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Chinese competition: do we need a new competition policy regime?

Pierrette B. Gaasbeek and Peter A.G. van Bergeijk

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Abstract
This paper discusses changes in the Chinese competition policy regime and analyses the key drivers of this process against the background of the Chinese choice for gradual and pragmatic structural reform.

Keywords

Competition policy, antitrust, global governance, development, structural reform, China

Acronyms

AML	Anti Monopoly Law
BRIIC	Brazil, Russia, Indonesia, India and China
EMU	European Monetary Union
MOFCOM	Ministry of Commerce
NDRC	National Development and Reform Committee
OECD	Organization for Economic Cooperation and Development
SAIC	State Administration for Industry and Commerce
SOE	State Owned Enterprise
WTO	World Trade Organization

Chinese competition: do we need a new competition policy regime?*

Only three years ago the development of the world economic structure appeared to be sound, sustainable and on track with a clear and consistent movement towards an efficient market driven multilaterally governed global system. The so-called Washington Consensus (which basically reflected the key neoclassical insights, including the vital importance of properly functioning markets and their underpinning institutions) governed policy debates (and the curricula of universities).

The emergence of this mainstream analysis had its roots in the 1980s when policy makers all around the globe felt the need for market-oriented reforms of the economic structures. In the developing world the process reflected the failure of the system of central planning of the economy that was a common feature of the development ideology prevalent in the 1960s and 1970s. This failure of central planning was evident in all countries that we now know as the BRIIC group of emerging economies. In Latin America import substitution strategies failed and fossilized industries that were protected from (international) competition lost market shares both at home and abroad (Taylor, 1998, Mesquita Moreiraa 2007). The leap-forward strategy that had prioritized heavy industry had completely failed to deliver the desired catching up with the industrialized economies, not only in the major communist economies (China and the former USSR), but also in India and other non-communist countries (Lin, 2009). As a consequence of the recognized failures of state dirigisme and protectionism, economic policies became increasingly competition oriented and stimulated both openness and international integration.

The reorientation of economic policy was, incidentally, not limited to the developing world. Also in the OECD area the detrimental experiences of stagflation, excessive taxation and inertia and inflexibility of both product markets and labour markets led to an ambitious and influential programme of structural reform in the advanced economies (van Sinderen, 1993). This process stood at the basis of the 'Europe 1992' program for the internal market (Emerson et al 1988). A program that was effective and influential as it changed the competition policy landscape in Europe and *inter alia* led to the new Dutch competition law and the establishment of the NMa in 1998 (van Bergeijk and Haffner, 1996).

All in all in the 1990s a global reorientation was taking place in all major economies and given the performance of the world economic system in terms of prices, employment and production during the ensuing period of the Great

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* Pierrette Gaasbeek is Unit Manager Energy & Transport at the Dutch Competition Authority NMa. Peter van Bergeijk is Professor of International and Macro Economics at ISS. A preliminary version of this paper was presented at the seminar 'Is there an Economic Case for International Rules on Competition Law?', Ministry of Economic Affairs, The Hague (October 13, 2010). Comments by Jarig van Sinderen are gratefully acknowledged.

Moderation, the new market oriented policy environment appeared to be ready for the twenty-first century.[1]

The financial crisis that hit the world economy in 2008, however, drastically changed this perspective (van Bergeijk et al. 2011). The initial economic answer to the crisis has been Keynesian with an unprecedented relaxation of monetary policy (especially quantitative easing), fiscal stimulus packages and support for the financial sector. Additionally, the apparent failure of markets fuelled demand for a larger role for government in terms of regulation, supervision and involvement.

It is also relevant that economic growth recovered quickly (and often growth simply continued) in those quarters of the world where state intervention still plays an important if not dominant role, in particular the BRIIC countries. This decoupling of economic fortunes that took place between the OECD and the BRIIC countries does not only question the validity of policy frameworks that essentially rely on markets; it also boosts self-confidence in the BRIIC countries in their own approach that mixes markets and public sector involvement and puts more weight on government as an actor and catalyst for development.

Against this background we plan to take a closer look at competition policy in the People's Republic of China. One reason for this endeavour is that the Chinese approach of gradual and experimental change differs fundamentally from the Big Bang approach that was followed by the former communist states in Eastern Europe and the Soviet Union. A second reason is that China is increasingly being recognized as one of the key players in the global community: its share in the world economy and its role in global governance (like that of the BRIIC countries in general) have substantially increased and are expected to continue to grow (Kaplinky and Messner 2008). Therefor the non-OECD view on markets and governments will gain weight already in the near future. Table 1 illustrates the relevant trends in the world economy that recently probably have only been strengthened due to the severe slump in the OECD.

TABLE 1
Shifting Shares in the World Economy (1995 versus 2015)

1995	Per cent	2015	Per cent
Europe	40	Europe	23
US	16	China	17
Japan	7	US	11
China	2	Japan	4
Rest of Asia	14	Rest of Asia	15
Rest of the world	14	Rest of the world	30

Source: Based on Hervé et al. 2007

[1] The point is of course not that everybody was happy with the system. Many critical voices were raised. A clear example is Stiglitz's Nobel Price Lecture (Stiglitz).

Based on a long run OECD study that was published actually just before the outbreak of the financial and economic crisis, Table 1 provides details regarding the unprecedented fragmentation of economic power over the period 1995–2015 as the C3 ratio (the share of the three largest economic players) decreases from 63 to 51 per cent and the Herfindahl index about halves (from a score of 1909 to 995). The decrease of the 'monopoly power' of the market oriented countries that stood at the very basis of the international institutions (IMF, World Bank, OECD) is also reflected by the observation that the share of Europe, the US and Japan over this period decreases from 63 per cent to 38 per cent.

It is naïve to believe that such a shift in economic power will not translate into a shift in the politics of international governance and therefor one should expect a change in the norms and values in the global economic system. The non-OECD perspective is not anti-capitalistic *per se,* but gives more weight to co-ordination and the long-run effects of policies than is usually the case in the industrialized countries that essentially favour the atomistic individual freedom to choose. Bomhoff and Man Li Gu (2011) empirically investigate if and how modernization influences values and while they uncover substantial change into the direction of rational and individualistic value systems in the industrial coastal regions of China, it is also relevant that higher income is associated with a more traditional value orientation (and if so economic growth will not be associated with a more Western orientation but rather with an Asian type of social market economy). The probability of a change in the basic norms and values in world economic governance is not to be ignored, especially since it will be more difficult for the market economies to continue to exercise global leadership and global public goods (rules, institutions, etc.) in a highly fragmented world (Olson 1965) so that competition between the different competition policy regimes and philosophies is a realistic scenario. This provides yet another reason why a better understanding of the determinants of China's competition policy is important.

The remainder of this essay is organized as follows. In Section 1 we discuss the reasons behind the Chinese model and argue that these drivers will remain valid in the foreseeable future. In particular we believe that China's national interest rather than a specific ideology will be the key determinant of its future actions. Section 2 then discusses the evolution and features of the Chinese competition policy and its instruments. We contrast these aspects with the characteristics of the competition policy framework(s) in Europe. In the final section we speculate about the potential impact of the new role and influence of China on (global) competition rules and enforcement and offer a recipe to meet the Chinese competition.

1 Crossing the River

The roots of China's new competition policy are to be found in Deng Xiaoping's gradually implemented economic reforms: just as one crosses a river by climbing from one stepping stone to another the economic system is to be reformed step by step. This idea (that already in the early 1980s guided policy changes aimed at more autonomy for farmers and firms and a better functioning of the incentive systems in China) contrasts with the Big Bang approach that was characteristic of Michael Gorbachev's Glasnost in Eastern Europe and the Soviet Union. Clearly, (geo) political differences may explain why one communist empire opted for pragmatic gradualism and another communist empire chooses the short cut of deep recession and high-speed adjustment.[2] The ad hoc character and broad range of institutional changes and industry specific reforms, however, can also be recognized in the way structural reforms were implemented in New Zealand in the early 1990s (Hall 1999); New Zealand for quite some years was the show case for structural reform in the OECD. The Chinese model differs from these approaches and did so notably well before the negative consequences of the Big Bang approach in terms of temporary output loss and unemployment became clear. Basically the Chinese did it their way and probably most likely for cultural and historic reasons rather that based on an economic analysis of the costs and benefits of different adjustment trajectories.

1.1 Theoretical underpinning of gradual reform

Importantly, however, the Chinese policy model of gradual and experimental adjustment processes also has important economic underpinnings. This economic theory is discussed in several publications (co-)authored by Justin Yifu Lin, who is presently senior vice president and chief economist of the World Bank (for example Lin et al. 1998 and Lin 2009).

A first key insight is that the communist command and control economies that mobilized domestic capital via forced savings and prioritized heavy industries (steel, machinery, vehicles, etc.) severely distorted the macroeconomic environment since the prices of the production factors (wages and interest) and (intermediate) inputs[3] were set at artificially low levels (and accompanied by strict quantity targets). Two important aspects of macroeconomic distortion are especially relevant. The first issue is that a pattern of specialization develops that actually works against comparative advantage (Oldersma and van Bergeijk, 1992, van Sinderen and van Bergeijk 1994, Lin, 2003). The alternative would be to upgrade the endowment structure – that is fast accumulation of (human) capital – rather than the industry/technology sector which would react and on a trial and error basis would follow and develop comparative advantage.

The second issue is that state owned enterprises *appear* to be healthy at the outset of structural reforms because they often reap monopoly rents at suboptimal input prices and output quantities. Hughes and Hare (1991) even established that for many Eastern European products negative added value would occur if outputs (i.e. the products) and inputs (capital, labour, raw

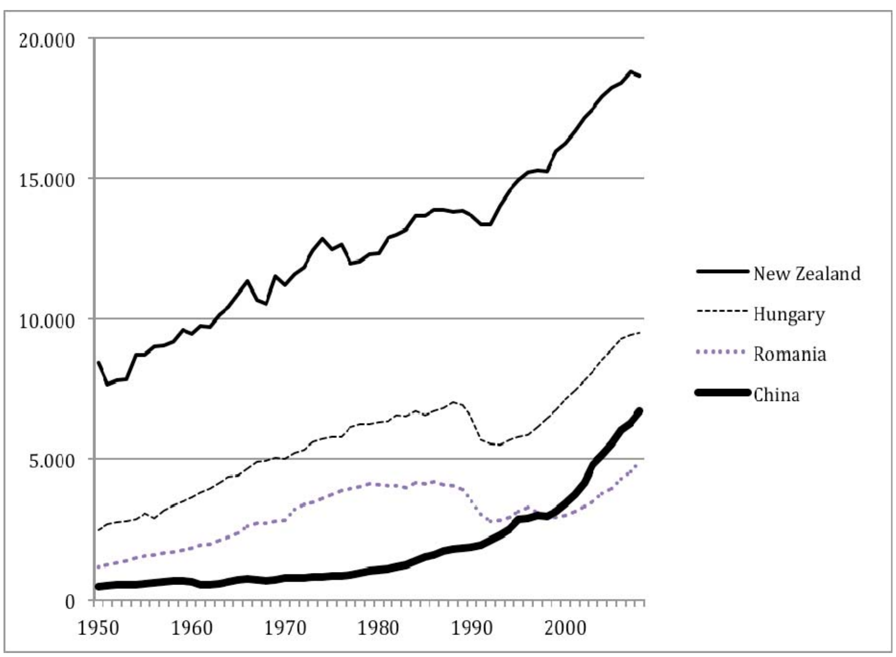
[2] Actually, the Big Bang approach may have been politically motivated by the desire to permanently destroy the power structures of the Communist Party and set irrevocable steps towards private production (and a way from the big conglomerates of state owned enterprises.

[3] This did not only have implications for the pricing policy for, e.g., raw materials, but also for the exchange rate.

materials and intermediate inputs) were valued at market prices. A Big Bang approach and instant liberalization imposes an idiosyncratic shock in input costs, output prices and production processes that exposes these weaknesses instantly (as it did in Eastern Europe and the former Soviet Union and incidentally also in New Zealand) with strong reductions in production and significant increases in unemployment as direct consequences (see van Bergeijk and Lensink 1993). Also from this perspective it is important to note that although non-state production exceeds production in the state sector, regions and sectors of the economy may still be dominated by state owned enterprises (SOEs). In 1996, the share of SOEs in total industrial output stood at 29%. Importantly, however, 57% of urban population and 52% of fixed industrial investment was still accounted for by state owned enterprises (Lin et al, 1998, p. 422). This insight stood at the basis of the Chinese choice to give priority to reducing the policy burdens first (that is the macroeconomic distortions that follow from central planning).

At the practical level of implementation, gradual reforms were introduced giving opportunities and autonomy to new enterprises[4], including the so-called township and village enterprises, in order to allow markets to develop and to provide the necessary adjustment time to state owned enterprises. Moreover, so-called Special Economic Zones had been created (starting in the early 1980s

FIGURE 1
GDP per capita 1950-2008 (constant 1990 international dollars)



Source: Maddison data base available at http://www.ggdc.net

[4] According to Lin et al. (1998, p. 425) the share of the township and village enterprises in total industrial output increased from 7% in 1973 to 31% in 1996.

with Hainan, Shantou, Shenzen, Zhuhai and Xiamen) where new export-oriented industries (largely funded by foreign capital in the form of joint ventures and/or fully foreign owned subsidiaries) could emerge in an environment where developments and decision-making were mainly market driven.

Figure 1 illustrates the effectiveness of these policies in terms of increases in per capita GDP and also provides a comparison with three specimen countries that followed the Big Bang approach to structural reform (New Zealand, an OECD economy from the start and Hungary and Romania, initially centrally planned economies). For the right interpretation of the graph it is important to note that the first Chinese steps in the 1970s already doubled income per head and the same achievement can be observed in the 1980s (when the newly established market mechanisms and improved allocation stimulated the economic dynamism). The productivity increase since the start of the Millennium, although of course much larger in absolute terms, is of comparable relative strength. Figure 1 clearly illustrates the continuing positive trend in China's average GDP per capita, which contrasts with the large fluctuations and drops in the other countries.[5]

1.2 The future course of Chinese policy change

The appropriate metaphor for policy making in China is the oil tanker, not the sailing yacht. It is unlikely that Chinese policy makers will be tempted to change the course of their economic policies and opt for quick and ad hoc changes, given the (also comparatively) good performance of the Chinese economy and the managed transition that its development policy so far achieved. Importantly, many macroeconomic distortions ('policy burdens') are still in place and here a gradual approach will have to be followed if a decrease in per capita income is to be avoided (such a drop would increase the risks of instability and thus the political costs of structural change). Moreover, China weathered the crisis quite well. Gong and De Haan (2011) argue that China was actually well-prepared for the crisis, probably having learnt the lessons from the Asian crisis in 1997–98: 'This appears directly in line with China's pragmatic reform policies which had become its hallmark since 1978' (Gong and De Haan 2011, p. 231). On balance a gradual approach regarding reform towards a social market economy is thus the most likely scenario. One-size-fits-all recipes will not be followed and also more ideologically inspired visions of market economics will not have an impact on policy makers in Beijing. This is not to say that policies will remain the same. Important changes have taken place and will take place. One such important step forward consists of the changes in competition policies and regimes that took effect as of February 2011.[6]

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[5] The only exception is a short phase of stagnation due to the Asian Crisis in 1997-8.
[6] In addition to the issues that are discussed in Table 2, on March 4, 2011 a set of 'national security' procedures regarding the merger review process came into effect

2 Introduction and Modernization of Competition Laws in China

China's socialist tradition and culture differ considerably from that of the advanced economies. In China the commercial laws and regulations are still under construction. Private ownership was gradually introduced since the 1980s, but it was only explicitly allowed across the whole spectrum of the economy in 2004 when the Chinese National People's Congress amended the Constitution so as to explicitly protect private ownership of property, businesses and wealth. It actually took quite a long time for China to reach consensus on a competition law due to the fundamental issues arising from China's historic transformation from a centrally-planned economy to a market economy, including the role of the state-owned enterprises, perceived excessive competition, mergers and acquisitions by foreign companies, the treatment of administrative monopolies, and antitrust enforcement (Owen, Sun and Zheng 2007; Van Sinderen and Severijnen, 2008, provide a useful overview in Dutch). As in other aspects of economic policy, competition policy reform was gradual, pragmatic and deliberate, but it also often turned out to be inconsistent. According to Xiaofei (2008, p. 497) the result is 'a fragmented legal framework against restrictive behaviour in the Chinese market'. Table 2 highlights the key legislative steps of the Chines government since the introduction of the first competition law in 1993.

2.1 Catalytic impact of WTO accession

The movement towards a modern competition framework was thus for long essentially gradual and slow. In 2001, however, China entered the WTO and agreed to abide by global trade rules. Of particular relevance were China's new commitments regarding

- the non-discriminatory treatment to all foreign individuals and enterprises, including those not (yet) invested or registered in China with respect to the right to trade;
- the elimination of dual pricing practices as well as differences in treatment accorded to the location of final consumption; and
- the use price controls (which would no longer afford protection to domestic industries or services providers).

that offers a formal understanding and interpretation of Article 31 of the AML (China State Council 2011). See also Section 3.2 below.

TABLE 2
Introduction of competition laws in China

Year	Law	Key features
1993	Law against unfair competition	Condemnation of abusive conduct of public enterprises and supervision assigned to SAIC
1997	Price law	NDRC established as supervisor regarding restrictive agreements, in particular price cartels and including price fixing, predatory pricing and price discrimination
1999	Law on Bid Invitation and Bidding	regulates cartel activities in fields such as procurement that require bidding.
2003	Interim provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors	MOCFOM (together with SAIC) entrusted with supervision; only for mergers and acquisitions involving foreign firms
2003	Tentative Provision on Prohibition of Acts of Price Monopolization	administrative rules which prohibit the abuse of “market dominance.” The rules also contain prohibitions against price coordination, supply restriction, bid rigging, vertical price restraint, below-cost pricing, and price discrimination, which are described as abuses of dominance. The rules also prohibit government agencies from “illegally intervening” in market price determinations.
2004	The Foreign Trade Law	updated in 2004, prohibits monopolistic behaviour and unfair competition in foreign trade activities.
2006	Provision on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors	administrative rules on notification requirements and the terms of an antitrust review for pending mergers
2007	Anti Monopoly Law	mainly deals with concentration of operators, monopoly agreements and abuse of dominant market position and resembles the provisions of antitrust laws in typical market-oriented economies
2011	Rules on the Prevention and Restriction of Price-related Monopoly Conduct (the NDRC Rules) SAIC Monopoly Agreements Rules SAIC Dominant Position Rules Rules on the Prohibition of Abuse of Administrative Power resulting in the elimination or restriction of competition.	The rules will guide the enforcement of the Anti-Monopoly Law against price-related and non-price related anti-competitive conduct. The NDRC Rules clarify the kind of anti-competitive conduct between competitors and conduct between companies and business partners that the NDRC will investigate. The SAIC Rules clarify the types of agreements and concerted practices that are prohibited under the AML. The provisions mainly address commercial practices between competitors but provide a catch-all prohibition against anti-competitive agreements that may apply to companies operating at different levels of the supply chain.

Sources: Compiled by the authors and based on studies by Xiaofei 2008, Mehra and Yanbei 2008 and Wang et al. 2011

Importantly, the WTO Agreement required implementation in an effective and uniform manner by revising the then existing domestic laws and the enacting of new legislation fully in compliance with the WTO Agreement.

The economic implication of China's WTO membership was that barriers to foreign goods would shrink as the door to foreign investment opened. Foreign retail firms could set up wholly owned outlets and sell goods that were not produced in China. As a consequence the number of foreign firms entering China increased, but the entering foreign firms were confronted with the fact that the conduct of Chinese firms was (generally speaking) not governed by codified law. The use of administrative power to reward local industry creates dangerous opportunities for rent seeking. Favored firms and industries can develop quite cozy relationships with local and regional officials. This is especially relevant since for China as a socialist-market economy, the state still remains the dominant economic actor. Competition between companies increased but also the risk of anti-competitive conduct of companies and abuse of dominant position by state actors spread. Laws actually varied greatly from region to region and depended on local traditions, but also on the preferences of local government and supervisors. It became therefor increasingly clear that WTO membership would also have legal implications for China in order to provide a level playing field *inside* the country.

2.2 European perspective

It became thus increasingly clear that better, more coherent and comprehensive rules regarding (non) competitive behavior were necessary. For China competition is an unfamiliar concept. Since making its transitions to a market-oriented economy, attention is being paid to the importance of competition as an institution. As a result China has been looking to the antitrust laws developed in Western countries for guidance in designing its competition policies and institutions. On 6 May 2004 the Ministry of Commerce of China and the Directorate General for Competition of European Commission reached agreement on a structured dialogue on competition.[7] China has formulated various competition-related policies, laws and regulations. On its side, the EU has a relatively complete set of competition legislation. This provides a basis for a dialogue between both parties on competition legislation and enforcement. The primary objective is to establish a permanent forum of consultation and transparency, and to enhance the EU's technical and capacity-building assistance to China in the area of competition policy.

Interestingly, the European experience – from a historical perspective – shares some similarities with the present Chinese situation and this may provide some useful lessons. At the start of the 1990s the European competition landscape was a spaghetti bowl of national and inconsistent competition laws based on different principles (Table 3). The Netherlands, for

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[7] 'Declaration on the Start of a Dialogue on Competition by the EU and China' and 'Terms Of Reference Of The EU-China Competition Policy Dialogue' document available at http://ec.europa.eu/competition/international/legislation/china.pdf.

example, deployed the Abuse Principle that legally allowed cartel activities – and actually approved notified cartels – unless these cartels did 'proven harm' to the economy. Also the size, independence and competence of the institutions that supervised markets differed greatly across Europe (in the Netherlands the task was devoted to a relatively small section in the ministry of Economic Affairs and no economic merger review existed).[8] It was only after the Europe 1992 initiative aimed at the completion of the European internal market and the EMU project that competition policy was harmonized (so that a level playing field emerged) and the EU Commission became a powerful supervisor. The implication is that – while scope continues to exist for local supervisors and specialization – integration, coordination and harmonization are pre-requisites for achieving effective supervision.

TABLE 3
The European spaghetti bowl of competition policy institutions in 1996

Country	Competition agency	Indepen-dent	Principle	Enforcement
Belgium	Dienst van de Mededinging	No	Prohibition	Administrative
Denmark	Koncurrenceeradet	Yes	Abuse	Administrative
France	Conseil de la Concurrence	Yes	Prohibition	Administrative
Germany	Bundeskartelamt	Yes	Mixed	Administrative
Greece	Επιτροπή Ανταγωνισμού	No	Prohibition	Administrative
Ireland	Competition Authority	Yes	Prohibition	Criminal law
Italy	Autorità garanta della concerrenza	Yes	Prohibition	Administrative
Netherlands	Directie marktwerking	No	Abuse	Criminal law
Portugal	Autoridade da Concorrencia	Yes	Prohibition	Administrative
Spain	Servicio de Defensa de la Competencia	Yes	Prohibition	Administrative
Sweden	Konkurrentverket	Yes	Prohibition	Administrative
UK	Office of Fair Trade	No	Abuse	Administrative

Source: Van Bergeijk and Haffner 1996, Table 2.2, p. 27

2.3 Big leap forward?

After a thirteen-year legislative process, the Anti Monopoly Law (AML) was published in 2007 and became effective on August 1, 2008. The majority of the AML's fifty-seven articles resemble the provisions of antitrust laws in typical market-oriented economies. The provisions aim at the prohibition of price fixing, monopolization, and mergers that significantly concentrate industries within China. While drafting the AML, China built on the experiences of United States and the European Union. The law contains explicit provisions

[8] See Van Bergeijk and Haffner 1996, pp. 22-30 and especially Table 2.2 for an impression of this spaghetti bowl.

targeting anticompetitive government action – especially widespread local protectionism – in a large transitional economy. Since the AML's introduction in August 2008, much of the precedent and practice issued has focused on the merger control regime. Recently China's National Development and Reform Commission (NDRC) and the State Administration for Industry and Commerce (SAIC) have issued new rules that focus on the two remaining traditional pillars of an antitrust regime. On February 1, 2011 these new rules have come into effect.

The NDRC published rules on price related infringements. The SAIC published rules on non-price related infringements. While these rules offer clarity on these competition issues, they do overlap and thus inherently raise questions. In economic terms, there is little difference between an agreement to limit output and on the other hand a price-fixing agreement. Unlawful conduct can attract considerable fines (up to 10 percent of global turnover) and even criminal sanctions in certain cases. It is still unclear how China's supervisors will enforce these laws. The powers of enforcement have been delegated to local enforcement agencies. This will encourage enforcement at local level but potentially will lead to divergences in enforcement, fining policy and leniency application.

3 The Way Ahead

Since the Second World War the world economic system absorbed several waves of new entrants that each did not challenge the basic underpinnings of its governance even though observers sometimes saw these 'miracles' as threats for the group of leading economies.

3.1 Waves of Global Integration

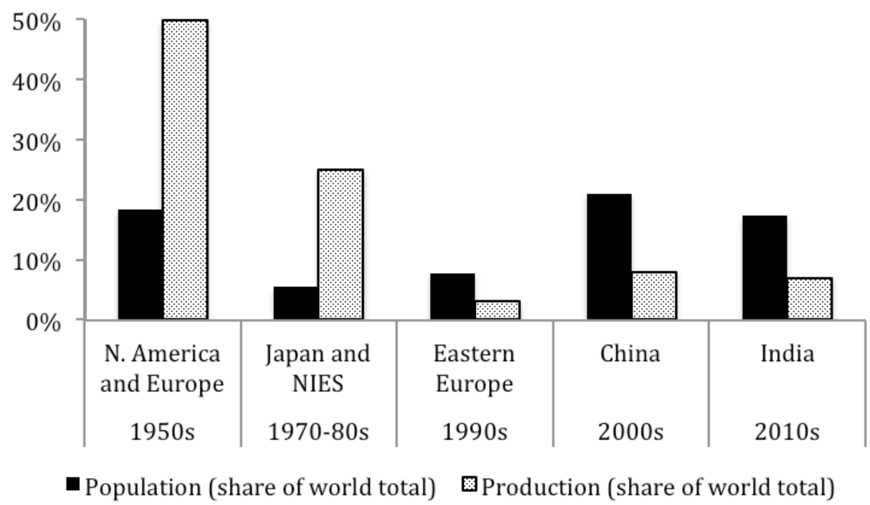
The integration of the war prone economies in Western Europe led to a strong economic power base of the advanced economies. The re-emergence of Japan as an important economic power and the subsequent advent of the Newly Industrializing Economies (the so-called Asian Tigers[9]) in the 1970s and 1980s did in the end not constitute a threat to the governing paradigm of multilateralism and markets essential because the new entrants embraced those principles. Likewise the fall of the Iron Curtain and the break down of the Soviet Union in the 1990s actually further strengthened the domination or market orientation. So why would it this time be different?

Figure 2 illustrates that the difference of the new wave of global integration does not follow from the production share of the new entrants at the start of the wave (although the increase in Chin's global production share over the last decade in line with the developments that were illustrated in Figure 1 has been spectacular indeed). The challenge that China and India pose to the world economic system follows from the size of their populations (and thus from their potential production shares that will be realized if their labour

[9] Hong Kong, Taiwan, South Korea and Singapore.

productivity catches up economy-wide). Indeed, within a decade the BRIICs may have a global majority share in terms of both population and production. This will constitute a powerful and hard to ignore base for change both regarding the governance of the international system and direction of the world economic institutions, also because key long term problems (such as global warming) simply cannot be solved without the BRIICs.

FIGURE 2
Shares of Key Players at the Start of the Waves of Global Integration



3.2 (Inter) National Interest

One of the key questions from the perspective of this essay is of course if the Chinese strive for a social market economy by necessity requires a change of global competition rules. So far China has – gradually, but decisively – moved into the direction of a modern competition regime. This trend is, however, by no means certain if China's national interests are not (perceived to be) served by further steps and new institutions and legislation that would be necessary to bring the competition regime effectively up to Western standards. In particular the Chinese culturally and historically determined preferences for co-ordination and co-operation and a longer term orientation than the market typically can provide, may motivate the authorities to chose for a Chinese blend of competition policy and industrial policy. This would not result in a system that meets all demands from the advanced economies, but there could be much wisdom in allowing the Chinese this room for manoeuvre.

Second, international measures should not be focussed disproportionally against China (as presently appears to be the case both in the arena of currency imbalances and in terms of trade distorting measures). Such measures are not only dangerous because they carry the risk of retaliation (van Bergeijk 2010, Chapter 5), witness the new 'national security' considerations that – following similar legislation in the advanced countries – have recently been formally introduced (China State Council 2011). More importantly such measures could potentially alienate China from the system of multilateral governance is. If so, global governance could develop into a multi-polar system in which small states align with large states while the poles in the system basically compete (although co-ordination an co-operation are possible of course). Typically this is the present format for monetary, fiscal and exchange rate policies. Another consequence could be that regional governance systems develop that compete with (multilateral) forms of global governance.[10]

If the market system is considered to be the best – or the optimal – system available and if this system should continue to be the basis of global integration in a multilateral setting, then the industrialized world should not to alienate China (and the other BRIIC countries for that matter) from that system. First of all, this implies that rather than simply imposing Western norms and values one should respect the difficulties and choices underlying the Chinese development model. Being patient may have a high payoff if the ultimate result is that China continues to move into the right direction. Overreaction against emerging economic powers is not a sensible recipe if one wants to get their commitment to an open multilateral system.

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[10] Thus we see, for example, regional initiatives to organize Asian (and European for that matter) alternatives to the IMF and the World Bank.

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