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# “No Dogs or Chinese Allowed”: Globalization and China

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## **An Evolving Process of Cooperation**

Globalization is a process in which barriers between people—both natural and man-made—are dismantled to allow a freer exchange of ideas, capital, goods, and services.<sup>1</sup> This ongoing process of change began when individuals first communicated with one another to secure food and shelter. Such behavior resulted in localized communities of cooperation, of which less nomadic groups organized into villages, towns, and eventually nation-states.

Yet according to Thomas Hobbes, one of the most influential British political philosophers of the 17<sup>th</sup> century, these cooperation communities did not live in harmonious bliss, but in a brutish, anarchic environment.<sup>2</sup> Individuals cooperated within small communities, as members could ensure cooperation. Yet as groups grew in size, individuals had a greater ability to pursue their self-interest, which was not necessarily for the benefit of the community.<sup>3</sup> To prevent such defections, cooperative communities entered into a social contract, in which they surrender their individual rights to all-powerful leaders such as kings and emperors (i.e., hegemons), who ensured that the greatest good could be achieved. Embodying such absolutist ideals was Hobbes' contemporary, the French monarch Louis XIV, who reportedly stated, “L'état c'est moi” [I am the state]. With the development of the modern democratic capitalist state, hegemonic rulers were replaced by elected leaders, who had to adhere to the rule of law.<sup>4</sup>

These laws also created artificial barriers between individuals living in separate cooperative communities.<sup>5</sup> Coexisting in a brutish anarchic environment, cooperative communities erected protectionist barriers to insulate themselves from external threats.<sup>6</sup> Over time, these cooperative communities established separate languages, customs, and other forms of preferential exchange that further separated the community member from “the other.” Natural barriers of exchange also existed, such as the physical distance between communities. Large-scale exchange of goods and services thus occurred only within the global trading empires, such as

imperial Rome, China, Spain, France, and Great Britain, whose hegemon could enforce behavioral norms within the cooperation community. Yet lacking a single global hegemon, global economic warfare could break out between cooperative communities at any time, such as the regional trade wars of the 1930s.<sup>7</sup>

During the post-World War II period, the large trading empires relinquished formal control of their imperial colonial holdings. Led by the United States, democratic and non-democratic capitalist countries embarked upon a new stage globalization that gradually increased the scale of the cooperation communities that established global rules and norms of behavior—or international regimes.<sup>8</sup> Within the global trade regime embodied by the World Trade Organization (WTO), these capitalist economies dissolved many protectionist barriers to international exchange and sacrificed many sovereign economic rights.<sup>9</sup> Multinational corporations (MNCs) and international financial institutions thus could link together the developed and developing economies; aided by technological, financial, and transportation innovations, these cooperative communities became further integrated, leading to the globalized world of today.

## **Globalization and Developing Economies: China**

Emerging from the colonial exploitation of the past, economies in the developing world were far more sensitive to the detrimental effects of the anarchic international environment dominated by the capitalist cooperation communities. They sought to achieve comprehensive economic growth by adopting two industrial development strategies—inwardly- and outwardly-oriented development.<sup>10</sup>

Until the early 1980s, China adopted inwardly-oriented strategies of development, which regarded the international economy as a dangerous adversary, whose influences on the domestic economic growth needed to be controlled or eliminated. Beginning with its relationship with the Soviet Union in the 1950s, China imple-

mented a comprehensive strategy of importing manufacturing technology for intermediate goods (petrochemicals, steel), producer durables (machinery) and consumer durables (automobiles, televisions, etc.) in order to reduce imports from abroad. This strategy was called import substitution.<sup>11</sup> Combined with vigorous regulation of foreign investment and extensive subsidies for domestic industry, China protected state-owned enterprises' (SOEs') monopoly of the domestic market. While making export activities unprofitable, the overvalued exchange rate enabled China to import industrial production technology and equipment for targeted industrial sectors. In essence, China depended on the international marketplace in the short-term in order to achieve autonomy or self-reliance in the long-term. During the Cultural Revolution of the 1960s, the Chinese leadership implemented a more autarchic (i.e., self-sufficient) strategy of development, which mandated the complete isolation of China from the global economy except in a few instances.<sup>12</sup>

By the early 1980s, the Chinese leadership had learned the limitations of inwardly-oriented development, just as leaders in Japan, South Korea, and Taiwan had during the previous decades.<sup>13</sup> China thus adopted an outwardly-oriented development strategy, which is based on theories of comparative advantage proposed by the English political economist, David Ricardo.<sup>14</sup> Theoretically, developing economies enjoy comparative advantage in labor and/or land, and thus expand production of labor-intensive commodities for the domestic and export markets. Lacking capital and entrepreneurial ability, developing economies increase imports of capital intensive products and progressively lift many protectionist barriers to foreign direct investment (FDI). Eventually, they adopt a more equitable pricing system for production inputs, revalue their currencies, and eliminate certain protectionist quotas and non-tariff barriers.<sup>15</sup> Unlike the pre-1979 period, Chinese leaders considered the global economy as a "partner in development," which could provide an invaluable source of export revenue, technology innovation, and capital financing.

During the subsequent two decades of outwardly-oriented development, China became the premier destination for FDI and enjoyed an unprecedented exchange of technical and managerial expertise. As a result of these and other economic reforms, China enjoyed an average annual real GDP growth rate between 1979 and 2004 of 9.3 percent; by the end of 2004, China had attracted \$563 billion of FDI, 43 percent of which came

from Hong Kong, 8.5 percent from the United States, and 8.3 percent from Japan.<sup>16</sup> Having learned like Japan and the other East Asian economies to harness foreign capital and technology to develop its economic competitiveness, China has now entered the next stage of globalization by establishing Chinese MNCs—the "Go Global" strategy.

## **Restricting Cooperation Communities**

The United States and the European Union are greatly concerned about the impact of Chinese globalization schemes. Americans continued to import foreign goods at record levels in 2004, resulting in a \$617 billion overall trade deficit, of which there was a \$162 billion bilateral trade deficit with China.<sup>17</sup> China produces two-thirds of the world's television sets, watches, DVDs, and other domestic electronic goods. During the first four months of 2005, Chinese garment exports to the US rose between 70-1,500 percent.<sup>18</sup> China is now the largest consumer of copper, tin, aluminum, lead, zinc, platinum, steel, and iron ore, resulting in tremendous cost increases around the globe; it is claimed that the current \$60 per barrel costs of petroleum is due to China's burgeoning automobile industry. Chinese companies have recently submitted solicited and unsolicited bids for major US companies. China's largest computer hardware manufacturer, Lenovo, acquired IBM's ThinkPad division; TLC bought the RCA television division from the French manufacturer, Thomson. Seeking to expand its share of the international marketplace for household appliances (i.e., white goods), the Chinese MNC Haier unsuccessfully bid \$1.28 billion to acquire the US manufacturer, the Maytag Corporation. In 2005, China's third largest energy company, the China National Offshore Oil Corporation (CNOOC), announced plans to acquire the California-based petroleum and natural gas corporation, Unocal, for \$18.5 billion.<sup>19</sup>

Although China is now a member of the WTO, the US reaction has been increasingly negative and protectionist. The Congress and the Administration successfully demanded that China revalue its currency, even though most economists agree that such reevaluation will have little impact on the current account deficit.<sup>20</sup> Despite the traditional support for free trade, the US is currently engaged in talks with Chinese trade officials concerning the US proposal to impose quotas and restrictions on seven categories of Chinese textile and garment imports; the EU has already restricted Chinese textile imports. While the US government approved Lenovo's acquisition of IBM's laptop computer division, the US House of

Representatives voted 398 to 15 that CNOOC's acquisition of Unocal's energy resources threatened US national security.<sup>21</sup>

As Tom Freidman has argued, globalization is a fact of life that the US should embrace and not use as an excuse to erect protectionist barriers.<sup>22</sup> The US should be touting China's transformation from a moribund, Marxist-Leninist state to a globalizing, capitalist economy as a potential model for other developing nations. Simultaneously, the US should leverage China's desires to "Go Global" to encourage China's compliance with international trade laws and norms of behavior. As Chinese MNCs enter the US marketplace, the US should insist that US-based MNCs be accorded similar treatment within the Chinese marketplace. This would address looming problems with Chinese restrictions on foreign-invested enterprises' access to the Chinese market, the lax enforcement of intellectual property rights (IPR), and other such problems.<sup>23</sup> Finally, the US must remember that US protectionists railed against Japan, Inc. in the 1980s. Yet, the US allowed Japanese MNCs such as Toyota, Honda, and Nissan to establish US-based design and manufacturing facilities. Located throughout the US, these facilities are producing high-paying jobs for US workers and top-quality automobiles for the US market. In these days of high oil prices, the competition from these truly multinational corporations is convincing Detroit to switch from producing gas-guzzling SUVs to developing hybrid cars that are highly fuel efficient and produce low emissions.

Restricting cooperation communities will result in a world of exclusivity akin to colonial Shanghai of the 1930s, in which a public park sign reputedly warned, "No dogs or Chinese allowed!"<sup>24</sup>

### Notes

1 For a general discussion of economic globalization, see Suzanne Berger, "Globalization and politics," *Annual Review of Political Science* 3 (2000): 43–62; Joseph E. Stiglitz, *Globalization and its discontents* (New York: W. W. Norton & Company, 2002); Jagdish Bhagwati, *In defense of globalization* (New York: Oxford University Press, 2004); Harold James, *The end of globalization: lessons from the Great Depression* (Cambridge, MA: Harvard University Press, 2001).

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3 Mancur Olson, *The logic of collective action* (Cambridge, MA: Harvard University Press, 1971).

4 Sandra Halperin, *War and social change in modern Europe* (New York: Cambridge University Press, 2004).

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9 Robert Gilpin, *The challenge of global capitalism* (Princeton, NJ: Princeton University Press, 2000); Susan Strange, *The retreat of the state: the diffusion of power in the world economy* (Cambridge, MA: Cambridge University Press, 1996); Ethan Kapstein, *Governing the world economy: international finance and the state* (Cambridge, MA: Harvard University Press, 1998).

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13 Stephen Haggard, *Pathways to the periphery* (Ithaca, NY: Cornell University Press, 1990); World Bank, *The East Asian miracle: economic growth and public policy* (New York: Oxford University Press, 1993).

14 David Ricardo, *The principles of political economy and taxation* (New York: Dutton, 1969); Berger, 49–50.

15 Hla Myint, *Exports and economic development of less developed countries* (London: MacMillan, 1979), 105.

16 Wayne M. Morrison, *China's economic conditions*, CRS Issue Brief for Congress, IB98014, 26 May 2005, 2–5.

17 Morrison, 2; *The Washington Post*, 22 July 2005.

18 Vivian C. Jones, *Safeguards on textile and apparel imports from China*, CRS Issue Brief for Congress, RL32168, 26 May 2005.

19 *Financial Times* (London), 18 July 2005.

20 Wayne Morrison and Marc Labonte, *China's exchange rate peg: economic issues and options for US trade policy*, CRS Report for Congress, RL32165, 10 May 2005. For China's recent moves to revalue the RMB, see *Financial Times*, 22 July 2005.

21 *The Washington Post*, 31 July 2005; 22 July 2005; 11 July 2005; 16 July 2005.

22 Thomas Friedman, *The world is flat* (New York: Farrar, Straus and Giroux, 2005).

23 *The Washington Post*, 31 July 2005.

24 According to Robert Bickers, there was no such sign in Huangpu Park on the Shanghai Bund. See Robert Bickers, *Britain in China: community, culture and colonialism, 1900–1949* (NY: Manchester University Press, 1999). Instead, this was an urban legend popularized by Bruce Lee's second major film, *Fist of Fury*. Whatever the case, the phrase captures the western and Japanese colonial attitudes of superiority that guided their imperialist policies toward China from the Opium Wars of the 1830s to the establishment of the People's Republic of China in 1949.