373] Indeed, a right-versus-left and centrists-versus-radicals pattern is apparent when plotting DW-NOMINATE against voting (see Figure 4.2) and we expect to find

[371] In this case, DW-NOMINATE scores for only that two-year Congress are used (Nokken and Poole 2004) to better capture the ideology of each Member of Congress at the time of the vote. As the dependent variable comprises just two bills per Congress, and each Congress votes on approximately ten thousand bills, there is no concern about endogeneity.

[372] Nokken uses the absolute value of DW-NOMINATE instead of the interaction between DW-NOMINATE and a political party. The approaches are largely similar, but the approach here allows for differentiation between the marginal effects of moving along the ideological spectrum on the right and left rather than treating them as identical. Political party is used rather than a left-right dummy variable for simplicity; the results are comparable.

[373] Theoretically, this builds on Hooghe et al. (2002), who review and find support for the two main explanations of political radicals' Euroskepticism. First, political outsiders have an interest in restructuring contestation, leading peripheral parties to take unique stands on issues like European integration to shake up the structure of domestic politics, often exploiting areas where the policies of mainstream politicians have failed to keep up with public opinion. If they are then successful, they may push centrists to revise their positions. Second, while radicals may share political goals with centrists, they are often more likely to feel that those goals are threatened by international integration. One might argue that ideological radicalism is not proxy for willingness to question mainstream consensus but rather just an indicator for nationalism, ethnocentrism, and isolationism (see Halikiopoulou et al. 2012); however, this dissertation posits that these are just other ways of characterizing sets of interests like cultural and racial purity and, more importantly, causal stories, for example that trade and immigration threaten U.S. business, security, and values. Daphne

Figure 4.2 – Congressional voting on MFN revocation by DW-NOMINATE, 1990-2000



that relationship, even after controlling for interests, economic and otherwise.

But is this interaction's effect indicative of real disagreement about globalization and its effects or just the far right's security hawkishness and far left's concern with human rights? After all, emphasis on security or human rights should be associated with opposition to MFN, and DW-NOMINATE is highly correlated with indices that measure legislators' voting on national security and civil liberties issues, with correlation coefficients of 0.80 and -0.91, respectively.[374] Thus, a negative coefficient for this interaction might simply indicate once again the presence of non-

Halikiopoulou, Kyriaki Nanou, and Sofia Vasilopoulou, "The Paradox of Nationalism: The Common Denominator of Radical Right and Radical Left Euroscepticism," *European Journal of Political Research* 51, no. 4 (2012): 504–539; Liesbet Hooghe, Gary Marks, and Carole J. Wilson, "Does Left/Right Structure Party Positions on European Integration?," *Comparative Political Studies* 35, no. 8 (2002): 965–989.

[374] Based on the American Security Council Foundation voting record ratings for the 102nd and 103rd Congresses (104th-106th not available) and the Leadership Conference on Civil and Human Rights voting record ratings.

economic interests, rather than differing beliefs about how globalization affects those interests.

To differentiate between these two potential explanations, an interaction between DW-NOMINATE, political party, and year of the vote is introduced. If human rights and security concerns (either solely or together) were behind the centrists-radicals divide, the effect of the interaction between DW-NOMINATE and political party (or that of DW-NOMINATE alone) should have diminished over time as the salience of Tiananmen faded. If it was instead due to evolving causal stories about globalization – with rising consensus among centrists about the benefits of economic engagement for the U.S. economy, U.S. values, and U.S. security, versus relative skepticism on the far left and right of the political spectrum – the interaction's effect should have increased in magnitude over time as the mainstream consensus in Washington about free trade and engagement with China took hold.

Panel analysis: foreign influence

Finally, panel regression with fixed effects is used to test the effect of official trips to China made by Members of Congress, using all the other variables as controls.[375] The dummy variable, which indicates whether Members of Congress went on a trip to China after Tiananmen, i.e., were exposed to China and, thus, to Chinese officials, should be negatively associated with support for MFN revocation or conditionality. Such an effect could be due to purely rational updating in response to new information about the Chinese market or Chinese policies, but, as this

[375] Official trips to China made by Members of Congress are taken from House of Representatives Foreign Travel Reports and Senate Foreign Currency Reports found in the *Congressional Record*.

dissertation argue elsewhere, manipulation and availability also played a role. Of course, the China trip variable does not capture all contact with Chinese officials or increased knowledge about China, and unfortunately does not include trips by congressional staff; however, it still serves as a useful test of foreign influence. Fixed effects control for time-invariant variables not explicitly included in the model and for potential selection bias in who traveled to China, allowing for better examination of the effect of a trip to China on the vote of a Member of Congress. This approach is not used to test the other independent variables, many of which are quite time-invariant and therefore incompatible with fixed effects models.

Other controls

While such dynamics are not central to this dissertation, it is broadly accepted that self-interest drives legislators to engage party politics. Given the importance of parties' financial and political support, legislators are more likely to vote with their party, against presidents of the opposing party, and with presidents of their own. Many officials and lobbyists openly acknowledge the role of party politics in the MFN debates, such as Democrats using the issue as a way to criticize President Bush, who was otherwise well respected on foreign policy issues. Thus, both political party and being in the party of the president (Republican prior to 1993, Democrat from 1993 onward), who always opposed legislation that sought to revoke or place conditions on MFN renewal, are included as controls.[376] Again, these partisan

[376] For simplicity, the party variable is a dummy, coded 1 for Republicans and 0 for Democrats, with independents (Virgil Goode in 2000 and Bernie Sanders) excluded. For robustness, models are also run with the independents and a categorical party variable. Republicans are generally more pro-trade than Democrats, which cleavage theory explains by the party's association with capital and labor, respectively. Helen V. Milner and Benjamin Judkins, "Partisanship, Trade Policy, and Globalization: Is There a Left–Right Divide on Trade Policy?," *International Studies Quarterly* 48, no. 1 (2004): 101.

dynamics are not incompatible with the speculative politics framework.[377] Unemployment is also included as a control, as constituencies with high unemployment, even unemployment not caused by trade with China, may be more anti-trade.[378] It is also an important control for some of the other variables, such as military enlistment, which is included as a proxy for security concerns, not lack of economic opportunity. Finally, year of the vote (coded as 0 in 1990 and 10 in 2000) is also included. This is a useful control for the fading salience of Tiananmen, for example, but care must be taken in interpreting it as such because it is also likely correlated with other factors, such as deepening globalization or increasing exuberance about the growing Chinese market.

2.4 Results

To what extent did 1) economic interests, 2) non-economic interests, 3) causal stories and bubble dynamics, and 4) contact with foreign actors drive Congressional voting on MFN renewal?

We start with a base OEP model that includes only the controls and factor endowment and specific factors variables (see Table 4.2, Model 1). Most variables

[377] See Chapter 2, pg. 84.
[378] Measured as the share of the labor force that is unemployed in the home state of the Member of Congress in that year. Data from the U.S. Bureau of Labor Statistics via Iowa Community Indicators Program. Findings are also robust to the use of a measure of unemployment by Congressional district, with linear approximations based on the 1990 and 2000 Censuses of Population and Housing.

have the predicted effects.[379] From the factor endowment model, land and capital interests (as measured by corporate PAC donations and agricultural product sales, respectively) decreased odds of voting for MFN revocation, while labor interests (measured by labor PAC donations) had the opposite effect. From the specific factors model, exporting industries decreased the odds of voting for MFN revocation, and import competing industries increased those odds. Political party is not statistically significant when taking into account these other variables, although being in the political party of the president, who always opposed the revocation legislation, had a significant negative effect on support for revocation. Constituency education, manufacturing labor, and unemployment do not have statistically significant

Table 4.2 – Logistic analysis of Congressional voting on MFN revocation, 1990-2000

	1	2
GOP	0.030	0.027
	(0.021)	(0.021)
Pres. party	-0.137***	-0.138***
	(0.016)	(0.016)
Labor PAC	1.006***	0.995***
	(0.087)	(0.087)
Corporate PAC	-0.361***	-0.347***
	(0.074)	(0.074)
Agricultural products	-1.948***	-2.015***
	(0.275)	(0.278)
Manufacturing labor	0.761	0.715***
	(0.173)	(0.177)
Education	-0.063	-0.062
	(0.083)	(0.083)
Exports	-161.134***	-147.400***
	(19.776)	(21.204)
Imports	21.898***	21.558***
	(3.828)	(4.022)
Future exports		-25.211*
		(12.547)
Future imports		-0.210
		(2.729)
Year	-0.027***	-0.028***
	(0.005)	(0.005)
Constant	0.603***	0.617***
	(0.070)	(0.070)
N	4,469	4,469
AIC	5,733	5,732

Significance codes: *** p > 0.001; ** p > 0.001; * p > 0.05. Standard errors in parentheses. The estimated coefficients for unemployment are not reported to save space, but they are negative and statistically significant.

[379] Findings are robust to: the use of trade variables based on the top five trading industries in each state instead of all industries; the inclusion of a measure of capital ownership, and the exclusion of votes after the 1997 conversion of industry classifications from SIC to NAICS and votes during the year of Clinton's executive order linking MFN renewal to human rights progress.

coefficients. The coefficient of year of the vote indicates greater opposition over time to MFN revocation, although the factors behind this trend – perhaps Tiananmen's fading salience or increasing excitement about the Chinese economy, for example – are difficult to parse. The following model introduces future trade variables (see Table 4.2, Model 2), building on the factor endowment model, which typically just focuses on current levels of trade. The coefficient of future exports is negative and statistically significant, as expected, although that of future imports is not significant, offering some support for the argument that economic actors take forecasts of future trade into account to some extent when determining their policy preferences. All other findings remain consistent.

Next, the proxies for security and human rights concerns are introduced. First, the share of constituencies comprised by veterans and people of Chinese descent are included (see Table 4.3, Model 3). As expected, both variables have a statistically significant positive impact on odds of support for MFN revocation, offering evidence of non-economic interests shaping policy preferences in the MFN debates. Furthermore, when an interaction between the Chinese descent variable and education is introduced (see Table 4.3, Model 4), the results provide further evidence of non-economic interests. Members of Congress representing districts with higher levels of both Chinese descent and education are more likely to support revocation of MFN (see Figure 4.3). The OEP specific factors model posits that high skilled labor gains from trade with low-skilled countries like China; thus, this effect is the opposite of what an economic interest-based argument would expect, strongly suggesting that it is driven by normative concerns powerful enough to overcome economic interest.

Next, the committee dummy variables are introduced as an additional set of narrow proxies for diverse interests (see Table 4.3, Model 5). As expected, members

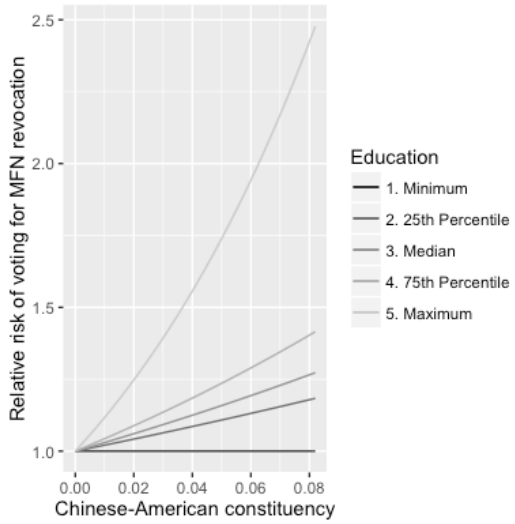
Table 4.3 – Logistic analysis of Congressional voting on MFN revocation, 1990-2000

	3	4	5
GOP	0.026	0.035	0.023
	(0.021)	(0.021)	(0.021)
Pres. party	-0.137***	-0.139***	-0.140***
	(0.016)	(0.016)	(0.016)
Labor PAC	0.999**	1.031***	0.984***
	(0.087)	(0.087)	(0.088)
Corporate PAC	-0.350	-0.358***	-0.303
	(0.075)	(0.075)	(0.075)
Agricultural products	-2.030***	-2.062***	-1.984***
	(0.279)	(0.279)	(0.276)
Manufacturing labor	0.813***	0.807***	0.876***
	(0.179)	(0.179)	(0.177)
Education	-0.149	-0.401***	-0.358**
	(0.089)	(0.114)	(0.113)
Exports	-148.457***	-151.421***	-152.352***
	(21.237)	(21.226)	(21.082)
Imports	21.866***	21.688***	18.425***
	(4.020)	(4.015)	(4.002)
Future exports	-26.116*	-26.296*	-23.897
	(12.555)	(12.539)	(12.437)
Future imports	-1.331	-1.564	-1.229
	(2.808)	(2.805)	(2.781)
Veterans	1.073***	1.009***	0.829**
	0.311	(0.311)	(0.315)
Chinese descent	2.661***	-2.573	-2.285
	0.727	(1.606)	(1.593)
Chinese descent x Education		19.778***	17.340**
		(5.623)	(5.581)
Armed Services Comm.			0.079***
			(0.021)
Human Rights Subcomm.			0.229***
			(0.042)
Trade Subcomm.			-0.223***
			(0.039)
Year	-0.030***	-0.030***	-0.026***
	(0.005)	(0.005)	(0.005)
Constant	0.499***	0.568***	0.541***
	(0.082)	(0.084)	(0.084)
N	4,469	4,469	4,469
AIC	5,719	5,709	5,634

Significance codes: *** p > 0.001; ** p > 0.01; * p > 0.05. Standard errors in parentheses. The estimated coefficients for unemployment are not reported to save space, but they are not statistically significant.

of the House Armed Services Committee and the House Foreign Affairs Committee's Subcommittee on Human Rights were more likely to vote for MFN revocation, while members of the House Ways and Means Committee's Subcommittee on Trade were

Figure 4.3 – Constituency of Chinese descent, education, and relative risk of support for MFN revocation (Model 4)



more likely to vote against it. As Congressmen self-select into committees based on their own priorities and may learn and reprioritize once serving in the committee, this finding represents additional evidence that security and normative interests drove policy preferences on MFN in addition to economic interests.

The next models are designed to test for the influence of causal stories and bubble dynamics. First, a variable coded 1 in 1990, 2 in 1991, 3 in 1992, and 0 otherwise is introduced (Table 4.4, Model 6). As expected, this 1990-1992 variable has a statistically significant, positive effect on odds of voting for MFN revocation. In contrast, the coefficient of year of the vote suggests that from 1993 to 2000 Members of Congress were increasingly unlikely to support revocation. This finding holds even if person fixed effects are included, making it even more plausible that it is driven not by interests, but by a speculative bubble in MFN conditionality and revocation based on the external pressure causal story, which reached its peak with the 1993 Clinton executive order linking MFN renewal in 1994 with human rights progress.

While the external pressure bubble was short lived, the bubble in engagement engagement built up over the entire 1990s. Thus, the next several models test for growing support for unconditional MFN renewal that cannot be reduced to underlying interests. First, interactions between labor and corporate PAC donations and year are

introduced (see Table 4.4, Model 7). The coefficients of both are statistically significant and positively and negatively associated with odds of voting for MFN revocation, respectively. Additionally, the labor PAC donation coefficient remains negative and statistically significant although smaller in magnitude compared to previous models, and the corporate PAC donation coefficient is no longer statistically significant. Figures 4.4 and 4.5 illustrate these interactions, with the odds of a Congressman with a given level of

Table 4.4 – Logistic analysis of Congressional voting on MFN revocation, 1990-2000

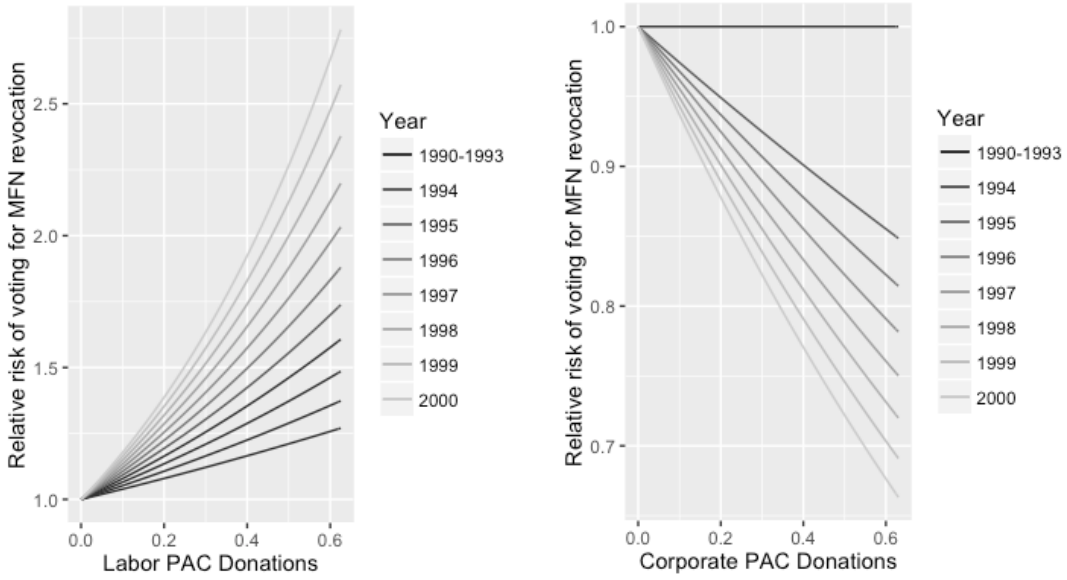
	6	7
GOP	0.035	0.019
	(0.021)	(0.021)
Pres. party	-0.122***	-0.186***
	(0.016)	(0.018)
Labor PAC	0.961***	0.382**
	(0.086)	(0.136)
Corporate PAC	-0.360***	-0.039
	(0.073)	(0.137)
Agricultural products	-2.356***	-2.337***
	(0.274)	(0.272)
Manufacturing labor	0.646***	0.676***
	(0.175)	(0.174)
Education	-0.398***	-0.389***
	(0.112)	(0.111)
Exports	-132.783***	-129.222***
	(20.792)	(20.686)
Imports	18.913***	17.934***
	(3.936)	(3.912)
Future exports	-18.074	-19.357
	(12.239)	(12.183)
Future imports	2.143	2.210
	(2.748)	(2.733)
Veterans	0.763*	0.954**
	(0.310)	(0.310)
Chinese descent	-1.860	-1.846
	(1.567)	(1.560)
Chinese descent x Education	17.669**	18.241***
	(5.488)	(5.466)
Armed Services Comm.	0.076***	0.073***
	(0.020)	(0.020)
Human Rights Subcomm.	0.232***	0.230***
	(0.041)	(0.041)
Trade Subcomm.	-0.211***	-0.212***
	(0.038)	(0.038)
1990-1992 bubble	0.167***	0.160***
	(0.014)	(0.014)
Labor PAC x Year		0.125***
		(0.022)
Corporate PAC x Year		-0.065**
		(0.023)
Year	-0.022***	-0.024***
	(0.005)	(0.007)
Constant	0.644***	0.649***
	(0.083)	(0.088)
N	4,469	4,408
AIC	5,485	5,438

Significance codes: *** p > 0.001; ** p > 0.01; * p > 0.05. Standard errors in parentheses. The estimated coefficients for unemployment are not reported to save space, but they are not statistically significant.

labor support voting for MFN revocation increasing over time and the odds of a Congressman with a given level of corporate support voting for MFN revocation decreasing. Thus, the model suggests that the relationship between labor and corporate PAC donations and MFN voting increased over time, even when controlling for economic factors like trade levels. As shown later, this finding persists even with year and person fixed effects, which account for potential omitted variables. Especially in the context of the qualitative work in Chapters 2 and 3, these trends suggest bubble dynamics, with labor interests becoming increasingly alarmed and corporate interests increasing excited about the Chinese economy.

Next, a series of models based on the political ideology measure DW-NOMINATE are estimated. When DW-NOMINATE is introduced on its own, it is not statistically significant (see Table 4.5, Model 8). When an interaction between DW-NOMINATE and political party is introduced (see Table 4.5, Model 9), however, increasing DW-NOMINATE, i.e., increasing conservatism, has a negative effect on support for revocation for Democrats, but a positive effect for Republicans. In other

Figures 4.4 and 4.5 – Labor and corporate PAC donations and relative risk of support for MFN revocation, 1990-2000 (Model 7)



words, ideological radicalism was associated with support for MFN revocation, while ideological centrism was associated with opposition to revocation.

To investigate whether this centrists-versus-radicals divide was driven by human rights and security concerns that were highly salient after Tiananmen or by an emerging divide between centrists and radicals on globalization, the next model introduces a further interaction between DW-NOMINATE, political party, and year (see Table 4.5, Model 10). With this interaction included, the model shows that ideology, as captured by DW-NOMINATE, had no effect in the years immediately following Tiananmen, after which the centrists-versus-radicals divide slowly emerged. This trend is illustrated in Figures 4.6 and 4.7, showing how relative risk of support for MFN revocation changes with DW-NOMINATE and year.[380] Figure 4.6 shows the effect of DW-NOMINATE, including its interaction with political party and year, on support for MFN revocation over time. The 1990-1992 bubble is evident, with support for MFN revocation increasing and then collapsing. Moreover, while DW-NOMINATE had a simple linear effect in 1990, over the course of the decade ideological radicalism grew increasingly associated with support for revocation while centrism became increasingly associated with opposition to revocation. Specifically, this model estimates that centrists in 2000 were over 25% less likely to support MFN revocation than in 1990, while radicals remained more or less as likely to support it. Figure 4.7 adds in the effects of political party and being in the president's party, painting a slightly more complex picture, but one in which ideological centrism still became increasingly associated with voting against revocation of MFN and ideological radicalism with voting in favor. Again, Figure 4.7

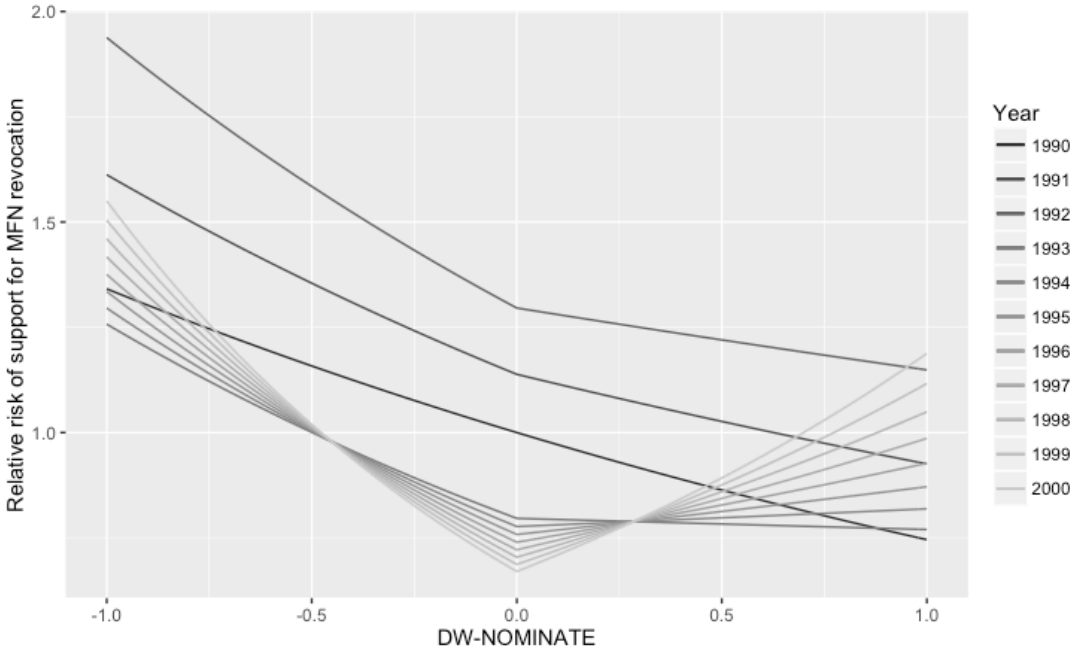
[380] A relative risk ratio of 1 means that an increase of one standard deviation in the independent variable has no predicted impact on odds, larger than 1 a positive impact, and less than 1 a negative impact.

Table 4.5 – Logistic analysis of Congressional voting on MFN revocation, 1990-2000

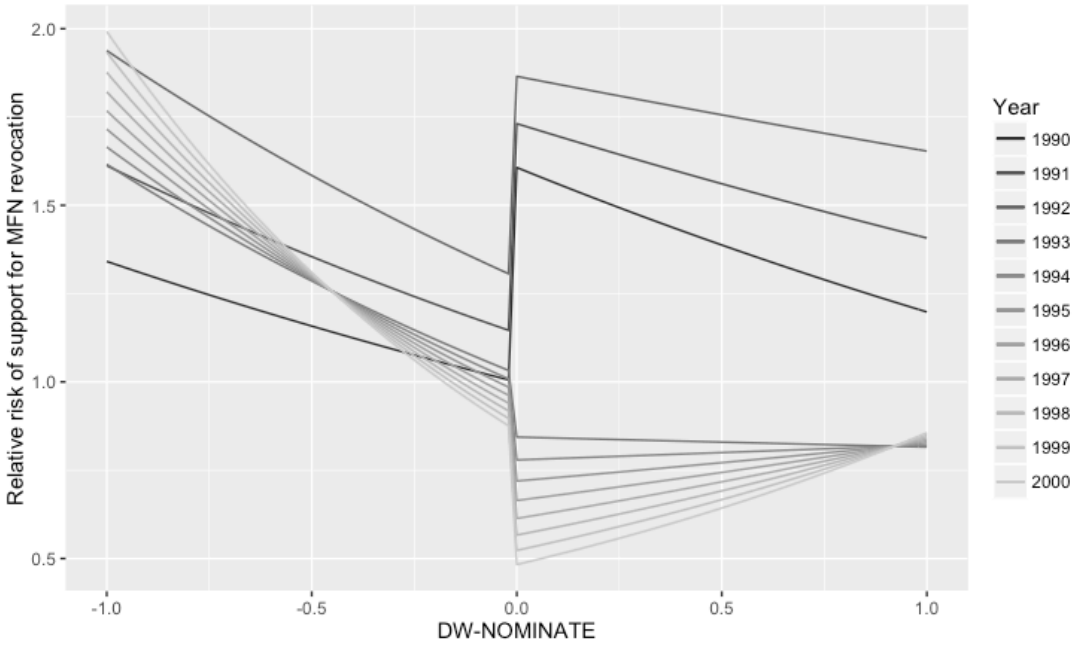
	8	9	10
GOP	0.039	0.004	0.223
	(0.035)	(0.035)	(0.021)
Pres. party	-0.190***	-0.176***	-0.251***
	(0.019)	(0.018)	(0.024)
Labor PAC	0.365***	0.152	0.391*
	(0.138)	(0.137)	(0.156)
Corporate PAC	0.000***	0.059	-0.003
	(0.138)	(0.137)	(0.137)
Agricultural products	-2.262***	-2.190***	-2.084***
	(0.273)	(0.270)	(0.269)
Manufacturing labor	0.641***	0.035	0.681***
	(0.176)	(0.021)	(0.174)
Education	-0.401***	-0.427***	-0.429***
	(0.112)	(0.110)	(0.110)
Exports	-128.134***	-136.850***	-135.202***
	(20.740)	(20.507)	(20.464)
Imports	18.867***	18.565***	16.301***
	(3.933)	(3.886)	(3.892)
Future exports	-17.940	-18.667	-20.824
	(12.185)	(12.038)	(11.993)
Future imports	3.213	4.481	4.209
	(2.749)	(2.719)	(2.707)
Veterans	1.149***	1.281***	1.257***
	(0.324)	(0.320)	(0.319)
Chinese descent	-1.590	-3.609*	-3.446*
	(1.562)	(1.555)	(1.553)
Chinese descent x Education	17.808**	0.035	19.106***
	(5.467)	(0.021)	(5.400)
Armed Services Comm.	0.074***	0.087***	0.089***
	(0.021)	(0.020)	(0.020)
Human Rights Subcomm.	0.216***	0.227***	0.226***
	(0.042)	(0.041)	(0.041)
Trade Subcomm.	-0.205***	-0.224***	-0.227***
	(0.038)	(0.041)	(0.038)
1990-1992 bubble	0.160***	0.165***	0.154***
	(0.014)	(0.013)	(0.013)
Labor PAC x Year	0.130***	0.146***	0.088**
	(0.022)	(0.022)	(0.028)
Corporate PAC x Year	-0.071**	-0.069**	-0.050*
	(0.023)	(0.023)	(0.023)
DW-NOM.	-0.039	-0.538***	-0.294**
	(0.045)	(0.066)	(0.109)
GOP x DW-NOM.		0.896***	0.221
		(0.086)	(0.155)
GOP x Year			-0.055***
			(0.013)
DW-NOM. x Year			-0.054**
			(0.020)
GOP x DW-NOM. x Year			0.141***
			(0.027)
Year	-0.023***	-0.030***	-0.025***
	(0.007)	(0.007)	(0.010)
Constant	0.593***	0.476***	0.465***
	(0.090)	(0.090)	(0.091)
N	4,408	4,408	4,408
AIC	5,352	5,246	5,209

Significance codes: *** p > 0.001; ** p > 0.01; * p > 0.05. Standard errors in parentheses. The estimated coefficients for unemployment are not reported to save space, but they are not statistically significant.

Figures 4.6 and 4.7 – DW-NOMINATE, year, and relative risk of support for MFN revocation (Model 10)



This figure includes the predicted effects of DW-NOMINATE, including its interactions with political party and year of the vote, including the 1990-1992 bubble. For simplicity, it assumes if DW-NOMINATE > 0, the Member of Congress is a Republican, and if ≤ 0, a Democrat.



This figure includes the predicted effects of DW-NOMINATE, including its interactions with political party and year of the vote, including the 1990-1992 bubble, as well as the effects of political party and being in the president's party. For simplicity, it assumes that if DW-NOMINATE > 0, the Member of Congress is a Republican, and if ≤ 0, a Democrat.

shows that centrists in 2000 were 50% less likely to support MFN revocation than in 1990. Noting that 95% of Representatives had DW-NOMINATE scores in the -0.6 to 0.8 DW-NOMINATE range in 2000 helps shed light on how the increasing opposition to MFN revocation among ideological centrists helped defeat these resolutions. Table 4.6 details the estimated impact of statistically significant predictors; the impact of DW-NOMINATE and its interactions is quite significant compared with the model's other predictors, as an increase in DW-NOMINATE of one standard deviation is associated with an increase of 32% Republicans' odds of supporting MFN revocation in 2000 and a 33% decrease for Democrats.[381]

This finding is further evidence of the influence of diverse interests and causal stories and the limitations of the OEP approach, including its assumption of hyper-rationality and exclusive focus on economic interests. First, as has been shown, Members of Congress and their constituents had diverse objectives like economic profit and growth, U.S. national security, and the promotion of human rights. Moreover, when those interests are held constant, policy preferences still changed over time because the debate centered around means as well as ends. As Chapters 2 and 3 have shown, a causal story argued that economic engagement with China would promote U.S. economic, security, and normative interests and became increasingly popular throughout the 1990s, fueling this centrist consensus on the merits of China policies like MFN renewal and peaking with China's WTO accession in 2001. A pure OEP explanation (Model 1) predicts that Members of Congress like Nancy Pelosi,

[381] Note also that while the veterans, Chinese descent and Congressional committee variables have a relatively small impact on MFN voting odds, this does not undercut the importance of non-economic interests. These are quite narrow proxies for such interests, so finding statistically significant relationships, even small ones, constitutes important evidence.

Table 4.6 – Estimated impact of predictors on support for MFN revocation (Model 10)

Variable	Coefficient	Mean	Std. dev.	Relative risk (+1 s.d.)
GOP	0.223	dummy	dummy	1.250*
Pres. party	-0.251	dummy	dummy	0.778*
Labor PAC (Year = 10)	1.269	0.108	0.117	1.161
Corporate PAC (Year = 10)	-0.500	0.147	0.095	0.953
Agricultural products	-2.084	0.026	0.031	0.938
Manufacturing labor	0.681	0.195	0.066	1.046
Education	-0.429	0.220	0.087	0.964
Exports	-135.202	0.001	0.001	0.931
Imports	16.301	0.006	0.003	1.051
Veterans	1.257	0.115	0.026	1.033
Chinese descent	-3.446	0.008	0.012	0.958
Chinese descent x Education	19.106	0.002	0.004	1.076
Armed Services Comm.	0.089	dummy	dummy	1.094*
Human Rights Subcomm.	0.226	dummy	dummy	1.253*
Trade Subcomm.	-0.227	dummy	dummy	0.797*
1990-1992 bubble	0.154	0.273	0.617	1.100
DW-NOM. (Party ≠ GOP, Year = 10)	-0.838	0.147	0.480	0.669
DW-NOM. (Party = GOP, Year = 10)	0.572	0.100	0.480	1.316
Year (Party = GOP)	-0.080	5.003	3.162	0.778
Year (Party ≠ GOP)	-0.025	5.003	3.162	0.925

* For dummy variables, relative risk based on increase from 0 to 1.
Only independent variables with statistically significant coefficients are included.

Joel Hefley, and Mark Sanford would favor MFN renewal due to pressures from industry, while the full speculative politics model (Model 10) takes into account Pelosi's Chinese-American constituents, Hefley's high share of veterans, and Sanford's extreme conservatism to generate more accurate predictions. Thus, the non-economic interest and causal story proxies introduced here represent important updates to existing OEP models in more multifaceted cases like the MFN debates.

Do these findings hold when it comes to votes with real policy stakes, as opposed to these largely symbolic revocation resolutions? After all, White House officials and other actors put much more pressure on Members of Congress when it comes to such votes. Thus, the predictions from the full model (Table 4.7, Model 10) are compared with the results of the same model run on voting on MFN conditional bills, veto override votes, and PNTR (see Table 4.7, Models 11-13). The conditionality bills of 1991 and 1992, H.R. 2212 and H.R.5318, were compromises carefully crafted to garner enough votes to overcome President Bush's veto, and thus votes on them may have been slightly different than votes on the revocation resolutions, which had little chance of becoming law. This is especially true for the votes to override Bush's veto of the two conditionality bills. The PNTR vote in 2000 also had major stakes, as the bill revised the Trade Act of 1974 and exempted China from annual MFN renewal, potentially creating more stability and security for U.S.-China economic relations going forward while also decreasing U.S. leverage on China, as well as Congressional influence on U.S. China policy. Moreover, PNTR was part of the U.S.-China agreement on China's WTO accession, and a failure to pass the bill would mean that U.S. would not benefit from the commitments China made in its accession protocol, many of which were important to U.S. interests and wrested from the Chinese by U.S. negotiators.

With far fewer observations in each of these three samples, it should be more difficult to find statistically significance, but a number of the economic interest variables remain so. Several of the non-economic interest proxies – veterans, Chinese descent, and the Congressional committee variables – remain significant in some of these models. Because these three samples are cross sections, these models do not include the interaction of DW-NOMINATE, party, and time, just snapshots in 1992

Table 4.7 – Logistic analysis of Congressional voting on MFN revocation resolutions, conditionality bills, veto-overrides, and PNTR

	10 (Revocation)	11 (Conditions)	12 (Veto)	13 (PNTR)
GOP	0.223	-0.074	-0.331***	0.001
	(0.021)	(0.070)	(0.051)	(0.106))
Pres. party	-0.251***			
	(0.024)			
Labor PAC	0.391*	-0.263	-0.461***	1.413**
	(0.156)	(0.197)	(0.140)	(0.278)
Corporate PAC	-0.003	-0.144	-0.473***	-0.427
	(0.137)	(0.181)	(0.127)	(0.219)
Agricultural products	-2.084***	-2.027***	-2.078***	-2.580***
	(0.269)	(0.393)	(0.402)	(0.726)
Manufacturing labor	0.681***	-0.033	-0.750*	0.285
	(0.174)	(0.256)	(0.297)	(0.463)
Education	-0.429***	0.367*	0.296	-0.708*
	(0.110)	(0.181)	(0.210)	(0.317)
Exports	-135.202***	15.856	64.586	-86.945
	(20.464)	(44.036)	(38.493)	(70.084)
Imports	16.301***	24.191*	14.688	9.257
	(3.892)	(8.808)	(8.343)	(9.560)
Future exports	-20.824	-47.913**	-38.565*	-40.883
	(11.993)	(16.808)	(17.417)	(45.925)
Future imports	4.209	6.576	10.855**	6.232
	(2.707)	(3.428)	(3.855)	(9.719)
Veterans	1.257***	1.356*	1.628*	0.856
	(0.319)	(0.562)	(0.638)	(0.801)
Chinese descent	-3.446*	2.456	-0.043	-5.791
	(1.553)	(2.632)	(3.139)	(4.395)
Chinese descent x Education	19.106***	-12.688	-3.223	13.504
	(5.400)	(10.203)	(11.862)	(13.841)
Armed Services Comm.	0.089***	0.003	-0.035	0.034
	(0.020)	(0.032)	(0.038)	(0.060)
Human Rights Subcomm.	0.226***	0.112	0.256**	0.148
	(0.041)	(0.081)	(0.099)	(0.117)
Trade Subcomm.	-0.227***	-0.116	-0.067	-0.247*
	(0.038)	(0.064)	(0.078)	(0.111)
1990-1992 bubble	0.154***			
	(0.013)			
Labor PAC x Year	0.088**	0.092		
	(0.028)	(0.154)		
Corporate PAC x Year	-0.050*	-0.022		
	(0.023)	(0.154)		
DW-NOM.	-0.294**	-0.246	-0.188	-0.830***
	(0.109)	(0.144)	(0.104)	(0.210)
GOP x DW-NOM.	0.221	-0.005	0.094	1.235***
	(0.155)	(0.199)	(0.142)	(0.250)
GOP x Year	-0.055***	0.002		
	(0.013)	(0.056)		
DW-NOM. x Year	-0.054**	-0.096		
	(0.020)	(0.109)		
GOP x DW-NOM. x Year	0.141***	0.030		
	(0.027)	(0.156)		
House			0.239***	0.113*
			0.142	(0.055)
Year	-0.025*	-0.061		
	(0.010)	(0.049)		
Constant	0.465***	0.548***	0.356	
	(0.091)	(0.140)	(0.237)	()
N	4,408	1,226	953	512
AIC	5,209	880	644	548

Significance codes: *** p > 0.001; ** p > 0.01; * p > 0.05. Standard errors in parentheses. The estimated coefficients for unemployment are not reported to save space, but they are not statistically significant.

and 2000 of the DW-NOMINATE and party interaction. The interaction is not significant for the conditions and veto override votes but is for the PNTR vote, which fits with the centrist-versus-radicals emerging over the course of the decade.

Finally, do trips to China and, thus, exposure to Chinese actors, have the hypothesized relationship with voting? A fixed effects panel regression is run using the full specification in Model 10 plus a dummy variable indicating whether the Member of Congress had made one or more official trips to China prior to the vote and since Tiananmen, China trip, yielding a positive result (see Table 4.8, Model 14).[382] China trips have an estimated coefficient of -0.060 with statistical significance at the p <0.05 level. Thus,

Table 4.8 – Panel analysis of Congressional voting on MFN revocation, 1990-2000

	14 (Panel)
Pres. party	-0.222***
	(0.020)
Corporate PAC	0.358*
	(0.168)
Labor PAC x Year	0.073**
	(0.026)
Corporate PAC x Year	-0.048*
	(0.022)
Veterans	1.444*
	(0.728)
Armed Services Comm.	0.148**
	(0.047)
Trade Subcomm.	-0.144**
	(0.049)
GOP x Year	-0.064***
	(0.012)
GOP x DW-NOM. x Year	0.065*
	(0.026)
China trips	-0.060*
	(0.025)
Fixed Effects	Year, Representative
N	4,408
R^2	0.67

Significance codes: *** p > 0.001; ** p > 0.01; * p > 0.05.
Standard errors in parentheses. All previous independent variables were included in the analysis, but only coefficients for statistically significant variables are shown due to space limitations The model was unable to predict a coefficient for the interaction between Chinese descent and exports due to data limitations.

[382] A Hausman test suggests that fixed effects are more appropriate than random effects.

trips were associated with decreased likelihood of voting for revocation of China's MFN status. This result bolsters the argument that exposure to China, including to Chinese officials, influenced policy preferences, and is consistent with the systemic biases and foreign manipulation claims of the speculative politics framework. It is worth noting that it could also fit with a rationalist explanation, as Members of Congress could simply be engaging in rational updating in light of new information garnered on these trips; however, qualitative analysis in previous chapters casts doubt on this alternative explanation. Again, it was not expected that many independent variables would remain significant given their time invariance and the inclusion of the fixed effects. Nonetheless, the fact that two of the non-economic interest proxies – veterans and Armed Services Committee membership – as well as the DW-NOMINATE, party, and year interaction, remain significant even when fixed effects are included further reinforces the argument that these do not reduce down to economic interests not accounted for by the independent variables included, i.e., the models are less likely to suffer from omitted variable bias.

Conclusion

This chapter has analyzed a decade of U.S. Congressional voting on renewal of China's MFN status and establishment of PNTR and argues that while economic interests do shape policy preferences on these issues, so too do non-economic interests like national security and the promotion of human rights. Perhaps even more importantly, this chapter has developed further evidence in support of a role for causal stories and bubble dynamics, with a trend of increasing support for MFN revocation that peaked in the early 1990s, followed by a growing consensus among political

centrists about the upsides of globalization and engagement. Moreover, exposure to foreign actors appears to have shaped U.S. officials' policy preferences, fitting with the systemic bias and foreign influence claims of the speculative politics framework. The results of this analysis are positive but not sufficient; however, with the quantitative analysis here and qualitative analysis in other chapters, this dissertation presents strong evidence for the speculative politics framework and makes important theoretical and analytical contributions to IPE and the study of trade preferences. It is notable that quantitative evidence for the speculative politics hypotheses has been found, testing directly against a traditional OEP model using an analytical approach based on OEP work.

These findings also have important implications for the today's debates about China, as well as globalization and economic engagement more generally, which appear to reflect still this centrists-versus-radicals dynamic that emerged during the decade of MFN debates. Based on the analysis in this chapter and others, this dynamic does not reduce down to straightforward rational pursuit of economic interests. Rather, a combination of economic and non-economic interests, rationality, beliefs, and biases drove policy preferences in the 1990s, building a bubble in engagement that reached its peak with China's WTO accession in 2001. Chapter 5 focuses on the period following the WTO accession, showing how debates over U.S. economic policy towards China developed as disappointment with the results of engagement grew, ultimately bursting the bubble.

Chapter 5

Mounting Frustration: China Trade Enforcement and Negotiation During the George W. Bush and Barack Obama Administrations

Following China's accession to the World Trade Organization (WTO), the U.S. approach to trade enforcement and negotiation with China entered a long period of gradual adjustment and mounting frustration. Despite increasingly viewing China as a strategic competitor, the George W. Bush and Barack Obama administrations both continued to emphasize the transformative effects of economic and diplomatic engagement with China but also grew impatient with the pace and direction of Chinese reforms and the effectiveness of tools that the U.S. could use to try to change Chinese behavior. After only bringing one case against China in the WTO dispute settlement mechanism in the first five years of China's membership, the Office of the U.S. Trade Representative (USTR) conducted a review of U.S.-China trade relations in 2006, leading to increased resources for China trade enforcement and ultimately more WTO cases against China. In addition to WTO enforcement, both administrations utilized bilateral negotiation fora like the Strategic Economic Dialogue (SED), Strategic and Economic Dialogue (S&ED), Joint Commission on Commerce and Trade (JCCT), and bilateral investment treaty (BIT) negotiations. Facing the limits of both WTO enforcement and multilateral and bilateral negotiations, U.S. actors also emphasized the potential to promote "competitive liberalization" in China by negotiating with other partners, most notably with the Trans-Pacific Partnership (TPP). Even as the U.S. updated its tactics, disappointment with Chinese behavior and disillusionment with the ability of U.S. engagement to shape that behavior grew, particularly in the wake of the global financial crisis.

This chapter traces the mounting U.S. frustration with Chinese behavior and the established engagement approach to U.S. China trade policy during the Bush and Obama presidencies, with a particular focus on WTO enforcement and key negotiations with China and other countries, including the U.S.-China BIT and the TPP. The evidence during this period continues to fit the speculative politics framework rather than alternative explanations. As discussed in previous chapters, China's WTO accession marked the peak of the enthusiasm for an engagement approach to China. The subsequent fifteen years of gradual updating to this approach, even as Chinese behavior across a range of issues increasingly diverged from American hopes, meant that pressure continued to build and the diverse coalition in support of engagement to erode, laying the groundwork for the bursting of the bubble with the 2016 U.S. presidential election.

The chapter proceeds as follows. First, it lays out the chronology of key events, showing the limits of alternative explanations. Second, it draws on archival research and elite interviews and finds support for the key claims of the speculative politics framework: the importance of multiple interests, causal stories, systemic biases, and manipulation and speculative bubbles.

5.1 From WTO Accession to Top-to-Bottom Review

This section reviews the history of U.S. monitoring and enforcement of China's WTO commitments during the Bush administration, as well as related trade negotiations aimed at addressing some of the issues that arose, thereby demonstrating the limits of existing international relations (IR) explanations, with a focus on open economy politics (OEP), geopolitical, and normative approaches. All three

approaches center on a single interest area and thus struggle to explain the mixture of security, normative, and economic interests and actors that continued to drive economic policy towards China. Furthermore, the stickiness of beliefs about the trajectory of Chinese reforms and the U.S. approach to encouraging them also does not fit with rationalist explanations. Nor do normative explanations, which emphasize tend to the logic of appropriateness rather than the logic of consequences, fit with the continued pursuit of more effective tactics to influence Chinese behavior when updating did take place.

George W. Bush came into office calling China a strategic competitor but nonetheless promising continued support for economic engagement with China, including its WTO accession. As a presidential candidate, Bush criticized the Clinton administration for referring to China as a "strategic partner", emphasizing concerns about China's growing military strength and espionage capabilities, as well as its continued illiberal political system. While a geopolitical IR explanation would expect increased strategic competition would drive increased economic competition, like his father and Clinton, Bush argued that free trade is part of "a forward strategy for freedom" by helping foster "habits of liberty" and "expectations of democracy."[383] Similarly, Condoleezza Rice, then the Bush campaign's top foreign policy advisor, wrote in *Foreign Affairs*, "It is important to promote China's internal transition through economic interaction while containing Chinese power and security ambitions."[384] Even though the September 11, 2001 terrorist attacks would prompt the Bush administration to refocus on the Middle East and recast China as a partner in the war on terror, these early statements predating 9/11 make clear that increased

[383] "Bush Campaign Speech" (C-SPAN, November 19, 1999).
[384] Condoleezza Rice, "Campaign 2000: Promoting the National Interest," *Foreign Affairs*, January 1, 2000.

strategic competition did not undercut the United States' commitment to economic engagement, as a geopolitical IR explanation might expect.[385] In fact, due to the proposed causal link between trade and democratization, the need for engagement was arguably more pressing. Thus, any single-issue focused IR explanation would struggle to explain such a multifaceted justification.

As a candidate, Bush also promised to lead a strong administration that would hold China to its WTO commitments but in his first term took a less combative approach. The Bush administration saw the first five years post-accession as a transition period for China.[386] Moreover, the 2002-2003 Chinese leadership transition from Jiang Zemin and Zhu Rongji to Hu Jintao and Wen Jiabao also increased the sense of transition and need to take time to assess the trajectory of China's reforms.[387] Thus, USTR raised a number of concerns about China's WTO compliance but brought just one WTO case against China during the first five years of China's membership, preferring to raise issues in bilateral negotiations.[388] The White House also declined to issue tariff relief under the product-specific safeguard authorized as a twelve-year transitional mechanism under China's WTO accession protocol, despite the U.S. International Trade Commission (USITC) finding a market disruption due to Chinese imports and proposing a tariff remedy in three cases; however, the administration did apply some textile safeguards.[389]

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[385] Ashley Tellis, "Pivot or Pirouette: The U.S. Rebalance to Asia" (Bangalore, India: National Institute of Advanced Studies, January 3, 2014), 6–7; David M. Lampton, "A Tipping Point in U.S.-China Relations Is Upon Us" (Speech at the "China's Reform: Opportunities and Challenges" Conference, May 6, 2015).
[386] Former U.S. trade official, interview by author, March 5, 2019.
[387] Trade official, interview by author, April 15, 2016.
[388] Namely, DS309 China – Value-Added Tax on Integrated Circuits. Office of the U.S. Trade Representative, "2004 Report to Congress on China's WTO Compliance," December 11, 2004, 4.
[389] Terence Stewart, "China's Compliance with World Trade Organization Obligations: A Review of China's 1st Two Years of Membership" (U.S.-China Security and Economic Review Commission, March 19, 2004), 6–7.

In Bush's second term, however, the administration decided it was time to update its approach to China. The new Chinese leadership had proven to be less committed to reform than U.S. officials had hoped, implementing statist policies like the push for "indigenous innovation" and the centralization of control over state-owned enterprises (SOEs) with the creation of the State-owned Assets Supervision and Administration Commission (SASAC).[390] In September 2005, Robert Zoellick, who had served as the USTR from 2001 until early 2005 before becoming Deputy Secretary of State, gave a speech to the National Committee on U.S.-China Relations in which he argued that U.S. had succeeded in helping China become a member in the international system, including institutions like the WTO; now it was time to focus on pushing China to become a "responsible stakeholder" in the system.[391] In February 2006, the USTR top-to-bottom review of U.S.-China trade relations also concluded that the relationship was entering a new phase in which China was a "mature" member of the global trading system, but the relationship lacked equity and sustainability and therefore more vigorous and proactive U.S. enforcement was needed.[392] As a result, USTR created a new China Enforcement Task Force headed by a new Chief Counsel for China and assigned a permanent trade negotiator to the Beijing embassy.[393] Unsurprisingly, with the change in approach and increase in resources came a significant uptick in U.S. cases against China in the WTO dispute

[390] The State Council, The People's Republic of China, "The Outline for National Medium- and Long-Term Program for Science and Technology Development (2006-2020)," 2005; Barry Naughton, "Claiming Profit for the State: SASAC and the Capital Management Budget," *China Leadership Monitor*, no. 18 (2006): 1–9.
[391] Robert B. Zoellick, "Whither China: From Membership to Responsibility?" (Remarks to the National Committee on U.S.-China Relations, September 21, 2005).
[392] Press Conference, Rob Portman, "US-China Trade Relations Top-to-Bottom Review," February 14, 2006; Office of the U.S. Trade Representative, "Top-to-Bottom Review of U.S.-China Trade Relations: Entering a New Phase of Greater Accountability and Enforcement," February 2006.
[393] For comparison, there is no chief counsel position for any other country at USTR, and the only other permanent USTR staff abroad are based in Geneva, where the WTO is based, and Brussels, where the European Commission is based. Press Conference, Rob Portman, "US-China Trade Relations Top-to-Bottom Review."

settlement mechanism, with one in 2006, three in 2007, and two in 2008.[394] At the same time, the Treasury Department under Secretary Hank Paulson established the Strategic Economic Dialogue to continue and deepen high-level discussions of long-term economic issues like market access, intellectual property (IP) protections, and currency liberalization.[395] In 2008, the U.S. and China launched negotiations on a bilateral investment treaty (BIT), although they stalled with the presidential transition.[396]

Nonetheless, privately, many U.S. officials questioned the efficacy of bilateral discussions and WTO disputes to address the fundamental structural issues in China like the dominance of SOEs.[397] Furthermore, the global financial crisis helped Chinese officials push back on the economic liberalization that the U.S. advocated. Famously, at an SED in 2008, Wang Qishan pulled Paulson aside and told him, "You were my teacher, but now I am here in my teacher's domain, and look at your system, Hank. We aren't sure we should be learning from you anymore."[398] Meanwhile, the deadlock in the WTO Doha Round had driven USTR to pursue alternative negotiating fora. USTR embarked a series of free trade agreement (FTA) negotiations with likeminded liberal economies in order to try to trigger "competitive liberalization", most notably joining the Trans-Pacific Partnership (TPP) negotiations with Brunei,

[394] Namely, DS340 China – Measures Affecting Imports of Automobile Parts in 2006, DS358 China – Certain Measures Granting Refunds, Reductions or Exemptions from Taxes and Other Payments, DS362 China – Measures Affecting the Protection and Enforcement of Intellectual Property Rights, and DS 363 China – Measures Affecting Trading Rights and Distribution Services for Certain Publications and Audiovisual Entertainment Products in 2007, and DS373 China – Measures Affecting Financial Information Services and Foreign Financial Information Suppliers and DS387 China – Grants, Loans and Other Incentives in 2008.
[395] "Fact Sheet: Creation of the U.S.-China Strategic Economic Dialogue," U.S. Department of Treasury, September 20, 2006; Henry M. Paulson, *Dealing with China: An Insider Unmasks the New Economic Superpower* (New York: Hachette Book Group, 2015), 183–86.
[396] "Toward a US-China Investment Treaty," PIIE Briefing (Peterson Institute for International Economics, February 2015).
[397] Warren Maruyama (former USTR General Counsel), interview by author, March 8, 2019.
[398] Paulson, *Dealing with China*, 240; former U.S. trade official, interview, March 8, 2019.

Chile, Singapore, and New Zealand in September 2008, whereupon Australia, Peru, and Vietnam also joined.[399] This gradual updating during the Bush administration of the U.S. approach to China despite mounting frustration does not fit well with explanations based on rational updating, and the coming rethink even less so.

5.2 The Obama Administration and the Asia Pivot

The Obama administration came into office largely looking to maintain the established U.S. policy toward China, including continuing the intense bilateral discussions, ramped-up WTO enforcement, and negotiation of the TPP. Nonetheless, building frustration with Chinese policies and fading hopes for change – on economic, political, and military issues – created increasing pressure for a new approach that policy tweaks could not satisfy, coming to a head in the 2016 presidential election. The slow build and ultimate backlash, as well as the mix of interests and actors, fit poorly with existing IR explanations that focus on single issue areas or assume rationality.

Obama's foreign policy team came into office largely looking to maintain and expand upon established U.S. policy toward East Asia, including China. As Jeff Bader, a lead Asia advisor on the Obama campaign and senior director for Asian affairs on the National Security Council (NSC) from 2009 to 2011, describes, the Obama foreign policy team disagreed with much of Bush's foreign policy, particularly in the Middle East, but did not see the need for dramatic changes in East

[399] Susan Schwab, "Statement on Launch of the U.S. Negotiations to Join the Trans-Pacific Strategic Economic Partnership Agreement," Office of the U.S. Trade Representative, September 2008. During the Bush administration, USTR also negotiated FTAs with Jordan, Australia, Chile, Singapore, Bahrain, Morocco, Oman, Peru, and the Dominican Republic and five Central American countries. Prior to the Bush administration, the U.S. had only negotiated an FTA with Israel and the North American Free Trade Agreement (NAFTA) with Canada and Mexico.

Asia policy.[400] The White House and the State Department saw a need to increase U.S. focus on China and the Asia-Pacific region, although that proved challenging given that the economic recovery and healthcare reform had the highest priority in Obama's first term.[401] Because of his focus on U.S. economic competitiveness, however, Obama initially wanted to push back harder on China for violating the rules and norms of the global trading system. Ongoing issues like Chinese government support for indigenous innovation, centralization and consolidation of SOEs, and claiming of developing economy status at the WTO continued to create serious concerns among U.S. businesses and officials. In addition, new Chinese initiatives like a 2010 strategic emerging industries development plan and increasing state-enabled cybertheft of foreign IP added to concerns about the long-term trajectory of Chinese policy, prompting some to speak of a "newly assertive" China.[402] Over the course of 2009 and 2010, Obama gathered his economic advisors to discuss new approaches to economic policy towards China; however, Director of the National Economic Council (NEC) Larry Summers and Treasury Secretary Tim Geithner poured cold water on options like a tougher approach to bilateral and multilateral discussions with China, sanctions against Chinese IP rights violators, and more aggressive use of WTO dispute settlement and U.S. trade law, arguing that the downsides of Chinese retaliation and a negative market reaction outweighed the

[400] Jeffrey A. Bader, *Obama and China's Rise: An Insider's Account of America's Asia Strategy* (Washington, D.C.: The Brookings Institution, 2012), xvii.
[401] Bader, xvii; Kurt M. Campbell, *The Pivot: The Future of American Statecraft in Asia* (New York: Hachette Book Group, 2016), xix–xxi.
[402] "State Council Decision on Accelerating the Development of Strategic Emerging Industries [Guowuyuan Guanyu Jiakuai Peiyu He Fazhan Zhanlüexing Xinxing Chanye de Jueding]" (State Council, People's Republic of China, October 10, 2010), Guofa [2010] No. 32; "APT1: Exposing One of China's Cyber Espionage Units" (Mandiant, February 19, 2013); Alastair I. Johnston, "How New and Assertive Is China's New Assertiveness?," *International Security* 37, no. 4 (2013): 7–48.

benefits from improved Chinese behavior.[403] Thus, while the Obama administration made some adjustments to the Bush administration's approach to China, a fundamental overhaul was still seen as too risky.

The administration did make smaller, less disruptive adjustments to the U.S. approach to Asia, framing this initiative as the "pivot" or "rebalance" to Asia. After some interagency work, a 2011 article by Secretary of State Hillary Clinton in *Foreign Policy* coined the term the "pivot" and articulated six key facets of the administration's approach: "strengthening bilateral security alliances; deepening our working relationships with emerging powers, including with China; engaging with regional multilateral institutions; expanding trade and investment; forging a broad-based military presence; and advancing democracy and human rights."[404] The TPP, first embraced by the Bush administration and recommitted to by the Obama administration in November 2009, became one of the key components of the pivot, with senior State Department and NSC officials pushing for the new administration to embrace the agreement due to their belief in its strategic significance, overcoming the objections of economic officials like Larry Summers who thought it was too small.[405] This so-called "mega-FTA" became even more significant as additional countries joined the TPP negotiations: Malaysia in 2010, Mexico and Canada in 2012, and, most importantly, Japan in 2013, meaning the agreement would cover nearly 40 percent of the global economy. Obama, promoting the TPP in 2015 as negotiations were drawing to a close, argued, "We've got to make sure we're writing those trade rules in the fastest-growing region of the world, the Asia-Pacific, as opposed to

[403] Bader, *Obama and China's Rise: An Insider's Account of America's Asia Strategy*, 112–14; Mark Landler, *Alter Egos: Hillary Clinton, Barack Obama, and the Twilight Struggle Over American Power* (New York: Random House, 2016), 297–98.
[404] Hillary Clinton, "America's Pacific Century," Foreign Policy, October 11, 2011.
[405] Landler, *Alter Egos: Hillary Clinton, Barack Obama, and the Twilight Struggle Over American Power*, 302.

having China write those rules for us, in which case American businesses will lose and American workers will lose."[406] U.S. officials saw these negotiations, which covered China-relevant issues like disciplines for SOEs and high IP standards, as particularly important given deadlock in the WTO Doha Round negotiations. The twelve participating nations signed the concluded agreement in February 2016, but the Obama administration was unable to secure congressional approval for ratification in an election year in which trade had become a controversial issue.[407] Thus, the multiple, interconnected interests and actors at work do not fit with single issue-focused IR explanations.

Continued engagement with China was also part of the Obama administration's approach to Asia. The Bush administration's Strategic Economic Dialogue (SED) became the Strategic and Economic Dialogue (S&ED), with the State Department joining the Treasury Department to discuss both political and economic issues.[408] Furthermore, after updating its model BIT in 2012, the U.S. agreed to relaunch the BIT negotiations with China that had begun during the Bush administration, this time with a commitment from China to use a "negative list" approach, meaning that China would agree to open its economy to foreign investment except for a limited list of industries negotiated by the two countries.[409] In 2014 and 2015, Obama and Xi announced a number of bilateral accords, including cooperation

[406] Barack Obama, President Obama on TPP, China, Japan, Pope Francis, Cuba, interview by Gerald F. Seib, April 27, 2015, *the Wall Street Journal*.
[407] Meanwhile, the Korea-US FTA (KORUS), which was negotiated during the Bush administration but ratified in 2011 and entered into force in 2012, and negotiations on the U.S.-EU Transatlantic Trade and Investment Partnership (TTIP), which were launched in 2013 but never concluded, were similarly seen as important drivers of competitive liberalization, anchors for key alliances, and part of the U.S. approach to China.
[408] U.S. Department of Treasury, "FACT SHEET: U.S.-China Strategic and Economic Dialogue," 2009.
[409] Jeffrey J. Schott and Cathleen Cimino, "The China-Japan-Korea Trilateral Investment Agreement: Implications for US Policy and the US-China Bilateral Investment Treaty," PIIE Briefing, Toward a US-China Investment Treaty (Peterson Institute for International Economics, February 2015), 11.

on climate change, lower Chinese tariffs on information technology goods, and an agreement on cyber norms such as opposition to cyber-enabled theft of IP.[410] Thus, through collaboration with likeminded partners and bilateral engagement with China, the Obama administration continued to try to encourage economic reforms in China and other desirable behavior like cooperation after the global financial crisis.

At the same time, the Obama administration was from the beginning committed to intensifying trade enforcement efforts started under Bush. In September 2009, the White House approved the first trade relief action on Chinese tires under the product safeguard negotiated under China's WTO accession protocol; the Bush administration had denied all previous requests.[411] With this transitional safeguard expiring in December 2013, however, and with only a few years left of possible trade remedies if a petitioner prevailed, the incentive for companies to request the application of the safeguard was low, and few requests were made.[412] The U.S. also poured even more resources into WTO enforcement, with a 2012 executive order establishing a trade enforcement center to support the USTR general counsel's office with the research necessary to bring WTO cases and 2015 legislation codifying the center.[413] In May 2014, the U.S. Department of Justice indicted five Chinese military officers for cyber espionage against American firms in the nuclear power, metals, and

[410] The White House, Office of the Press Secretary, "U.S.-China Joint Announcement on Climate Change," November 11, 2014, Obama White House Website Archive; Mark Landler, "U.S. and China Reach Climate Accord After Months of Talks," *The New York Times*, November 11, 2014; The White House, Office of the Press Secretary, "FACT SHEET: President Xi Jinping's State Visit to the United States," September 25, 2015, Obama White House Website Archive.
[411] The White House, Office of the Press Secretary, "Memorandum for the Secretary of Commerce, the Secretary of Labor, and the United State Trade Representative," September 11, 2009, Presidential Determination, No. 2009-28, Obama White House Website Archive.
[412] Tim Reif (former USTR General Counsel and Senior Advisor to USTR Robert Lighthizer), interview by author, February 28, 2019; Bader, *Obama and China's Rise: An Insider's Account of America's Asia Strategy*, 114.
[413] Executive Order 13601, Establishment of the Interagency Trade Enforcement Center, February 28, 2012, *Code of Federal Regulations*, title 3 (2012): 220-222; "Trade Facilitation and Trade Enforcement Act of 2015," Pub. L. No. 114–125, 130 Stat. 122 (2016).

solar products industries.[414] In 2016, the U.S. also decided to continue treating China as a non-market economy (NME) to calculate anti-dumping margins on Chinese imports, despite language in China's WTO accession protocol that some argue appears to require WTO members to end their use of NME methodologies for China after 15 years, i.e., in December 2016.[415] With these redoubled efforts, over the course of the Obama presidency, USTR focused on a number of key areas in China enforcement, including core industrial policies such as subsidization, regulatory discrimination, and selective use of export controls in attempts to incentivize investment in China in downstream processing and manufacturing, as well as Chinese misuse of anti-dumping and countervailing duty (AD/CVD) trade remedies, and brought a record 13 cases against China in WTO dispute settlement and won them all; the U.S. also strengthened its defense against challenges by China and other countries of U.S. application of AD/CVD measures.[416]

Despite this multipronged strategy of coordination, bilateral engagement, and enforcement, frustration with China's lack of progress continued to grow. Even though the U.S. won all the WTO cases that it brought against China and China

[414] "U.S. Charges Five Chinese Military Hackers for Cyber Espionage Against U.S. Corporations and a Labor Organization for Commercial Advantage," U.S. Department of Justice, May 19, 2014.
[415] "China's Status as a Nonmarket Economy," In Focus (Congressional Research Service, January 10, 2019).
[416] Tim Reif, interview. The disputes were DS394 China – Measures Related to the Exportation of Various Raw Materials in 2009, DS413 China – Certain Measures Affecting Electronic Payment Services, DS414 China – Countervailing and Anti-Dumping Duties on Grain Oriented Flat-rolled Electrical Steel from the United States, and DS419 China – Measures Concerning Wind Power Equipment in 2010, DS427 China – Anti-Dumping and Countervailing Duty Measures on Broiler Products from the United States in 2011, DS431 China – Measures Related to the Exportation of Rare Earths, Tungsten and Molybdenum, DS440 China – Anti-Dumping and Countervailing Duties on Certain Automobiles from the United States, and DS450 China – Certain Measures Affecting the Automobile and Automobile-Parts Industries in 2012, DS489 China – Measures Related to Demonstration Bases and Common Service Platforms Programmes and DS501 China – Tax Measures Concerning Domestically Produced Aircraft in 2015, DS508 China – Export Duties on Certain Raw Materials, DS511 China – Domestic Support for Agricultural Producers, and DS517 China – Tariff Rate Quotas for Certain Agricultural Products in 2016.

largely complied with the rulings by reversing the problematic policies,[417] WTO rulings could take several years, during which the specific policies being challenged could continue to damage U.S. companies, and even the eventual reversal of a policy was not a guarantee that similar practices would not continue.[418] Moreover, many issues that U.S. companies faced in China could not be addressed at the WTO, due to China's lack of transparency and to gaps in what the WTO rules cover. Meanwhile, multilateral and bilateral efforts to encourage liberalization also continued to stall, with, for example, China continuing to claim developing economy status in WTO negotiations and failing to make satisfactory offers in negotiations to accede to the WTO Agreement on Government Procurement, which was one of its WTO accession protocol commitments, and in BIT negotiations with the U.S.[419] The economic reforms promised during the Third Plenum of the 18th Chinese Communist Party (CCP) Congress in 2013 also largely failed to materialize.[420] If anything, the economic climate for foreign businesses in China deteriorated, with the release of discriminatory "Made in China 2025" development plan for high-tech industries in 2015 and the intrusive Cyber Security Law of 2016.[421] In addition, China grew increasingly sophisticated and aggressive in its offensive actions in the WTO,

[417] James Bacchus, Simon Lester, and Huan Zhu, "Disciplining China's Trade Practices at the WTO: How WTO Complaints Can Help Make China More Market-Oriented | Cato Institute" (The Cato Institute, November 15, 2018), Policy Analysis No. 856.
[418] Scott Lincicome and Davida Connon, "WTO Dispute Settlement—Long Delays Hit the System" (White & Case LLP, June 23, 2014).
[419] Office of the U.S. Trade Representative, "2018 Report to Congress on China's WTO Compliance," February 2019, 5, 36; David Lawder, "China Misses Deadline for 'negative List' Investment Offer to U.S.," *Reuters*, April 1, 2016.
[420] Office of the U.S. Trade Representative, "2016 Report to Congress on China's WTO Compliance," January 2017, 4.
[421] "Made in China 2025 [Zhongguo Zhizao 2025]" (State Council, People's Republic of China, May 8, 2015), Guofa [2015] No. 28; "Cyber Security Law of the People's Republic of China [Zhonghua Renmin Gongheguo Wangluo Anquan Fa]," November 7, 2016, 24th Meeting of the Standing Committee of the 12th National People's Congress.

challenging key parts of the U.S. trade remedy system,[422] while also growing increasingly militarily assertive abroad and cracking down on civil society at home.

U.S. public views of China had not been positive since Tiananmen, but now elite opinions, which had maintained the U.S. policy of engagement over the previous two decades, were shifting. Security tensions increased with the growth of the Chinese military and issues like territorial disputes with U.S. allies in the South and East China Seas, and U.S. military and foreign policy elites' trust in China degraded; moreover, business elites, who had long been the stabilizing ballast in the relationship, grew increasingly negative about China.[423] Notably, in 2010, Jeff Immelt, CEO of General Electric, when speaking to other business leaders about his concerns about China, said, "I am not sure that in the end they want any of us to win, or any of us to be successful."[424] In 2015, David Lampton, a noted China scholar, predicted that U.S.-China relations were reaching a "tipping point", with American policy elites increasingly seeing China as going in the wrong direction or even as a threat.[425] At the same time, American views on the benefits of trade in general were souring, with 59% seeing FTAs as a good thing for the U.S. in 2014 but only 45% to 2016.[426] In 2016, economists David Autor, David Dorn, and Gordon Hanson released an influential paper arguing that the impact of China's WTO accession on the U.S. economy was worse than previously anticipated, and subsequent work showed that negative impacts of trade with China were associated with support for nativist and

[422] Most notably, China challenged the U.S. interpretation of SOEs as public bodies under the WTO Agreement on Subsidies and Countervailing Measures (SCM) in DS437 and U.S. treatment of China as an NME in DS515. Mark Magnier, "China Challenges U.S., EU Over WTO Antidumping Duties - WSJ," *Wall Street Journal*, December 12, 2016; Brendan McGivern, "US – Countervailing Measures (China) (Article 21.5 – China)" (White & Case LLP, March 29, 2018).
[423] Michael Swaine et al., "U.S.-China Security Perceptions Survey: Findings and Implications," *Carnegie Endowment for International Peace*, December 12, 2013.
[424] Andrew Browne, "Immelt on China: They Won't Let Us Win," *Wall Street Journal*, July 2, 2010.
[425] Lampton, "A Tipping Point in U.S.-China Relations Is Upon Us."
[426] "Public Supports U.S. Talks With North Korea; Many Doubt Whether Its Leaders Are 'Serious'" (Pew Research Center, May 10, 2018).

extreme politicians.[427] That same year, both political parties' presidential candidates, Donald Trump and Hillary Clinton, called for a tougher approach to China and trade while also rejecting the TPP, a key component of the Obama administration's approach to China and the Asia-Pacific region. Moreover, according to subsequent analysis, import competition from China contributed to the election of Donald Trump, the more hawkish candidate on China and trade, including in key swing states, and the Trump administration would ultimately adopt a much more confrontational approach to China on trade issues.[428] Thus, an adequate theoretical explanation needs to address this slow buildup of discontent with China's trajectory and the efficacy of the U.S. approach following China's WTO accession, followed by the relatively sudden and major shift in views evidenced in the 2016 election. The ongoing debate over effective means to change China is not consistent with a norms-based explanation, while rationalist geopolitical and OEP explanations do not explain the long period of slow updating, followed by rapid, radical reassessment. The follow section turns once again instead to the speculative politics framework.

5.3 Applying the Speculative Politics Framework

This section shows how the speculative politics framework explains the key debates and decisions behind the gradual ramping up of U.S. enforcement and negotiation efforts on China trade issues across the Bush and Obama administrations. As previous chapters argued, during the H.W. Bush and Clinton presidencies, a causal

[427] David H. Autor, David Dorn, and Gordon H. Hanson, "The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade," *Annual Review of Economics* 8 (October 2016): 205–40; David Autor et al., "Importing Political Polarization? The Electoral Consequences of Rising Trade Exposure," December 2017.
[428] David Autor et al., "A Note on the Effect of Rising Trade Exposure on the 2016 Presidential Election," January 6, 2017.

story supporting engagement emerged and took hold as the new basis for U.S. China trade policy, culminating in China's WTO accession and promising that such integrating steps would encourage economic and even political liberalization in China and increasing geopolitical cooperation. China failed to live up to those expectations, and over the course of the Bush and Obama presidencies, the U.S. slowly updated its approach, ramping up its WTO enforcement starting in 2006, intensifying bilateral discussions with China starting in 2007, and turning increasingly to plurilateral negotiations like the TPP and TTIP starting in 2008. Nonetheless, dissatisfaction and pressure built, ultimately driving much more hawkish positions on China in the 2016 presidential election as the engagement bubble burst.

The key debates and decisions during this period support the four core claims of the speculative politics framework, i.e., the importance of multiple interests, causal stories, systemic biases, and foreign influence and speculative bubbles in the market for policies. First, multiple interests drove the market for policies, with economic, security, and normative-focused actors all playing key policy roles, policy debates centering on invocation of these diverse interests, and policy decisions like the TPP reflecting a mix of wins and concessions across interests. Second, causal stories continued to drive U.S. China economic policy. The engagement story remained a key if eroding foundation for the cooperative approach taken toward China for the first five years following its WTO accession and the slightly approach of subsequent years, as embodied in the SED and S&ED, BIT negotiations, and openness to Chinese interest in accession to the TPP. The engagement story and its emerging competitors unified diverse actors by promising return on investment for all, and, at the same time, actors who shared interests but adhered to distinct causal stories differed on policy means to achieve those common ends. Variation in causal stories over time also

drove variation in policy preferences, with decreasing faith in the engagement story leading to increasingly aggressive and inventive trade enforcement and negotiation strategies and, ultimately, support for hawkish trade policies in the 2016 presidential election. Third, biases like belief perseverance and availability continued to drive adherence to causal stories, with continued support for the engagement story despite mounting evidence to the contrary; however, vivid events like the 2008 global financial crisis and its differential impact on the U.S. and China, as well as increasingly aggressive Chinese actions like island-building in the South China Seas and the protectionist Made in China 2025 initiative, began to raise serious questions about the established U.S. approach. Finally, the combination of multiple interests, causal stories, and biases made this market for policies susceptible to manipulation and speculative bubbles, with Chinese rhetoric and behavior reinforcing the bubble in engagement until mounting dissonance meant that it finally popped with the 2016 presidential election. The following subsections discuss each claim in order.

1) Multiple interests

The first claim of the speculative politics framework is that political actors are rarely driven purely by economic interest, and selling economic policies often requires appeals to non-economic factors like security and human rights concerns. This section demonstrates how the rhetoric and actions of the Bush and Obama administrations, special interests, and other key actors reflect the influence of diverse interests. Actors representing a variety of interests consistently engaged in and drove the policymaking process, those different interests were continuously invoked during policy debates and decisions, and policy decisions reflected a mixture of interests.

First, actors representing economic, strategic, and normative interests were key drivers in policy debates and decisions during both the Bush and Obama administrations. Of course, economic officials in agencies like USTR and the Treasury Department were central to setting and implementing economic policy towards China, but security and diplomatic officials also drove policy. The Bush campaign's commitment to continued economic engagement with China was driven in large part by Condoleezza Rice, a security expert who would become Bush's National Security Advisor and later Secretary of State.[429] USTR implemented this collaborative approach to China in the first five years following its WTO accession, engaging in close bilateral dialogue while not bringing WTO cases against China.[430] When the Bush administration decided to ramp up its WTO enforcement efforts in 2006, this new approach was consistent with Deputy Secretary of State Robert Zoellick's call for the U.S. to encourage China to become a "responsible stakeholder" in the international system.[431] Later, indictments of Chinese cyber thieves by the Justice Department were in line with increased USTR enforcement efforts targeting unfair Chinese industrial policies.[432] When the Obama administration committed to TPP negotiations, it was State Department and NSC officials, along with Obama himself, who saw the TPP as strategically important and thus drove the decision over the protests of NEC Director Larry Summers, who thought the agreement would not have enough economic impact.[433]

[429] Rice, "Campaign 2000."
[430] Former U.S. trade official, interview, March 5, 2019; former U.S. trade official, interview, March 8, 2019.
[431] Zoellick, "Whither China"; former U.S. trade official, interview, March 5, 2019.
[432] "U.S. Charges Five Chinese Military Hackers for Cyber Espionage Against U.S. Corporations and a Labor Organization for Commercial Advantage."
[433] Landler, *Alter Egos: Hillary Clinton, Barack Obama, and the Twilight Struggle Over American Power*, 302.

Furthermore, these key actors invoked diverse interests when debating and explaining China trade policy. During the 2000 campaign, Bush and his lead foreign policy expert Condoleezza Rice both argued for continued economic engagement with China because it could promote Chinese economic and political openness.[434] Similarly, the USTR in its first report to Congress on China's WTO compliance in 2002 explained, that in addition to the economic benefits of the commitments China made as part of its WTO accession, "the Administration has been guided by the principle that open markets and trade are powerful engines for fueling positive changes and reform in China."[435] Secretary Paulson also recalls his thinking when developing the SED:

> If we got the economic relationship right, the rest of our issues with China would follow, I reasoned; the Chinese would respond positively to initiatives that contributed to a stable growing economy. Alternatively, if economic relations spun out of control—through protectionist legislation that sparked a trade war, for example—it would fray the overall relationship.[436]

Similarly, when developing and selling the Asia pivot, including the TPP, the Obama administration stressed economic, normative, and security interests.[437]

These diverse actors and interests drove policy decisions. As in previous administrations, Bush and Obama administration officials largely chose to continue with the strategy of engagement towards China based on hopes for improvement and cooperation across a range of interests, from geostrategic to economic. With rising tensions in multiple interest areas, including territorial disputes, economic competition, and Chinese government repression, the Obama administration updated its approach to the Asia-Pacific region and to China, with a combination of military

[434] "Bush Campaign Speech"; Rice, "Campaign 2000."
[435] Office of the U.S. Trade Representative, "2002 Report to Congress on China's WTO Compliance," December 11, 2002, 1.
[436] Paulson, *Dealing with China*, 183.
[437] Campbell, *The Pivot: The Future of American Statecraft in Asia*, 147, 266, 268, 285–87.

deployments, trade agreements, and diplomacy. The TPP, while primarily about potential economic benefits, also had important normative and geopolitical aspects. Negotiators included strong provisions on labor rights, environmental protection, anti-corruption, and transparency, and the participation of longstanding U.S. strategic allies like Japan and potential new partners like Vietnam was seen as key to U.S. projection of power in the Asia-Pacific region.[438] Ultimately, however, the mounting frustration across that range of issue areas drove much more confrontational China policy platforms in the 2016 presidential election, most notably that of the victor, Donald Trump. Thus, diverse interests continued to drive the policymaking process and its outcomes during the Bush and Obama administrations, as well as in the 2016 election.

2) Causal stories

The second claim of the speculative politics framework is that political actors rely on causal stories to speculate about the future and thus to choose in which policies to invest in order to promote their diverse interests. This section demonstrates how the engagement story continued to drive U.S. economic policy towards China during the Bush and Obama presidencies, but declining faith in that story caused officials to gradually update their causal story and policy approach. Amidst this growing doubt, however, alternative causal stories became increasingly popular, with economic nationalism in particular driving new debates and shifts in policy preferences, political coalitions, and policy outcomes. Thus, the U.S. pursued

[438] Cary Huang, "It's the Geopolitics, Stupid: US-Led TPP Trade Pact Less about Boosting Economies than about Containing China's Rise," South China Morning Post, November 6, 2015; Viola Zhou, "TPP, Unlike China's RCEP, Has Goals on Worker Protection, Corruption, Environment," *South China Morning Post*, November 24, 2016.

more aggressive trade enforcement and a competitive liberalization approach to trade negotiations during the last few years of the Bush administration and into the Obama presidency and, ultimately, contemplated more confrontational and protectionist causal stories and policies in the 2016 presidential election.

First, causal stories drove actors with divergent interests to form coalitions in support of the same policies, which they believed could benefit all. As previous chapters have discussed, the engagement story brought together a diverse coalition in support of ongoing bilateral discussions with China and against particularly confrontational and disruptive approaches to bilateral issues. Again, this causal story made use of schema like interdependence, democratic peace, and democratization and modernization theory to argue that economic engagement would promote economic development and economic reform, which in turn would drive political reform and international cooperation and peace. This story continued to unite a mix of national security, economic, and diplomatic officials, as well as nongovernmental actors like businesses and foreign policy experts. As a candidate, Bush explained that, in contrast to Clinton, he viewed China as a "strategic competitor", but he still supported China's accession to the WTO, arguing that "economic freedom creates habits of liberty, and habits of liberty create expectations of democracy," and democratization in turn would make China more likeminded and cooperative across a range of issues.[439] Key officials across the Bush administration echoed this logic, including National Security Advisor and Secretary of State Condoleezza Rice, USTR and Deputy Secretary of State Robert Zoellick, and Treasury Secretary Hank Paulson, and thus, the administration largely pursued a dialogue-intensive, less confrontational

[439] "Bush Campaign Speech."

approach to economic issues with China in fora like the WTO and the SED.[440] If anything, the Bush administration was even more invested in the engagement story than the Clinton administration had been, declining to use the product-specific safeguard negotiated as part of China's WTO accession and implemented in U.S. law as part of PNTR passage at the insistence of Congress because it would create barriers to trade with China.[441] For example, Zoellick defended the administration's decision not to use the safeguard, arguing that while advocates raised serious concerns about China, the administration believed "that trade and economic growth – combined with the use of leverage to pursue mutual interests under agreed international rules – will move China faster and further toward achieving real results than a retreat into economic isolationism and the raising of barriers that block trade."[442] In her memoir, Condoleezza Rice cites Wen Jiabao's vague calls for political reform when discussing her firm belief that political liberalization will come to China, even though such rhetoric likely refers to politically acceptable discussion about changes within the CCP, demonstrating the power of causal stories to frame new information in order to confirm pre-existing views.[443] Officials also explained the evolving U.S. approach to WTO enforcement with respect to China with the language of the engagement story, describing the first five years post-accession as a period in which the U.S. helped guide China's transition through dialogue rather than bringing WTO disputes, after which the increase in WTO litigation was the U.S. holding a mature WTO member to its commitments and thereby maintaining popular support for the established policy of

[440] Condoleezza Rice, *No Higher Honor: A Memoir of My Years in Washington* (New York: Crown Publishing, 2011), 645–46, 629, 719; Robert Zoellick, "China's Accession to the WTO: The Next Steps" (Remarks to the U.S.-China Business Council, Washington, DC, January 31, 2002); Zoellick, "Whither China"; Paulson, *Dealing with China*, 27–28, 81.
[441] Sander Levin, "China Trade Legislation," § Ways and Means Committee, U.S. House of Representatives (2007).
[442] "Statement of U.S. Trade Representative Robert B. Zoellick on U.S.-China Trade Relations," Office of the U.S. Trade Representative, April 28, 2004.
[443] Rice, *No Higher Honor*, 645.

constructive economic engagement.[444] The engagement story continued to have sway in the Obama administration, with, for example, Secretary of State Hillary Clinton arguing that China is no exception to the rule that "you cannot over the long run have economic liberalization without political liberalization."[445] Thus, the Obama administration continued many Bush era initiatives, further intensifying WTO enforcement efforts, expanding the U.S.-China SED into the S&ED, and restarting BIT negotiations.

Importantly, the evolution of causal stories drove changes in policy preferences and outcomes. Bush and Obama administration officials incorporated a new schema into the engagement story: competitive liberalization. Coined by USTR Robert Zoellick, competitive liberalization is the idea that even in the face of deadlock in multilateral or bilateral negotiations, by pursuing trade liberalization on multiple fronts, including through FTAs with likeminded partners, the U.S. can put pressure on other countries to join the liberalizing bandwagon.[446] Combined with the rest of the engagement story, this schema broadened support for economic initiatives like the TPP, which advocates argued would not only increase American access to the markets directly involved, but also set regional trade rules, including on competition, digital trade, IP, and standards, as well as labor rights, environmental protection, and good governance. The result would be more seamless trade, fair competition, and enhanced rule of law across the region.[447] Furthermore, many reasoned, such efforts could strengthen the strategic position of the U.S. in the Asia-Pacific region, creating pressure on countries like China to improve its behavior and cooperate across a range

[444] Press Conference, Rob Portman, "US-China Trade Relations Top-to-Bottom Review"; Office of the U.S. Trade Representative, "Top-to-Bottom Review of U.S.-China Trade Relations."
[445] Hillary Rodham Clinton, *Hard Choices* (New York: Simon & Schuster, 2014), 64.
[446] Remarks, Robert Zoellick to "The Kangaroo Group", Strasbourg, "The United States, Europe and the World Trading System" (Office of the U.S. Trade Representative, May 15, 2001).
[447] Former senior U.S. trade official, interview by author, April 18, 2016.

of issues.[448] Indeed, it was national security and diplomatic officials who drove the Obama administration to embrace the TPP because of its potential strategic significance, overcoming the protestations of some economic officials like Larry Summers, who did not think much of the agreement's potential economic significance, demonstrating the crucial role of the tweaked engagement story.[449] As TPP negotiations progressed, U.S. officials made clear their goal was setting high-standard trade rules that reflected U.S. interests and values and strengthening U.S. regional competitiveness and leadership. They knew that China was following TPP developments closely and expected that the prospect of TPP's entry into force and its emergence as the dominant regional trade architecture would create pressure for economic reforms in China.[450] In other words, the goal was not to exclude or contain China, and indeed U.S. officials hoped that the prospect of TPP accession would contribute to further reforms in China.[451] Obama himself said in 2015 China had started to "put out feelers" about potentially joining the TPP, which he regarded as positive, saying:

> If we have 11 of the leading economies in the Asia-Pacific region who have agreed to enforceable labor standards, enforceable environmental standards, strong I.P. [internet protocol] protections… then China is going to have to at least take those international norms into account.[452]

Thus, this causal story continued to allow adherents to make sweeping arguments that brought together a diverse coalition of political actors in support of policies like the

[448] Campbell, *The Pivot: The Future of American Statecraft in Asia*, 195; Landler, *Alter Egos: Hillary Clinton, Barack Obama, and the Twilight Struggle Over American Power*, 302–4; Ben Rhodes, *The World As It Is: A Memoir of the Obama White House* (New York: Random House, 2018), 164–67.
[449] Landler, *Alter Egos: Hillary Clinton, Barack Obama, and the Twilight Struggle Over American Power*, 302.
[450] Former senior U.S. trade official, interview, April 18, 2016.
[451] Campbell, *The Pivot: The Future of American Statecraft in Asia*, 268.
[452] Victor Beattie, "Obama: China 'Put Out Feelers' on Joining TPP," *Voice of America*, June 3, 2015.

TPP and the larger "Asia pivot", increased WTO enforcement efforts, and U.S.-China BIT negotiations.

Finally, the reemergence of competing causal stories drove increasingly intense debates about China's trajectory and the role of U.S. policy, culminating in much more confrontational and protectionist policy platforms in the 2016 presidential election. As bilateral tensions rose across a broad range of issues, public and elite attitudes towards China soured, and actors questioned the engagement story and its promises of a peaceable, economically and politically liberal China.[453] As has been previously shown, engagement advocates had fed expectations that WTO accession would encourage reforms in China and benefit the U.S., but actors increasingly argued that China had failed to live up to its commitments and had caused far more American job losses than originally anticipated.[454] Why then would new commitments under a BIT or the TPP fundamentally change Chinese behavior or protect U.S. workers and businesses? The economic nationalism story emerged as the leading alternative.[455] Drawing on strands of the old external pressure story as well as older ideas like containment, the economic nationalism story argues that only a much more confrontational, unilateral, and protectionist approach can generate pressure on China to change its behavior while also protecting U.S. economic and security

[453] Lampton, "A Tipping Point in U.S.-China Relations Is Upon Us"; Swaine et al., "U.S.-China Security Perceptions Survey"; Richard Wike and Kat Devlin, "As Trade Tensions Rise, Fewer Americans See China Favorably" (Pew Research Center, August 28, 2018), 2.
[454] Autor, Dorn, and Hanson, "The China Syndrome"; Pierce and Schott, "The Surprisingly Swift Decline of US Manufacturing Employment"; "The Trans-Pacific Partnership: Prospects for Greater U.S. Trade" (Hearing Before the Subcommittee on Asia and the Pacific of the Committee on Foreign Affairs, House of Representatives, 114th Cong., 1st Sess., U.S. Government Publishing Office, March 4, 2015).
[455] This dissertation uses the term "economic nationalism" in the academic sense to describe a range of views seen in discussions of China and trade policy today that advocate an increased role for the state in managing globalization, including through economic policies that advance national interests but may decrease international integration and cooperation. See, for example, Monica de Bolle and Jeromin Zettelmeyer, "Measuring the Rise of Economic Nationalism" (Peterson Institute for International Economics, August 2019), 19-15, Working Paper.

interests should China continue down its current path. Such sentiments bubbled up most strongly in the 2016 presidential election, with candidates like Bernie Sanders and Donald Trump ratcheting up the rhetoric on China, particularly on trade issues. Sanders gained unexpected traction in the Democratic Party primary with a populist message, with a hefty domestic policy platform, of course, but also promises of a tougher stance on trade and China. He argued that U.S. support for China's WTO accession and granting of PNTR was a mistake that hurt American workers, and opposed the TPP on the grounds that it would do the same. Indeed, while pro-engagement actors like Obama administration officials argued that the TPP could drive competitive liberalization in China and, thus, welcomed China's small signs of interest in ultimately acceding to the agreement, Sanders argued that that possibility of China's accession was a strong reason to oppose the TPP, because it would lead to further negative impacts on the American economy.[456]

Similarly, Trump argued on the campaign trail that China's WTO accession "has enabled the greatest job theft in the history of our country" and warned, "China will enter the TPP through the back door at a later date."[457] Even Hillary Clinton, who had promoted the TPP while serving as Obama's Secretary of State, came out against the deal under political pressure, and moreover the Chinese reportedly perceived her as hawkish on China security issues.[458] Trump used more aggressive rhetoric, however, promising that if Chinese behavior did not improve, he would take action and build U.S. leverage, including by strengthening U.S. military presence in the Asia-Pacific and applying tariffs through the use of U.S. trade law related to

[456] "Senator Bernie Sanders: The Trans-Pacific Trade (TPP) Agreement Must Be Defeated," Senator Bernie Sanders of Vermont, 2015; "Bernie Sanders on China," FeeltheBern.org, accessed June 9, 2016.
[457] Time Staff, "Read Donald Trump's Speech on Trade," *Time*, June 28, 2016.
[458] "Hillary Clinton Says She Does Not Support Trans-Pacific Partnership," *PBS NewsHour*, October 7, 2015; Reuters, "China Fears Hillary Clinton Far More than It Does Donald Trump," *CNBC*, July 11, 2016.

import surges, unfair trade practices, and national security.[459] In contrast to the win-win potential championed by engagement advocates, Trump aides like Peter Navarro viewed U.S.-China trade as a zero-sum competition, in which "one country wins at the expense of the other's income, jobs, manufacturing base, and prosperity."[460] Trump campaign chair and White House strategist Steve Bannon identified China as "the greatest existential danger" ever to the U.S., predicted that war will break out between the two powers over disputed islands in the South China Sea, and called for regime change in China to "break the back of this totalitarian mercantilist economic society."[461] Thus, instead of the engagement story's promise that mutually beneficial trade would enhance American prosperity and security through greater liberalization and interdependence, the economic nationalism story held that the U.S. must act more proactively and unilaterally to protect and strengthen itself economically and militarily; only then could the U.S. generate the leverage necessary to push countries like China to change problematic behavior, from theft of foreign IP to island-building in the South China Sea. Thus, causal stories – including the evolving engagement story and the emergent economic nationalism story – continued to drive policy debates and decisions over the course of the Bush and Obama presidencies.

3) Systemic biases

[459] "U.S.-China Trade Reform," DonaldJTrump.com, accessed June 9, 2016; Time Staff, "Read Donald Trump's Speech on Trade."
[460] Peter Navarro and Greg Autry, *Death By China: Confronting the Dragon* (Upper Saddle River: Prentice Hall, 2011), 219.
[461] David Dollar and Ryan Hass, "Trump Could Be on the Brink of Starting a Trade War with China," *Brookings* (blog), August 9, 2017; Melissa Rossi, "Steve Bannon, Cheering Trade War, Hopes for Government to Fall — in China," *Yahoo News*, May 14, 2019; Laura Sullivan, "Inside The White House's Bitter Fight Over China," *NPR*, May 7, 2019.

The third claim of the speculative politics framework is that, due to the human nature of its participants, the market for policies suffers from systemic biases. This dissertation focuses in particular on two biases – belief perseverance and availability – that impacted the development and popularity of causal stories and, thus, policy in the Bush and Obama administrations. First, political actors continued to rely on the engagement story despite contrasting evidence and, as dissonance mounted, limited belief change to small updates like the embrace of competitive liberalization or increased WTO enforcement. Second, actors drew on causal stories involving highly available schema and analogies, i.e., more vivid, recent, or personal. As in previous chapters, availability continued to bolster the engagement story, but available information also began to erode support for the established causal story and associated policies. From the differential impact of the global financial crisis on the American and Chinese economies and confidence to assertive Chinese policies like "Made in China 2025", island-building in the South China Seas, and crackdowns on civil society and internet freedom, dissonant, highly available events, experiences, images, and rhetoric increasingly challenged the engagement story, widening the debate on U.S. China policy and fueling the rise of alternatives like economic nationalism.

First, pro-engagement actors reacted slowly to information dissonant with their favored causal story, frequently dismissing or favorably interpreting that information. Bush and Obama-era China policy, including both trade enforcement and negotiations, displayed the influence of belief perseverance. As has been previously discussed, the Bush campaign and administration saw China as a strategic competitor but continued to embrace economic engagement and moreover took a collaborative approach to China's WTO compliance in the first five years following

China's accession.[462] Despite numerous ongoing trade issues in this period, such as China's inadequate protection for IP, lack of transparency, and consolidation of SOEs, the Bush administration was reluctant to bring cases against China, preferring bilateral dialogue as China adjusted to the new regime. By 2006, China scholars were already warning of China's "trapped transition" and "partial reform", but such views did not gain traction in the administration.[463] One might argue that the Bush administration's China policy – and later Obama's – reflected the difficulty of pushing through major policy changes, especially given pressing issues like wars in the Middle East, economic recovery after the global financial crisis, and healthcare reform; however, such considerations are also an example of belief perseverance due to institutional inertia. Meanwhile, according to USTR, even with WTO compliance issues, "most private sector representatives [remained] enthusiastic about the actual and potential benefits for U.S. industry from China's WTO membership," arguing that patience was necessary as China made the required changes.[464] Furthermore, U.S. businesses were more focused on the implementation of specific, easily measurable WTO commitments like tariff reductions and removal of investment barriers rather than more intangible, systemic issues like lack of transparency and protection for IP.[465]

As dissonance mounted, the Bush and Obama administrations engaged in some updating, but belief perseverance limited U.S. thinking. As previously discussed, updating took the form of increased WTO enforcement resources and

[462] "Bush Campaign Speech"; Rice, "Campaign 2000."
[463] For a discussion of this debate within China and the China-watching community, see Eaton, "Political Economy of the Advancing State," 17–21.
[464] Office of the U.S. Trade Representative, "2002 Report to Congress on China's WTO Compliance," 5.
[465] Office of the U.S. Trade Representative, "2007 Report to Congress on China's WTO Compliance," December 11, 2007, 4.

efforts, attempts at competitive liberalization with agreements like the TPP, and intensified bilateral dialogue in fora like the SED, S&ED, and BIT negotiations. Increased enforcement during Bush's second term was in no small part a response to Congressional pressure and was aimed at maintaining public support for the overall engagement policy and preventing the passage of currency manipulation legislation and the like.[466] Senior U.S. officials in both the Bush and Obama administrations doubted that such WTO enforcement efforts would of themselves adequately address the systemic issues in China, given challenges such as lack of transparency and the limits of WTO disciplines.[467] In this context, USTR's 2006 Top-to-Bottom Review of the U.S.-China trade relationship expressed the concern that without progress on China trade issues, "popular support for a twenty-five-year-old trade policy of constructive economic engagement with China could be in danger," making clear that maintaining engagement remained a priority of the Bush administration, even as it increasingly recognized the challenges that China presented.[468] Obama did push his advisors for even tougher enforcement options, but Summers and Geithner consistently argued that such actions could do more harm than good, given likely Chinese retaliation and negative market reactions.[469] As argued previously, competitive liberalization also represents a small addition to the engagement story, rather than a fundamental questioning of its logic. Similarly, the Obama administration's emphasis on engaging the Asia-Pacific region more broadly in order to gain leverage with China was also more minor evolution than revolution in U.S. policy. Finally, bilateral dialogues like the SED focused on maintaining discussion

[466] Maruyama, interview.
[467] Maruyama; senior U.S. trade official, interview by author, February 28, 2019.
[468] Office of the U.S. Trade Representative, "Top-to-Bottom Review of U.S.-China Trade Relations," 3.
[469] Bader, *Obama and China's Rise: An Insider's Account of America's Asia Strategy*, 112–14.

on long-term issues while achieving short-term deliverables in order to maintain political support for the current approach;[470] however, many questioned their ability to deliver on key issues.[471] For example, the Obama-Xi cyber agreement had only limited effectiveness in curbing Chinese cyber-enabled IP theft, and BIT negotiations broke down due to insufficient offers by the Chinese.[472] Thus, concluded a senior U.S. official, signs were there, but "we were behind the curve" from 2001 to 2005; even in later years when the U.S. government recognized China's lack of progress toward becoming a market-based economy and implementing fully its WTO obligations and when the U.S. government adopted various means to pressure and persuade China to adopt a more market-based approach, the results left much to be desired.[473]

The U.S. approach to the 2003 and 2013 Chinese leadership transitions also reflected belief perseverance. With the 2003 transition, Hu Jintao succeeded Jiang Zemin as president and Wen Jiabao succeeded Zhu Rongji as premier, and in the following years U.S. officials took some time to assess the policy preferences of these new leaders, especially the depth of their support for economic liberalization versus state intervention and protectionism.[474] Indeed, many American elites saw Zhu as a committed reformer and Wen as his protégé who would continue to liberalize the Chinese economy, and some even argued that the younger generation of leaders would accelerate economic and even political reforms.[475] As a 2012 USTR report explained, with the benefit of hindsight:

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[470] Paulson, *Dealing with China*, 185.
[471] Maruyama, interview.
[472] "U.S. Accuses China of Violating Bilateral Anti-Hacking Deal," *Reuters*, November 9, 2018; Ely Ratner, "There Is No Grand Bargain With China," *Foreign Affairs*, December 6, 2018.
[473] Senior U.S. trade official, interview.
[474] Trade official, interview, April 15, 2016.
[475] David Hale and Lyric Hughes Hale, "China Takes Off," *Foreign Affairs*, November 2003; Mark Wu, "The 'China, Inc.' Challenge to Global Trade Governance," *Harvard International Law Journal* 57 (2016): 290–91.

> Beginning with the creation of the State-owned Assets Supervision and Administration Commission (SASAC) in 2003, China's new leaders de-emphasized their predecessors' move toward a greater reliance on market signals and instead set out to bolster the state sector by attempting to improve the operational efficiency of state-owned enterprises and by orchestrating mergers and consolidations in order to create stronger state-owned enterprises. These actions soon led to institutionalized preferences for state-owned enterprises and the creation of national champions in many sectors. In 2006, once China had taken steps to implement the last of its key WTO commitments, China's policy shift became more evident.[476]

Consolidation of SOEs under SASAC was not the only issue, of course, and by the time Obama came into office, U.S. elite views of China had declined further; however, the 2013 leadership transition that saw Xi Jinping become president and Li Keqiang become premier once again tempered U.S. pessimism about economic liberalization. In particular, the announcement of new reforms following the Third Plenum of the 18th CCP Central Committee and the resumption of BIT negotiations, both in 2013, bolstered optimism about economic reform in China.[477] Many American China watchers hoped Xi would be as a reformer. Hank Paulson, for example, continued to support engagement, arguing, "Just as China's entry into the World Trade Organization in 2001 helped Premier Zhu Rongji push economic reforms, a bilateral investment treaty would help Xi fight vested interests who are opposed to his reform agenda."[478] Ultimately, however, both the BIT and Third Plenum reforms would fizzle out, leaving Xi's potential as a reformer increasingly in doubt.

Second, availability continued to drive the popularity of causal stories and policies. As previous chapters have discussed in detail, highly available events,

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[476] Office of the U.S. Trade Representative, "2012 Report to Congress on China's WTO Compliance," December 2012, 3.
[477] Evan A. Feigenbaum, "A Chinese Puzzle: Why Economic 'Reform' in Xi's China Has More Meanings Than Market Liberalization," MacroPolo, February 26, 2018; Office of the U.S. Trade Representative, "2013 Report to Congress on China's WTO Compliance," December 2013, 3–4.
[478] Jane Perlez, "Q. and A.: Henry Paulson on 'Dealing With China,'" *Sinosphere Blog* (blog), April 24, 2015.

images, and experiences like the Tiananmen Square protests and crackdown, the end of the Cold War, and the rise of the internet shaped the engagement story, as did related theories about democratization, development, and international cooperation, and availability continued to reinforce the engagement story to some extent in the Bush and Obama administrations. For example, Condoleezza Rice, who had served as a Soviet and Eastern Europe advisor on George H.W. Bush's NSC as the Cold War came to a close, believed strongly that the U.S. had achieved victory in the Cold War with a strategy based on "an unyielding trust in the ability of free nations to outperform and then outlast those that denied their people freedom", and the U.S. should maintain its faith that political change would inevitably come to China.[479] Both administrations also had a number of officials with personal experience implementing engagement policy. At Goldman Sachs, Hank Paulson had worked with the Chinese government to develop the hybrid model of state ownership and public offering for SOEs like PetroChina, which at the time was seen as a step along the path to further reforms, and Larry Summers had worked on China's WTO accession in the Clinton administration; both were key advocates of continued engagement and opponents of more confrontational tactics in their respective administrations.[480]

Nonetheless, in this period, availability increasingly worked against belief perseverance, wearing away the engagement story and fueling the rise of alternatives. In particular, the 2008 global financial crisis reverberated through the U.S.-China relationship. It brought great urgency to economic issues, on the one hand fueling a need to work with China on global economic stability and not add to economic

[479] Rice, *No Higher Honor*, 646, 719.
[480] Landler, *Alter Egos: Hillary Clinton, Barack Obama, and the Twilight Struggle Over American Power*, 297; Paulson, *Dealing with China*, 80–84.

problems with a trade war, but, on the other, it contributed to Obama's interest in the economic concerns with China and how U.S. China policy could promote U.S. job recovery.[481] Moreover, the financial crisis and subsequent recession also brought into question the superiority and inevitability of the U.S. system, a key tenet of the engagement story. Discussion of potential American decline ballooned.[482] It did not help that China rebounded quickly to double-digit growth with the help of significant stimulus, while the U.S. took almost a decade to escape slow growth.[483] Chinese officials also noted this contrast, and appear to have been emboldened by it, taking highly available actions that further undermined the engagement story, including large industrial policy initiatives like development of strategic, emerging industries, a campaign of cyber-enabled theft of foreign IP, unilateral pursuit of disputed territorial claims, and crack downs on Chinese internet freedoms, civil society, and even foreign media outlets. Thus, beginning in 2009, American China watchers began to debate whether the Chinese government had advanced in the wake of the financial crisis, causing the private sector to retreat, and whether China had become increasingly "assertive" internationally in its rhetoric and actions or, in other words, whether it had defied the expectations of the engagement story.[484] Indeed, many academics have made compelling arguments that some allegedly assertive moves were mere continuations of previous Chinese policies or at least logical evolutions of such, showing the power of availability to shift perceptions, from stark images that showed

[481] Bader, *Obama and China's Rise: An Insider's Account of America's Asia Strategy*, 112–13; Landler, *Alter Egos: Hillary Clinton, Barack Obama, and the Twilight Struggle Over American Power*, 297.
[482] Marc Dunkelman, "The Crisis of American Exceptionalism," *Real Clear Politics*, August 13, 2014; Chen Songchuan and Shulong Chu, "Is America Declining?," *Brookings* (blog), November 11, 2011.
[483] David Dollar, "U.S.-China Trade War Has Its Seeds in the Financial Crisis," *Brookings* (blog), September 14, 2018.
[484] Patrick Chovanec, "China State Enterprises Advance, Private Sector Retreats," *Forbes*, August 31, 2010; Michael D. Swaine, "Perceptions of an Assertive China," *China Leadership Monitor*, no. 32 (May 2010).

rapid Chinese island-building and military buildup in the South China Sea to economic initiatives like "Made in China 2025" that played upon U.S. insecurities of being surpassed, by a communist country no less.[485] Many U.S. officials have vivid memories of confrontational interactions with Chinese counterparts during this period, with Hank Paulson, for example, recalling feeling humbled by Wang Qishan's words to him at an SED meeting in 2008: "You were my teacher, but now… look at your system, Hank. We aren't sure we should be learning from you anymore."[486] Not to be discounted given the power of personal experience, quality of life issues in China – many of which overlapped with political issues, such as pollution, censorship, propaganda, surveillance, and nationalism – increasingly soured the views of many expats, such that the idea of writing an article about why one is leaving China became an internet phenomenon and in-joke.[487] Thus, availability helped drive the erosion of belief in the engagement story, including components like faith in U.S. power and influence and the superiority and inevitability of economic and political liberalization.

4) Manipulation and speculative bubbles

The final claim of the speculative politics framework is that, because of the combination of diverse interests, causal stories, and systemic biases, the market for

[485] Dollar, "U.S.-China Trade War Has Its Seeds in the Financial Crisis"; Eaton, "Political Economy of the Advancing State"; Roselyn Hsueh, *China's Regulatory State: A New Strategy for Globalization* (Ithaca: Cornell University Press, 2011); Johnston, "How New and Assertive Is China's New Assertiveness?"; Mark Landler, "Obama's Evolution to a Tougher Line on China," *The New York Times*, September 20, 2012; Derek Watkins, "What China Has Been Building in the South China Sea," *The New York Times*, July 31, 2015.
[486] Paulson, *Dealing with China*, 240.
[487] Mark Kitto, "You'll Never Be Chinese," *Prospect*, August 8, 2012; George Ding, "Why I'm Leaving China," *The Beijinger*, October 8, 2012; Marc van der Chijs, "Why I'm Leaving China," *CNN Business*, March 26, 2013; Sinica, "Bill Bishop: The Exodus," September 1, 2015; Anjie Zheng, "Twice As Many Expatriates Leaving China Than Arriving, Moving Company Says," *Wall Street Journal*, February 9, 2015.

policies is unstable, susceptible to manipulation and speculative bubbles. Powerful political actors, especially key foreign actors, can serve as "insider traders", selling a preferred policy to diverse actors in the short term with the use of highly available actions and rhetoric that reinforce a causal story associated with the chosen policy. Once a causal story becomes established, belief perseverance prompts the market to dismiss dissonant foreign behavior. Past a tipping point, however, dissonance bursts the bubble, undermining the established causal story and associated policy agenda. During the Bush and Obama presidencies, manipulation continued to bolster the engagement story and engagement policies, with, for example, Chinese officials continuing to pledge their commitment to economic and even political reforms and using the threat of retaliation to prevent U.S. companies complaining about protectionist or predatory Chinese policies and practices. Bubble dynamics and mounting, highly available dissonant information, however, meant that this state of affairs could not be indefinitely sustained, and the engagement bubble burst, opening the debate on U.S. China policy to new causal stories and fueling anti-China, anti-trade rhetoric in the 2016 U.S. presidential election.

First, Chinese officials continued their efforts to influence U.S. China policy and maintain support for engagement during the Bush and Obama presidencies. Hank Paulson recalls Hu Jintao making a common Chinese pledge, "We may not go as fast as you like. But the direction is always going to be forward. Our reform process is irreversible."[488] Similarly, Chinese officials conveyed the message that China under Xi Jinping's leadership would remain committed to economic reform and was serious about bilateral initiatives like the BIT, which would help them gain leverage to pursue

[488] Paulson, *Dealing with China*, 263.

those economic reforms.[489] Some of this rhetoric may have been based on genuine hopes from reform-minded Chinese officials, but that does not change the fact that they overpromised and undelivered, ultimately leaving many Americans disappointed. Congressional exchanges and trade missions also continued, as did targeted concessions, for example, the list of deliverables following annual bilateral dialogues. China also excelled at meeting quantifiable commitments, such as specific tariff reductions in its WTO accession protocol, which by being more easily tracked were more available and could be used to demonstrate continued progress and payoffs from the WTO accession in line with the expectations of the engagement story.[490]

In contrast to the pre-accession period, Chinese efforts during the Bush and Obama administrations are arguably better characterized as aiming to slow the erosion of support for engagement. Chinese officials used implicit and explicit threats of retaliation to prevent foreign companies from complaining about unfair treatment, including forced technology transfer and cyber-enabled theft of IP.[491] Given the importance of China to many U.S. businesses as both a key part of supply chains and a large and growing market, as well as the numerous ways the large, bureaucratic, opaque, and interventionist Chinese government has to impact businesses, U.S. companies were often reluctant to speak out publicly or even privately to the U.S. government unless they faced a serious crisis as, for example, the U.S. solar industry did in 2011.[492] Wendy Cutler, who left USTR in 2015 after three decades as a trade

[489] Trade official, interview; Paulson, *Dealing with China*, 310–13.
[490] Kent Hughes, Gang Lin, and Jennifer L. Turner, "China and the WTO: Domestic Challenges and International Pressures" (Woodrow Wilson International Center for Scholars, 2002), 10; Office of the U.S. Trade Representative, "Top-to-Bottom Review of U.S.-China Trade Relations," 9–10.
[491] "Findings of the Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974" (Office of the U.S. Trade Representative, March 22, 2018), 9–10,"Investment Climate Statements for 2018: China" (U.S. Department of State, Bureau of Economic and Business Affairs, 2018).
[492] Keith Bradsher, "To Conquer Wind Power, China Writes the Rules," *New York Times*, December 14, 2010; Keith Bradsher, "U.S. Solar Panel Makers Accuse Chinese of Trade Violations," *The New York Times*, October 19, 2011.

negotiator, has explained that businesses were hesitant to provide details and often did not want the U.S. government to take "any strong action", even when they had been hacked and their IP stolen.[493] USTR has the primary responsibility in the U.S. government for monitoring and enforcing trade agreements and negotiating new trade rules, but, as a small agency with less than 300 employees, it relies on information from the business community to identify and remedy trade issues. Cutler reflects, "We are not as effective if we don't have the U.S. business community supporting us… Looking back on it, in retrospect, I think we should have been more active and more responsive. We kind of lost the big picture of what was really happening."[494] Cases involving the state-sponsored Chinese hackers constituted exactly the kind of shocking – i.e., highly available and dissonant – information that could change minds. With U.S. intelligence limited by classification and national security concerns and U.S. businesses fearful of retaliation, however, this information spread slowly, contributing to a delayed response and building frustration within the security and business communities. Illustratively, when cybersecurity firm Mandiant released a detailed but anonymized report on APT1, an economic espionage group tied to the Chinese People's Liberation Army, in February 2013, it received global media attention even though it was not exactly news to experts in the field. Former director of the Central Intelligence Agency and National Security Agency Michael Hayden commented on the report, "Everybody is saying 'it's about time,'" and Mandiant founder Kevin Mandia explained his decision to publish: "There is mounting frustration in the private sector. Tolerance is shrinking. We also have a bunch of employees here who are ex-military who sense that frustration and said, 'Let's push

[493] Laura Sullivan and Cat Schuknecht, "As China Hacked, U.S. Businesses Turned A Blind Eye," *NPR*, April 12, 2019.
[494] Sullivan and Schuknecht.

this out.'"[495] In Fall 2014, Air Force Brigadier General Robert Spalding, then serving as Chief of the China, Mongolia, and Taiwan Division for the Joint Chiefs of Staff, read a confidential briefing detailing cases of cyber-enabled theft of IP. Despite the release of the Mandiant report over a year prior and despite being a China expert, Spalding recalls his shock and sense of urgency: "It completely changed my conception, my view of the world."[496] Thus, while many Chinese policies during this period ran contrary to the expectations of the engagement story, Chinese manipulative efforts helped delay – although certainly did not stop – updating by U.S. political actors.

Finally, this period marks the end of the bubble in the engagement story. As previous chapters have discussed in detail, a bubble in the engagement story emerged over the course of the 1990s, culminating in China's accession to the WTO and establishment of PNTR. The popularity of the engagement story continued into the new millennium, with, for example, economist David Hale and Asia specialist Lyric Hughes Hale arguing in their widely-cited 2003 *Foreign Affairs* article, "China Takes Off":

> Although it is understandable that its spectacular growth would spark unease in Washington, there is no compelling reason to assume that China will become an enemy of the United States. In a speech last year, President George W. Bush suggested that he strongly sympathized with those states that believe in the power of economic engagement to help solve other problems, ranging from human rights to security issues. China continues to signal its desire to integrate into the global economy by pursuing liberalization at home and encouraging trade, as well as by joining international institutions, such as the WTO, that promote economic competition and integration, not nationalist rivalry over territory and colonies. Assuming that China can sustain the momentum that has driven its economic boom in recent years, there is little doubt that a mutual search for economic opportunity will be the defining feature of China's relationship with the United States, and the rest of the world, for many more years to come.[497]

[495] Jim Finkle, "Mandiant Goes Viral after China Hacking Report," *Reuters*, February 23, 2013.
[496] Sullivan and Schuknecht, "As China Hacked, U.S. Businesses Turned A Blind Eye."
[497] Hale and Hale, "China Takes Off."

The Bush administration's faith in the virtues of economic openness strongly suggests bubble dynamics. The hold of the engagement story was such as that Bush officials tended to brand any alternative as protectionist and isolationist, even the use of tools like the product safeguard that U.S. Members of Congress had insisted upon and U.S. negotiators had secured as part of China's WTO accession.[498] Moreover, that entrenched belief in the logic of the engagement story, along with highly available Chinese manipulative efforts and belief perseverance, kept the engagement approach in place, even as Chinese policies like the consolidation of SOEs under SASAC and support for strategic emerging industries created dissonance that ate away at enthusiasm for that approach. As Warren Maruyama, a former George H.W. Bush White House official and USTR General Counsel under George W. Bush, explains, during China's WTO accession and the PNTR debate, U.S. officials and other political actors had expected that China would transition to a market economy, but over the course of the Bush presidency began to realize that that was not happening and that even redoubled enforcement efforts could not fundamentally correct Chinese behavior, given the limits of WTO rules on industrial subsidies, SOEs, currency, and other issues.[499] Former USTR Susan Schwab explained her own evolution in thinking at a panel discussion in 2010, saying that when she had worked in China for Motorola in the 1990s, the Chinese government promised companies market share in return for technology transfer, and Motorola and others invested, expecting the climate for foreign businesses to improve over time. In industries like high-speed rail, foreign companies transferred technology to Chinese partners but gained little market share, "creating a very serious competitor that's going to turn around and eat their lunch in

[498] Levin, China Trade Legislation; "Statement of U.S. Trade Representative Robert B. Zoellick on U.S.-China Trade Relations."
[499] Maruyama, interview.

their home markets" and producing serious doubts about China, even among once bullish, pro-engagement business interests.[500] Just a few months earlier, GE CEO Jeffrey Immelt echoed similar concerns about foreign technology transfer, voicing frustrations that many others in the business community were afraid to make public: "I am not sure that in the end they [Chinese officials] want any of us to win."[501] Also in 2010, veteran trade lawyer and former Reagan era trade negotiator Robert Lighthizer testified before the U.S.-China Economic and Security Review Commission, arguing that the benefits promised by pro-engagement actors during the debate over China's WTO accession and PNTR had not materialized, in part because they overestimated the power of the WTO to police Chinese behavior, as well as the appeal and superiority of democracy and capitalism.[502] Lighthizer would go on to serve as Trump's USTR and implement those views, imposing tariffs on China in response to its IP theft and other unfair policies.

At the same time, the global financial crisis was upsetting long-held beliefs about economic policymaking and the ability of markets to self-regulate, with implications for U.S. confidence in its liberal economic model and, therefore, its engagement approach to China. As former Federal Reserve Chair Alan Greenspan testified before the House Committee on Government Oversight in October 2008, the "modern risk management paradigm held sway for decades," drawing upon prize-winning, state-of-the-art models from experts across multiple disciplines, and yet "the

[500] Andrew Batson, "Ex-USTR Not So Diplomatic About China," *Wall Street Journal*, December 4, 2010.
[501] Browne, "Immelt on China". Even if not often discussed publicly, these views became increasingly widespread in the years following the global financial crisis, eroding the support for an engagement approach to China within the business community that had been so crucial in maintaining that approach, especially against pushback from more hawkish Members of Congress. See, for example, Hank Levine, "Keeping Our Eye on the Ball," *Behind the Curtain: An Insider's Guide to US-China Relations* (blog), March 2, 2010.
[502] Robert E. Lighthizer, "Evaluating China's Role in the World Trade Organization Over the Past Decade" (Testimony Before the U.S.-China Economic and Security Review Commission, June 9, 2010).

whole intellectual edifice, however, collapsed in the summer of last year" because of euphoria and wrongheaded assumptions.[503] By 2015, China watchers were already discussing the significant shift in progress in U.S. perceptions of China.[504] As the bubble burst, space opened up for actors to question the feasibility of long-held tenets of the engagement story, in line with the prediction of the belief perseverance hypothesis that fundamental goals are only reassessed after repeated tactical and strategic failures. For example, according to China scholar Harry Harding, in 2015, "Despite the tightening of domestic political controls in China over the last several years, most participants in the current debate [about U.S. China policy] place far less emphasis on promoting human rights and political liberalization in China than there was in the past."[505] In 2016, Harvard Law Professor and former USTR official Mark Wu published an influential article on the limited capacity of the WTO to cope with the challenges of the Chinese system, both reflecting and driving the growing consensus in Washington that the current approach was failing.[506] Thus, after years of optimism based on the engagement story, U.S. officials and other elites began to reassess the key schema underlying that causal story.

As has been previously touched upon, the 2012 leadership transition, along with the 2013 announcement of further economic reforms at the Third Plenum and restart of U.S.-China BIT negotiations, helped temporarily maintain the deflating engagement bubble, arguably constituting a smaller, subsidiary bubble. News reports, expert commentary, and USTR reports on China's WTO compliance from 2012 to 2014 noted these developments as encouraging, although by 2015 the rhetoric became

[503] Alan Greenspan, Testimony before the House Committee on Government Oversight, October 23, 2008.
[504] Lampton, "A Tipping Point in U.S.-China Relations Is Upon Us."
[505] Harry Harding, "Has U.S. China Policy Failed?," *The Washington Quarterly* 38, no. 3 (Fall 2015): 115–16.
[506] Wu, "The 'China, Inc.' Challenge to Global Trade Governance."

less optimistic, reflecting disappointment with the lack of material progress.[507] Certainly decades of unfulfilled Chinese promises had taught American China watchers to temper their expectations, but even so, China expert and former State Department official Evan Feigenbaum has argued that Xi Jinping's ascension and the 2013 Third Plenum brought about a period of "reform exuberance" or "reform euphoria", which subsequent developments subsequently crushed.[508] Hank Levine, China expert with extensive government experience now working in the private sector, recalls that U.S. commentary on the Third Plenum reforms was along the lines of "it'll be good if they implement them," but even with that measured view, the lack of follow through on the part of China still produced "tremendous disappointment".[509]

This emotion-laden language is not unique in this period and reflects the deflation of the engagement bubble. For example, David Dollar, who served as the Treasury Department official posted in Beijing from 2009 to 2013, explains that he found his time there interesting but "disappointing in terms of progress on U.S.-China relations", and that he found himself "increasingly pessimistic that China is evolving to be more open", both economically and politically. Moreover, Dollar explains, a broader "frustration dialogue" emerged in the U.S. government, even among pro-engagement U.S. officials; the frustration was with Chinese policies but also rhetoric, as "we often felt that not everybody on the Chinese side appreciated that we were generally rooting for them."[510] Asia expert and editor of the influential Washington

[507] Arthur R. Kroeber, "Xi Jinping's Ambitious Agenda for Economic Reform in China," *Brookings* (blog), November 17, 2013 Edward Wong, "Signals of a More Open Economy in China," *The New York Times*, December 9, 2012; Office of the U.S. Trade Representative, "2012 Report to Congress on China's WTO Compliance," 2–4; Office of the U.S. Trade Representative, "2013 Report to Congress on China's WTO Compliance," 3–4; Office of the U.S. Trade Representative, "2014 Report to Congress on China's WTO Compliance," December 2014, 4; Office of the U.S. Trade Representative, "2015 Report to Congress on China's WTO Compliance," December 2015, 4.
[508] Feigenbaum, "A Chinese Puzzle."
[509] Levine, "Keeping Our Eye on the Ball."
[510] Dollar, interview.

newsletter, the *Nelson Report*, Chris Nelson has similarly commented that, "having spent a major portion of our professional lives trying to help China become the modern giant is now", the China hands of his generation were now "surprised and disappointed" at the apparent end of Chinese opening and U.S.-China cooperation, and moreover that confrontational and accusatory Chinese rhetoric about containment "actually hurts our feelings, silly as that may sound!"[511] Thus, enthusiasm for engagement ebbed and views began to shift dramatically. China scholars like Harry Harding and David Lampton noted the emergence of "the most intense debate over China policy in decades", including discussions of whether engagement had failed, and warned of a potential "tipping point" in U.S. assessments of the trajectory of China's domestic and foreign policy.[512] Harding even predicted that a 2016 presidential candidate could seize upon this mood of disappointment and frustration, and therefore the next administration could make significant changes to U.S. China policy, and, of course, that is exactly what happened.[513] A more hawkish approach to China and trade helped Donald Trump win more votes from counties facing Chinese import competition.[514] Elite opinions had also shifted, if not to outright support from Trump's proposals, to less vocal opposition. The 2016 Republican platform is particularly revealing here, explaining the significant change in the party's views of China since 2012:

> China's behavior has negated the optimistic language of our last platform concerning our future relations with China. The liberalizing policies of recent decades have been abruptly reversed, dissent brutally crushed, religious persecution heightened, the internet crippled, a barbaric population control

[511] Chris Nelson, comment on "You Wronged Me, Thinks the US of China," *Settimana News*, November 22, 2018.
[512] Harding, "Has U.S. China Policy Failed?"; Lampton, "A Tipping Point in U.S.-China Relations Is Upon Us."
[513] Harding, "Has U.S. China Policy Failed?," 95.
[514] Autor et al., "A Note on the Effect of Rising Trade Exposure on the 2016 Presidential Election."

> two-child policy of forced abortions and forced sterilizations continued, and the cult of Mao revived.[515]

The engagement bubble had burst, reopening the debate on U.S. China policy to alternative causal stories and paving the way for a new administration and a new approach to China.

Conclusion

This chapter has traced the growing discontent with China and the engagement story over the course of the Bush and Obama presidencies, ultimately culminating in the bursting of the engagement bubble and the election of President Trump. This period offers strong evidence in support of the core claims of the speculative politics framework. First, economic, geopolitical, and normative interests clearly continued to drive debates and decisions on China policy, including trade negotiations and enforcement work. Second, the engagement story – and, increasingly, alternatives like economic nationalism – helped translate interests into policy preferences, driving political coalitions, debates, and, ultimately, policy outcomes. Third, systemic biases like belief perseverance and availability continued to drive adherence to causal stories, to some extent continuing to bolster the engagement story but ultimately helping erode support for it, with events like the global financial crisis and Chinese initiatives like state-sponsored cybertheft of IP and "Made in China 2025" coming into stark contrast with the expectations of the engagement story. Finally, this period was also characterized by manipulation and speculative bubbles. Continued Chinese promises of further liberalization helped prop up support for engagement, as did

[515] "Republican Platform 2016" (Cleveland, OH: Republican National Committee, 2016).

retaliatory threats aimed at discouraging U.S. companies to complain about protectionist or predatory Chinese policies and practices. The mounting, highly available dissonant information, however, meant that this state of affairs could not be indefinitely sustained, and the engagement bubble burst, reopening the debate on U.S. China policy to new causal stories, fueling anti-China, anti-trade rhetoric in the 2016 U.S. presidential election, and contributing to the election of Donald Trump and a large shift in U.S. economic policy towards China.

Conclusion

After the Bust:
Reassessing U.S.-China Economic Relations in the Trump Era

On June 5, 1989, George H.W. Bush declared that even after the Chinese government's violent crackdown on the Tiananmen Square protestors, the "genie of democracy can't be put back in the bottle."[516] Despite criticism from the left and the right, Bush imposed only minor sanctions on China and, importantly, maintained its Most Favored Nation (MFN) trading status, arguing that "it is right to export the ideas of freedom and democracy to China."[517] Bill Clinton accused his predecessor of "coddling dictators" and placed human rights conditions on MFN renewal in 1993, only to back down the following year, adopt much of Bush's China rhetoric and policies, and ultimately help usher China into the World Trade Organization (WTO).[518] George W. Bush echoed his father, urging, "Trade freely with China, and time is on our side," although his administration also increasingly pressured China to become a "responsible stakeholder" in the international order, including through WTO enforcement efforts.[519] Tensions mounted over the course of Barack Obama's presidency, with the U.S. government continuing to insist that it welcomed China's rise while also pursuing a pivot to Asia perceived as largely aimed at countering it.[520] Then Donald Trump won the 2016 presidential election, with outrage about unfair

[516] George Bush, "The President's News Conference," June 5, 1989, Online by Gerhard Peters and John T. Woolley, The American Presidency Project.
[517] George H.W. Bush, "Remarks at the Yale University Commencement Ceremony," May 27, 1991, The American Presidency Project.
[518] Mann, *About Face*, 260–61.
[519] "Bush Campaign Speech" (C-SPAN, November 19, 1999; Robert B. Zoellick, "Whither China: From Membership to Responsibility?" (Remarks to the National Committee on U.S.-China Relations, September 21, 2005); Office of the U.S. Trade Representative, "Top-to-Bottom Review of U.S.-China Trade Relations: Entering a New Phase of Greater Accountability and Enforcement," February 2006.
[520] Hillary Clinton, "America's Pacific Century," Foreign Policy, October 11, 2011.

Chinese economic practices and willingness to use retaliatory tariffs on Chinese products forming a central part of both his campaign and, later, his presidency. To emphasize just how far U.S. China policy has come, consider the following two quotes. In 2000, while pushing Congress to approval permanent MFN (also known as permanent normal trade relations or PNTR), Clinton declared: "All I can tell you is I believe if we do this, 20 years from now we will wonder why we ever had a serious debate about it."[521] In 2018, nearly 20 years later, the Trump administration declared that "the United States erred in supporting China's entry into the WTO on terms that have proven ineffective in securing China's embrace of an open, market-oriented regime."[522] How did we get here?

This dissertation has put forward a new framework of speculative politics to explain the consistencies and shifts in U.S. economic policy towards China in the post-Cold War era. This framework models the foreign policymaking process as a market for policies – not a perfectly efficient, rational market, but one subject to market failures. Drawing on insights from both international relations (IR) theory and behavioral economics, it argues that the combination of diverse interests, causal storytelling, and systemic biases make the market for policies susceptible to manipulation and speculative bubbles, i.e., boom and bust cycles in policy agendas. Where existing IR approaches struggle to explain the evolution of U.S. China trade policy during this period, the speculative politics framework helps capture the growing optimism that culminated in China's WTO accession in 2001, the subsequent mounting frustration as China failed to meet expectations of liberal transformation, and finally the much more confrontational approach of the Trump administration.

[521] Remarks by the President to the Democratic Leadership Council Conference, "New Challenges of the New Economy."
[522] Office of the U.S. Trade Representative, "2017 Report to Congress on China's WTO Compliance," January 2018.

This concluding chapter reviews the main argument of the thesis, discusses key developments during the Trump presidency, using the speculative politics framework to shed light on current debates and policy, and concludes by making a few recommendations for both future policy and further academic research.

C.1 Revisiting the Speculative Politics Framework

The speculative politics framework draws on several areas of IR scholarship, as well as other insights from political science, economics, and psychology. As laid out in detail in Chapter 2, the framework's foundational idea is that policymaking can be viewed as political actors engaging in a market for policies. Similar to investors in a stock market, political actors "invest" their political capital in the policies that they think will yield the best returns, i.e., promote their interests. The details of how that market functions are crucial, however, and this framework takes into account four complications. First, political actors are rarely driven purely by economic interests, and selling economic policies often requires appeals to non-economic factors like security and human rights concerns. Second, facing complexity and uncertainty, actors rely on causal stories to speculate about the future and invest in policies that will promote their diverse interests.[523] Third, the market for policies suffers from systemic biases due to the human nature of its actors and the limitations of their institutions. This dissertation has focused on two biases in particular – the availability heuristic and belief perseverance – but many others may also be at work. Fourth and finally, the combination of diverse interests, causal stories, and systemic biases makes

[523] This dissertation defines the term "causal stories" as webs of knowledge structures, i.e., analogies and schema, that tell a coherent tale about a policy agenda and its anticipated impact across multiple interest areas. See Chapter 2 for further details.

the market for policies unstable, susceptible to manipulation and the booms and busts of speculative bubbles.

The speculative politics framework has provided important insights into the major debates and decisions in U.S. economic policy towards China in the post-Cold War era. Chapters 2 through 4 focused on the H.W. Bush and Clinton presidencies, showing how the combined impact of Tiananmen and the end of the Cold War burst the bubble in the "so-called communist" story, reopening debates on U.S. China policy and allowing two new causal stories to emerge and compete for policy influence over the course of the 1990s. The external pressure story gained traction among activists, Congressional Democrats and Republicans, and the Clinton campaign and White House, stringing together a number of highly available schema and analogies to argue that U.S. pressure could galvanize economic and political transformation in China. The bubble in this causal story drove Clinton's 1993 executive order linking MFN renewal with human rights progress but ultimately burst when linkage failed to produce the tremendous results promised, leading to Clinton's reversal in 1994. Meanwhile, the competing causal story promised that economic engagement with China stood a better chance of prompting that desired transformation in China. This engagement story continued to gain traction, driving an even larger bubble that peaked with China's WTO accession, as entrenched Cold War beliefs about the geopolitical importance of U.S.-China cooperation were bolstered by the spectacular results of Chinese economic reforms and promises of further Chinese liberalization by both American and Chinese actors.

While those sweeping promises helped American pro-engagement actors sell China's WTO accession and PNTR, they fueled a bubble that would ultimately burst. As Chapters 5 and 6 detailed, mounting frustration wore away at the established

engagement story during the W. Bush and Obama presidencies as China failed to meet expectations of transformation, compounded by a number of highly available events and experiences, such as the 2008 global financial crisis and increasingly brazen Chinese industrial policies like cyber-enabled economic espionage and Made in China 2025. Belief and policy updating occurred slowly at first but accelerated, with increasingly active U.S. trade enforcement and negotiation efforts. Although the engagement story evolved to some extent, incorporating competitive liberalization, for example, its popularity has faded, creating space once again for alternative causal stories to emerge. Most notably, the economic nationalist story, foundational to the Trump campaign and many Trump administration policies, challenges many of the central tenets of the engagement story, expressing a deep skepticism of international economic engagement, as well as a willingness to use unilateral measures to create negotiating leverage or to protect U.S. industries, demonstrating consequences of a bursting bubble.

Thus, the speculative politics framework generates important insight into the consistencies and changes in U.S. economic policy towards China during the three decades following the end of the Cold War. Meanwhile, alternative approaches in international relations scholarship, including explanations based on international political economy, geopolitics, and norms struggle to capture key dynamics, such as the continual influence of diverse interests and actors, including Chinese actors, and disagreements between actors with shared ends over the means best suited to achieving those ends. Perhaps most importantly, these existing approaches offer no explanation for the pattern of belief and policy inertia followed by a large shift in beliefs in a manner that does not neatly correspond to changes in Chinese behavior. Thus, in addition to its theoretical contributions, the speculative politics framework

captures the key dynamics driving the economic relationship between the world's two largest economies. Moreover, as the following section will show, the new framework also sheds light on the China-related policy debates and decisions unfolding during the Trump administration.

C.2 Insights into U.S.-China Economic Relations in the Trump Era

When the speculative politics framework was conceived and work on this dissertation began, disillusionment with engagement with China in the U.S. had only produced increased WTO enforcement and pursuit of alternative trade agreements under the W. Bush and Obama administrations. The subsequent election of Donald Trump and his more confrontational China policies once in office demonstrate the explanatory and even predictive power of the speculative politics framework. Moreover, speculative dynamics have continued to drive U.S. economic policy towards China during the Trump presidency. This section reviews the main developments during the first two and a half years of the Trump administration and then discusses the key insights offered by the speculative politics framework.

In its first year, the new administration's approach to economic relations with China seemed to diverge not all that much from its predecessors, although a few decisions hinted at bigger changes to come. Trump's top appointees have represented a range of views on China and economic issues. U.S. Ambassador to China Terry Branstad has maintained strong relationships with Chinese leaders and an emphasis on U.S. agriculture from his tenure as Governor of Iowa, and Secretary of Commerce Wilbur Ross, Secretary of Treasury Steve Mnuchin, and National Economic Council director Gary Cohn have business experience and arguably represent to some degree

the business community's interest in maintaining stable bilateral economic ties.[524] Meanwhile, U.S. Trade Representative (USTR) Robert Lighthizer, Director of the Office of Trade and Manufacturing Policy Peter Navarro, and former White House chief strategist Steven Bannon hold more hawkish, nationalist views on U.S.-China economic relations, raising concerns about China's industrial policies, intellectual property (IP) practices, and tendency towards overcapacity.[525] Fulfilling a campaign promise, three days after his inauguration, Trump instructed his USTR to withdraw the U.S. from the Trans-Pacific Partnership (TPP), which had been a pillar of the Obama administration's Asia and China strategy although it had yet to be ratified by Congress, and declared a preference for bilateral trade negotiations in future.[526] In April 2017, Trump hosted Chinese president Xi Jinping at Mar-a-Lago, where the tone and chemistry between the two leaders were heralded as positive and productive, and the two sides agreed to establish a successor to W. Bush and Obama-era bilateral dialogues called the U.S.-China Comprehensive Economic Dialogue (CED) and pursue a 100-day action plan to make progress on a range of trade issues, including increased Chinese imports of U.S. beef and liquified natural gas and market access in China for U.S. credit rating and electronic payment services.[527] Three weeks later,

[524] Dominique Patton and Steve Holland, "Trump Picks Longtime Friend of Beijing as U.S. Ambassador to China," *Reuters*, December 7, 2016; Ben Schreckinger, "Wilbur Ross's Chinese Love Affair," *POLITICO Magazine*, January 2, 2017; David Lawder and Lisa Lambert, "Trump's Treasury Nominee Keeps Senators Guessing on China Currency Stance," *Reuters*, January 24, 2017; Jonathan Garber, "Trump and His Top Economic Adviser Have Had Completely Different Views on China," Business Insider, January 3, 2017.

[525] Robert E. Lighthizer, "Evaluating China's Role in the World Trade Organization Over the Past Decade" (Testimony Before the U.S.-China Economic and Security Review Commission, June 9, 2010); Peter Navarro and Greg Autry, *Death By China: Confronting the Dragon* (Upper Saddle River: Prentice Hall, 2011).

[526] "Presidential Memorandum for the United States Trade Representative Regarding Withdrawal of the United States from the Trans-Pacific Partnership Negotiations and Agreement" (The White House, January 23, 2017).

[527] "Briefing by Secretary Tillerson, Secretary Mnuchin, and Secretary Ross on President Trump's Meetings with President Xi of China" (The White House, April 7, 2017); "Joint Release: Initial Results of the 100-Day Action Plan of the U.S.-China Comprehensive Economic Dialogue" (U.S. Department of Commerce, Office of Public Affairs, May 11, 2017).

however, the White House announced that the Department of Commerce had initiated investigations under Section 232 of the Trade Expansion Act of 1962 into the effects of foreign steel and aluminum products on U.S. national security, with the potential for punitive policy actions such as tariffs or quotas.[528] The U.S. hosted the CED in July 2017, although the bilateral dialogue yielded no significant deliverables and ended without a joint statement.[529] In August, at the President's request, the USTR launched an investigation under Section 301 of the Trade Act of 1974 into whether China maintains unreasonable or discriminatory policies and practices that harm American intellectual property rights, innovation, and technology development.[530] In November, Trump made a "state visit-plus" to China, where the two leaders again struck a warm tone, but once again the Chinese made no significant concessions.[531] Within two weeks, however, a Treasury official declared that the CED had "stalled", with no plans to revive talks.[532] Additionally, in December 2017, the Trump administration released its first National Security Strategy, naming China, along with Russia, as a revisionist power and key competitor that seeks to "shape a world antithetical to U.S. values and interests", criticizing its "state-driven economic model" and technology theft.[533] Furthermore, the new National Security Strategy declared:

> These competitions require the United States to rethink the policies of the past two decades—policies based on the assumption that engagement with rivals and their inclusion in international institutions and global commerce would

[528] "Remarks by President Trump at Signing of the Memorandum Regarding the Investigation Pursuant to Section 232(B) of the Trade Expansion Act" (The White House, April 20, 2017); "Presidential Memorandum for the Secretary of Commerce" (The White House, April 27, 2017).
[529] "Statement from Secretary Ross and Secretary Mnuchin Following the U.S.-China Comprehensive Economic Dialogue" (U.S. Department of Commerce, Office of Public Affairs, July 19, 2017).
[530] "Presidential Memorandum for the United States Trade Representative" (The White House, August 14, 2017); Office of the U.S. Trade Representative, "Initiation of Section 301 Investigation; Hearing; and Request for Public Comments: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation," *Federal Register* 82 FR 40213 (August 24, 2017).
[531] "Trump Strikes Warmer Tone with China," *BBC News*, November 9, 2017.
[532] Sam Fleming and Shawn Donnan, "US-China Economic Dialogue Programme Has 'Stalled', Treasury Official Says," *Financial Times*, November 30, 2017.
[533] "National Security Strategy of the United States of America" (The White House, December 2017), 2, 21, 25.

> turn them into benign actors and trustworthy partners. For the most part, this premise turned out to be false.[534]

Thus, although no definitive actions had yet been taken, there were a number of signs that the new administration was revamping the U.S. approach to China.

Tensions escalated in 2018 and continued into 2019. In January 2018, Trump imposed global safeguard tariffs on imported solar products and washing machines in a move seen aimed at China. In a sign of what was to come, USTR stated in its first annual report on China's WTO compliance during the Trump presidency that the U.S. had "erred in supporting China's entry into the WTO on terms that have proven ineffective in securing China's embrace of an open, market oriented trade regime", and given the failures of bilateral dialogues and limitations of WTO rules, the U.S. would focus its efforts on enforcement under both the WTO dispute settlement mechanism and U.S. trade laws.[535] Following intense debate and maneuvering among senior administration officials, on March 1, Trump announced his decision to approve global Section 232 tariffs of 25% and 10% on steel and aluminum.[536] Moreover, on March 22, USTR released a 200-page report on the findings of its Section 301 investigation concerning technology, IP, and innovation issues in China; this Section 301 report presented extensive evidence of Chinese government efforts to extract technology from U.S. companies, acquire cutting-edge technology, and conduct cyber-enabled theft of U.S. trade secrets and was widely read, both reflecting and galvanizing a change in views on China in Washington.[537] Based on the findings

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[534] "National Security Strategy of the United States of America," 3.
[535] "Remarks by President Trump at Signing of Section 201 Actions" (The White House, January 23, 2018); Office of the U.S. Trade Representative, "2017 Report to Congress on China's WTO Compliance," 2, 25.
[536] "Remarks by President Trump in Listening Session with Representatives from the Steel and Aluminum Industry" (The White House, March 1, 2018); Gary Cohn, A Free-Trade Democrat in the Trump White House, interview by Stephen J. Dubner, March 13, 2019, Ep. 371, Freakonomics.
[537] "Findings of the Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation under Section 301 of the Trade Act of 1974" (Office of the U.S. Trade Representative, March 22, 2018).

detailed in the Section 301 report and at the president's direction, USTR initiated a WTO dispute challenging Chinese discriminatory licensing requirements and, more importantly, moved to impose 25% tariffs on $50 billion worth of Chinese imports.[538] After engaging in a public comment process and unproductive bilateral discussions, the U.S. began imposing tariffs in July, with China retaliating with its own tariffs on U.S. imports, after which the U.S. imposed 10% tariffs on an additional $200 billion in Chinese goods in September 2018, which it later raised to 25%, given the lack of progress on the issues raised in the Section 301 report, to which the Chinese responded with tariffs on another $60 billion, in total covering about half of bilateral trade. Most recently, the U.S. has moved to impose tariffs on the remaining $262 billion Chinese imports.[539] Meanwhile, other U.S. actions related to national security but bordering on the trade relationship have been imposed and threatened, including export controls on Chinese telecom manufacturer Huawei and a Section 232 investigation related to automobiles.[540] Vice President Mike Pence's October 2018 speech also connected oppressive Chinese authoritarianism with its international assertiveness and unfair economic policies, stating:

> America had hoped that economic liberalization would bring China into greater partnership with us and with the world. Instead, China has chosen economic aggression, which has in turn emboldened its growing military. Nor, as we had hoped, has Beijing moved toward greater freedom for its own people.[541]

[538] "Presidential Memorandum on the Actions by the United States Related to the Section 301 Investigation of China's Laws, Policies, Practices, or Actions Related to Technology Transfer, Intellectual Property, and Innovation" (The White House, March 22, 2018); "Request for Consultations by the United States" (World Trade Organization, March 26, 2018), WT/DS542/1, China - Certain Measures Concerning the Protection of Intellectual Property Rights; "Under Section 301 Action, USTR Releases Proposed Tariff List on Chinese Products" (Office of the U.S. Trade Representative, April 3, 2018).
[539] For a complete timeline of tariff implementation, see Chad B. Bown and Melina Kolb, "Trump's Trade War Timeline: An Up-to-Date Guide" (Peterson Institute for International Economics, June 15, 2019).
[540] "Addition of Certain Entities to the Entity List (Final Rule)" (U.S. Department of Commerce, Bureau of Industry and Security, May 16, 2019); "Adjusting Imports of Automobiles and Automobile Parts Into the United States" (The White House, May 17, 2019).
[541] "Remarks by Vice President Pence on the Administration's Policy Toward China" (The White House, October 4, 2018).

Amidst these escalating tensions related to trade and other issues, U.S. and China have conducted intermittent negotiations, with talks most recently restarting in Autumn 2019, but these discussions have yet to yield an agreement.[542] Meanwhile, the trade war, combined other factors like rising wages in China, has already had significant ramifications, including specific impacts like the relocation and diversification of certain supply chains but also the broader sense in the business community that even if a deal should be reached and all tariffs removed, the relationship has fundamentally changed for the worse, meaning that business decisions that hinge on open trade and investment between the two countries are riskier.[543]

The speculative politics framework offers a number of useful insights into the state of U.S. economic policy towards China and the debates surrounding it in the Trump era. First, as with previous bubbles, the implosion of the engagement bubble has reopened debate. Part of that means a swing in the opposite direction, with some describing China as an existential threat or even speculating that the two countries may be engaging in "economic decoupling".[544] There is a risk of overreaction; as former senior State Department officials Kurt Campbell and Jake Sullivan warn, "In the rush to embrace competition [with China], policymakers may be substituting a new variety of wishful thinking for the old."[545] Given this risk, this dissertation has worked to identify nuance and avoid being swept up in historical revisionism, such as

[542] David J. Lynch and Gerry Shih, "Markets Soar as China, U.S. Resume Trade Talks in Washington in October," *Washington Post*, September 5, 2019.
[543] Masamichi Hoshi, Rei Nakafuji, and Yusho Cho, "China Scrambles to Stem Manufacturing Exodus as 50 Companies Leave," *Nikkei Asian Review*, July 18, 2019; Ian Bremmer, "Deal or No Deal, the U.S.-China Relationship Is Beyond Repair," *Time*, February 28, 2019; "The US-China Trading Relationship Will Be Fraught for Years to Come," *The Economist*, May 9, 2019.
[544] Jim VandeHei and Mike Allen, "The Great Global Decoupling: The Cold War between China and the U.S. Is Heating Up," *Axios*, August 13, 2019.
[545] Kurt M. Campbell and Jake Sullivan, "Competition Without Catastrophe," *Foreign Affairs*, August 21, 2019.

claiming that all U.S. policymakers until recently have been soft on China or believed in inevitable democratization. For now, however, a new consensus has yet to solidify and the debate remains far from settled. Trade meetings among senior administration officials have been described as "nasty" and disagreements between the so-called nationalists and globalists as "quite personal", especially when it came to the use of tariffs.[546] Outside of the administration, many politicians oppose the use of tariffs, but many like Ted Cruz continue to put pressure on the Trump administration to stay tough on China.[547]

Meanwhile, intense debate continues in the China-watching community. In February 2018, former Obama administration officials Kurt Campbell and Ely Ratner published a widely-read essay in *Foreign Affairs* that called for a "reckoning" in the U.S. approach to China and argued that "we in the U.S. foreign policy community have remained deeply invested in expectations about China—about its approach to economics, domestic politics, security, and global order—even as evidence against them has accumulated," and "the policies built on such expectations have failed to change China in the ways we intended or hoped."[548] The essay captured the zeitgeist in Washington at the time and many agreed with Campbell and Ratner, but others did not. Stapleton Roy, who served as U.S. Ambassador to China during the George H.W. Bush and Clinton administrations, responded that "To date, constructive engagement has served U.S. interests well," and China expert and former George W. Bush administration official Thomas Christensen called for the U.S. not to abandon the effort to urge China to become a "responsible stakeholder".[549] In July 2019, an

[546] Laura Sullivan, "Inside The White House's Bitter Fight Over China," *NPR*, May 7, 2019.
[547] "Sen. Cruz: 'China Is the Greatest Geopolitical Long-Term Threat to the United States Both Economically and Militarily,'" U.S. Senator for Texas Ted Cruz, February 28, 2019.
[548] Kurt M. Campbell and Ely Ratner, "The China Reckoning," *Foreign Affairs*, February 13, 2018.
[549] Wang Jisi et al., "Did America Get China Wrong?," *Foreign Affairs*, July 2018; "Is American Policy toward China Due for a 'Reckoning'?," ChinaFile, February 15, 2018,.

open letter written by Taylor Fravel, Stapleton Roy, Michael Swaine, Susan Thorton, and Ezra Vogel and signed by many others expressed concern about "the growing deterioration in U.S. relations with China, which we believe does not serve American or global interests", arguing that "many U.S. actions are contributing directly to the downward spiral in relations, that "the fear that Beijing will replace the United States as the global leader is exaggerated", and that China "is not seeking to overturn vital economic and other components of [the global] order from which China itself has benefitted for decades".[550] Although many members of the China-watching academic, policy, security, and business communities signed onto the letter, others wrote counter-responses, including an open letter urging Trump to "stay the course on China" signed by numerous former U.S. military and intelligence officials, academics, and other China watchers.[551] As China hand Bill Bishop commented, "the growing split in the U.S. China watching community seems to be getting nastier and more personal."[552] Thus, the debate is still unfolding, and it remains to be seen how productive it will be and where policy will ultimately settle.

Second, the speculative politics framework and analysis of previous bubbles in U.S. China policy can shed some light on where the debate in the United States and, therefore, the bilateral relationship might go from here, although caution is of course necessary when making any predictions. On the one hand, the recent bursting of the engagement bubble bears a great deal of resemblance to that of the bubble in Cold War-era engagement in 1989. In both cases, highly available and concerning Chinese behavior combined with a changing international balance of power to upset a long-

[550] M. Taylor Fravel et al., "China Is Not an Enemy," *Washington Post*, July 3, 2019
[551] James E. Fanell, "Stay the Course on China: An Open Letter to President Trump," *The Journal of Political Risk*, July 18, 2019.
[552] Bill Bishop, "Xi Convenes Another Big Meeting; Hong Kong Protests; Education Reforms; ASF Worse than Reported; Open Letter" (Sinocism, July 8, 2019).

held policy consensus, leading to a significant shift in the debates and policies. This comparison might prompt one to think of the current bent of U.S. views and policies as similar to the short-lived turn to external pressure that culminated in the MFN linkage policy during the Clinton administration. On the other hand, however, several significant differences suggest that, perhaps, this time is different. When the external pressure bubble burst in 1994, bilateral trade and investment was on the rise and, therefore, support for engagement among the business community was also increasing. In contrast, today U.S. business attitudes towards China are souring. Although China remains a key market for many, U.S. companies are increasingly concerned and frustrated with the Chinese government's interest in extracting their technology and replacing them with Chinese national champions. Over the last decade, an increasing number of U.S. businesses, including a significant number of Fortune 50 companies, have presented less opposition than they might have in the past to U.S. government efforts aimed at pressuring China. Some businesses have even been willing to help, for example coming forward with information about technology theft despite concerns about corporate liability or Chinese retaliation.[553] Many in the U.S. business community have also begun to overcome an aversion to restrictions on investment in light of concerns about Chinese government-directed investments aimed at extracting key U.S. technologies.[554] At the same time, the gap between the level of concern U.S. businesses express in private (a sharp increase over the last decade) and what those businesses are willing to say publicly in view of China's strong penchant to retaliate (a much more modest increase over the same period) has grown. This duality increasingly defines much of the U.S. business

[553] Senior U.S. trade official, interview.
[554] "Trump's Trade War," *FRONTLINE* (PBS, May 7, 2019); Sui-Lee Wee, "As Zeal for China Dims, Global Companies Complain More Boldly," *The New York Times*, August 7, 2018.

community's attitudes toward China.[555] Furthermore, a generational shift in the U.S. government means that younger officials have only known a strong, wealthy China that has not lived up to hopes of liberal reform, while even older China hands feel disillusioned and let down.[556] In other words, the pro-engagement coalition is shrinking, not growing.

Furthermore, current Chinese behavior and long-term trends are also not nearly as encouraging as in 1994, making it harder to put a positive causal story spin on them and making reversal of the current souring mood less likely. Consider the combined impression of China's abolition of presidential term limits, increasing Party control through all of state and society, widespread detention of Uighurs, public embrace of unfair statist economic practices, aggressive expansion of military capabilities, building of military installations in the disputed South China Seas, and pursuit of international power and influence through the Belt and Road Initiative, and it is easy to come away with an impression of an entrenched or even increasingly economically and politically illiberal Party-state exercising its will both domestically and internationally. As publisher of *Sinocism* Bill Bishop wrote in January 2019 when discussing recent work by a fellow China expert, John Garnaut:

> Some now say he has become a China hawk, but I see it as more the evolution of a sophisticated China watcher who believes in seeking truth from facts, no matter how difficult it may be to accept the reality of the direction Xi and the CCP appear to be taking China. This is a trajectory I have found myself on, along with many of the most experienced foreign China watchers I know. I wish I could say I find John's arguments [about Xi's project of total ideological control, within and beyond China] unconvincing, but in fact they only seem more accurate now, over a year after the 19th Party Congress, than they did when he gave the talk in 2017.[557]

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[555] Senior U.S. trade official, interview.
[556] "America's New Attitude towards China Is Changing the Countries' Relationship," *The Economist*, October 18, 2018; Chris Nelson, "You Wronged Me, Thinks the US of China," *Settimana News*, November 22, 2018.
[557] Bill Bishop, "Engineers of the Soul: Ideology in Xi Jinping's China by John Garnaut," *Sinocism*, January 16, 2019.

Finally and relatedly, unlike the Cold War-era engagement bubble, the latest engagement bubble was not burst by a singular, vivid event like Tiananmen. Instead, a steady stream of dissonant Chinese behavior slowly wore away at the engagement story, creating momentum that ultimately burst the bubble and propelled a swing towards a much more confrontational stance towards China. Additionally, while the memory of Tiananmen could fade, Chinese behavior, if no major changes occur, will continue to reinforce negative U.S. views of China.

In the medium and long term, the bilateral relationship could certainly shift again, depending on a number of factors. It is worth noting that there are many reform-minded Chinese actors who are also disappointed by their government's doubling down on illiberal policies, economic and otherwise. Thus, it is possible that China's current trajectory could change, which in turn could have ramifications for U.S. views and policy, but for now China still appears committed to its industrial policies and its Party-controlled political system.[558] It is also possible that disappointment with the results of a more confrontational U.S. approach to China could prompt another shift in views and policy, as with the external pressure bubble and Clinton's MFN linkage policy. After all, U.S. and Chinese tariffs have imposed significant costs on American businesses and consumers and have yet to produce a bilateral agreement; however, while some volatility in U.S. policy in the near term is likely, few expect the bilateral relationship to return to the more cooperative tone of a decade ago, much less than of two decades ago when China joined the WTO.[559] Even many pro-engagement actors are pessimistic about the relationship, with former

[558] Richard McGregor, "Party Man: Xi Jinping's Quest to Dominate China," *Foreign Affairs*, October 2019; Max J. Zenglein and Anna Holzmann, "Evolving Made in China 2025," MERICS Papers on China (Mercatur Institute for China Studies, July 2019).
[559] Sherman Robinson and Karen Thierfelder, "Who's Winning the US-China Trade War? It's Not the United States or China" (Peterson Institute for International Economics, July 11, 2019).

Treasury Secretary Hank Paulson stating that the current trajectory goes beyond the Trump administration and has long-proceeded it:

> What we are now seeing will likely endure for some time within the American policy establishment. China is viewed – by a growing consensus – not just as a strategic challenge to the United States but as a country whose rise has come at America's expense.[560]

Moreover, although there is no shortage of opposition to many of the Trump administration's unorthodox trade policies in both the Republican and Democratic parties, politicians in Congress and beyond are much more circumspect about critiquing trade actions against China or even actively supportive, reflecting how widespread negative perceptions of China in Washington have become. While the Trump administration in expressing backlash to engagement undoubtedly stirred up some backlash to its own policies, it has also reflected and contributed to a shift in orthodoxy.[561] Given this intensity of momentum away from engagement and towards confrontation and the inopportune underlying fundamentals, any reversal in this trend will likely take longer than the external pressure bubble took to burst and the engagement story to reassert itself in the 1990s, or result in a far less pronounced reversal, or some combination of the two. In the meantime, the debate over China, its future, and the ability of the U.S. to shape it will continue to unfold, with long-held causal beliefs and goals coming under intense scrutiny.

Thus, the speculative politics framework helps put the current upheaval in U.S. views of and policy towards China in context and illuminates the ongoing consequences of the overconfidence of engagement during the later years of the Clinton presidency, the slow updating during the W. Bush and Obama presidencies, and, not to be forgotten, the increasingly assertive actions of the Chinese government.

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[560] "Remarks by Henry M. Paulson, Jr., on the United States and China at a Crossroads, Bloomberg New Economy Forum" (Paulson Institute, November 7, 2018).
[561] Warren Maruyama (former USTR General Counsel), interview by author, March 8, 2019.

C.3 Recommendations for Policymakers and Future Research

The speculative politics framework and the application of it in this dissertation also suggest several policy lessons and areas for further research. While it is useful for individuals to maintain vigilance against potential biases like availability and belief perseverance and market failures like manipulation and bubbles, policy changes are important for strengthening institutions against these failings. Thus, I offer several recommendations here. Increased allocation of government resources to monitoring and enforcement of domestic and international trade and investment law or other areas of concern is crucial and has been an increasing focus since the second half of the George W. Bush administration. After all, if you are not aware of what may be going wrong and, due to belief perseverance, may not be particularly inclined to find out, you are not going to update your beliefs, much less change your course of action. Moreover, although collaboration with the private sector is important when it comes to U.S. economic interests, the U.S. government cannot and should not always and entirely rely on business interests to generate a list of negotiation and enforcement priorities, even if also consulting with other stakeholders like labor and environment groups. Private actors' information is often incomplete, and they also have their own interests, which are sometimes but not always aligned with those of the U.S. as a whole. Currently, there appears to be some bipartisan support for increased funding for monitoring and enforcement activities at agencies like the Department of Commerce and USTR.[562] As a less concrete but nonetheless important recommendation, when deploying these growing resources, the U.S. government

[562] "Trade Enforcement Funding Increased in Senate Appropriations Bill," *Sandler, Travis & Rosenberg Trade Report*, June 19, 2018.

should adopt a more aggressive "trust, but verify" attitude towards China – or even a "guilty until proven innocent" where appropriate – and certainly not assume without detailed evidence that China is living up to expectations. For example, in the past, U.S. administrations have tended to take a step back to assess new Chinese leaders and their policy direction following a leadership transition, most recently with Xi Jinping's ascension fueling hopes for renewed reforms. Although some degree of diplomacy and delicacy is typically appropriate, it would arguably be helpful in many cases not to assume that things will change for the better and instead continue to press for progress on U.S. concerns. Defining long-term goals, intermediary objectives, and leading indicators of both progress and lack thereof will be helpful in holding both China and inertia-prone U.S. institutions to account, although it will be equally important to regularly revisit such criteria in case they become outdated.

Additionally, the U.S. government should also deploy the results of its significant and growing monitoring and enforcement activities. When not prohibitively detrimental to national security or other interests, the U.S. government should share information with the public and work to increase information-sharing on more sensitive subjects between agencies, with Congress, and with likeminded foreign governments. Even when it comes to broadly-known issues, extensive documentation of specific manifestations of those issues can change minds and build the political will necessary for a solution. For example, the publication of the USTR Section 301 report in March 2018 demonstrably increased the level of understanding about Chinese IP practices and shifted debates about how to respond to China in Washington and beyond.[563] Similarly, private sector reporting on Chinese cyber-

[563] "Findings of the Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974" (Office of the U.S. Trade Representative, March 22, 2018).

enabled economic espionage like the 2013 Mandiant report on Chinese military cyber-enabled economic espionage and, more recently, the slew of indictments related to theft of trade secrets by the Department of Justice's new China initiative have also shifted thinking in U.S. policymaking circles and in likeminded countries.[564] The Justice Department China initiative, although stemming from work dating back to the Obama administration, also cites the Section 301 report as a basis for its work, again demonstrating the potential catalyzing influence of publishing such findings.[565] Speculative dynamics have characterized the U.S.-China relationship for many administrations, however, so even with these policy changes, they will be difficult to overcome. For example, incentives for short term thinking like term limits will continue to tempt policymakers to use sweeping causal stories to sell policy agendas, and let others sort out the consequences later down the line, and basic human psychology is even harder to change.

Precisely because these dynamics are unlikely to abate, further research should test and refine the speculative politics framework. Other cases should be explored, such as views of China in other key countries like Germany and Australia, as well as cases further afield, such as the surge of belief in the existence of chemical weapons that drove the U.S. decision to invade Iraq in 2003, the hype that Japan would become "number one" prior to its several decades of recession, the fear that the USSR was eclipsing the U.S. in the 1980s, or the expectation that networks of European alliances would prevent conflict just prior to World War I. In applying the speculative politics framework to U.S. economic policy towards China, this dissertation has yielded important insights and lessons, and could do so for other

[564] "APT1: Exposing One of China's Cyber Espionage Units" (Mandiant, February 19, 2013), 1; "Attorney General Jeff Sessions Announces New Initiative to Combat Chinese Economic Espionage" (U.S. Department of Justice, November 1, 2018).
[565] "Attorney General China Initiative Fact Sheet" (U.S. Department of Justice, 2019).

topics as well. Different cases could also contribute to policy recommendations by illuminating factors that can help minimize the negative impacts of speculative dynamics. Furthermore, other biases should also be investigated for potential incorporation into the speculative politics framework, such as representativeness, overconfidence, herd behavior, and anchoring, as well as the influence of emotions or findings of prospect theory. This dissertation has explored the influence of just a few biases and market failures, and more theoretical and empirical contributions could result from further research.

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