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Reforming China's Embedded Socialist Compromise: China and the WTO

Shaun Breslin*

After 15 years of negotiation, China finally entered the WTO in 2001 accepting terms that not only would it have rejected for much of the negotiating period, but which were also far more stringent than those previously negotiated by new developing country members. This is partly because the legal structure of the WTO provides developed country members with considerable leeway to impose conditions on prospective entrants. But the main explanation is found in a changing conception of how best to achieve China's long term economic interests, and the need for key leaders to form transnational alliances in order to pursue their policy preferences.

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China's entry into the World Trade Organisation (WTO) at the Doha Ministerial meeting of 2001 marked the end of nearly 15 year's of negotiation between the Chinese authorities, the WTO working party on China's accession, and the major developed state members of the WTO. At the onset, and for much of this period, the motivations of the Chinese negotiators were quite straightforward and logical – to defend domestic producers from international competition as far as possible, while assuring access to markets in the developed world for exporters. However, the deal that was finally signed by the Chinese is in some ways a mirror image of these motivations, in that it entails market opening that will threaten the interests of many domestic producers, while providing other states with considerable theoretical protection from a rise of Chinese imports. Indeed, far from entering as a “developing country”, as some in China proclaimed, I suggest that the Chinese agreed to a set of conditions and concessions far in advance of those previously negotiated by new developing country members (and in some respects, more restrictive than those offered to some developed countries).

An explanation for this mis-match is partly found within the legal structure of the WTO itself, which provides developed country members with considerable leeway to impose conditions on prospective entrants. Rules outlining how prospective members can negotiate entrance are, to say the least, vague, and notwithstanding the multilateral character of the WTO as an organisation, proceed largely through bilateral negotiations which disproportionately empower the existing member states. But it also results from

the changing motivation of China's globalising state bureaucrats¹ during the later years of negotiation. Whilst originally designed to protect domestic producers from market competition and the need to reform, the final agreement should be seen as an external tool to *enforce* marketisation and reform – in collaboration with international globalising elites wishing to lock China in to multilateral trade norms, and promote domestic political and economic change within China.

I suggest, then, that a study of China's WTO entry negotiations reveals a shift in what I call the “embedded socialist compromise” which dictates the relationship between domestic economic reform, and international institutional norms in Chinese polity. Under conditions of globalisation, this shift, and its consequences, can be best explained by considering how “disciplinary neoliberalism”² combines with changing political preferences of globalising elites to further blur the distinctions between the domestic and the international, and between politics and economics. As such, any attempt to understand China's negotiations for WTO entry necessarily entails analyses of both the international (IR/IPE) and domestic (area studies) contexts that combined to produce the details of the final accession protocol

Reforming China's “Embedded Socialist Compromise”

Throughout the reform period, the Chinese approach to internationalisation was characterised by a dualistic approach. Where domestic industries were already

1 Leslie Sklair, *Sociology of the Global System* (Baltimore: John Hopkins University Press, 1995) pp. 135-136.

established, they were protected from international competition, with foreign investment encouraged to upgrade existing expertise and the technological base. But, particularly after 1993, a relatively liberal strategy was deployed to encourage investment aimed at promoting exports – indeed, at WTO entry, some 60 per cent of all imports came into China tariff free in the form of components that were processed and subsequently re-exported as finished goods³. In short, and quite sensibly, the government attempted to use those elements of the global economy that were beneficial to promoting growth (particularly export growth) and to resist those elements that were perceived as being detrimental to domestic national interests.

Communist Party rule since 1949 had created a system in which the interests of the industrial working class (particularly those workers permanently employed in state owned enterprises) and the peasantry occupied privileged positions in decision-making. In reforming away from socialism, China's leaders have been careful to ensure that these key sectors have not suffered too greatly from the introduction of the market. For example, while the introduction of a more market oriented system in agriculture resulted in increased rural incomes, the market was purely a “domestic” one, in that imports were heavily restricted through the use of tariffs and other barriers to imports. The market was used where it was beneficial, but resisted where its impacts were feared.

2 See Stephen Gill ‘Globalisation, Market Civilisation, and Disciplinary Neoliberalism’, *Millennium* 24:3 (1995).

3 For a good account of this dualistic approach, see Nicholas Lardy, *China's Unfinished Economic Revolution* (Washington DC: Brookings, 1998), and Nicholas Lardy *Integrating China Into the Global Economy* (Washington DC: Brookings, 2002).

Reform, then, entailed a compromise between the embedded residual socialist system, and the ever-increasing importance of the norms of liberal internationalism. The extent of domestic interventionism was too extreme to fit with Ruggie's conception of an "embedded liberal compromise"⁴. However, the concept of an embedded domestic system coming to terms with the– and gradually reforming closer to those norms – does inform our understanding here. As such, we can think of the way in which China managed the relationship between domestic protectionism and gradually conforming to international neo-liberal norms as representing an "embedded socialist" compromise.

However, this compromise was a domestic one, between different groups within the Chinese elites. And unlike the liberal compromise, key international actors such as the US Trade Representative Office (USTRO) did not accept it as legitimate. As such, much of the protection afforded under this system was threatened by the reforms that the Chinese needed to put in place in order to accede to the then General Agreement on Tariffs and Trade (GATT).

Throughout the negotiation process, there was considerable unease within China over the wisdom of pursuing WTO membership. Opposition was partly based on ideological considerations⁵. Some leaders such as Deng Liqun continue to complain against the influence of the west, complaining about the emergence of a "new capitalist class" which

4 John Gerard Ruggie, 'International Regimes, Transactions and Change: Embedded Liberalism in the Post World War Economic Order', *International Organization* 36:2 (1982), pp.379-415.

5 For more details of this ideological opposition, see Joseph Fewsmith, 'The Political and Social Implications of China's Accession to the WTO', in *The China Quarterly*, No 167, (2001) pp: 573-91

exploits workers and farmers⁶. Nevertheless, the force of these Marxist voices of objection were much less than “nationalist” voices, opposed to US domination of the international system⁷.

Indeed, as Hughes has argued, there is an inherent tension or contradiction within China between nationalism and globalisation⁸. There was and is a recognition that China needs to engage with the global economy in order to attain economic growth objectives. But at the same time, there is a concern that increased economic integration would increase China’s vulnerability to economic pressures – not just over economic issues, but also in terms of major actors (particularly the US) using economic levers to pressure China on political and security issues. Thus, divisions emerged within the leadership between those emphasising the logic of economic transformation, and those who argued that traditionally conceived national security issues should take predominance. Harris⁹ argues that 1998 White Paper on Defence marks a key turning point. The White Paper reinterpreted conceptions of national security to place a much greater emphasis on the need for “economic security”, thus, for Harris, moving the debate in favour of the economic reformers. Nevertheless, concern over US hegemony and Chinese vulnerability remain – not least as the US led attack on Iraq in 2003 confirmed for many in China that

6 China News Digest, 7 May 2000.

7 See, for example, Chen Feng, Zhao Xingyuan, Huang Jiaoyu, Yang Mingjie and Yuan Xixing, *Zhongmei Jialian Caxiezheng (A history of Sino-American Rivalry)* (Beijing: Zhongguo Renshi Publishers, 1996) and Liu Kang *et al*, *Yaomo Fa Zhongguo de Beihou (Behind the Demonisation of China)* (Beijing: Social Science Publishers, 1997).

8 Christopher Hughes, 'Globalization and Nationalism: Squaring the circle in Chinese IR Theory', *Millennium*, Vol 26 No 1 (1997), pp. 103-24.

9 Stuart Harris, 'China and the Pursuit of State Interests in a Globalising World', *Pacifica Review*, 13, 1 (2001) pp: 15-29.

the US was prepared to use whatever means necessary to promote its own national interests.

Notwithstanding the significance of nationalism, the largest area of concern, and the biggest source of domestic political opposition to entry, came from more pragmatic fears over the implications of entry for key sectors of the Chinese economy. Here we return to the concept of an “embedded socialist compromise”. During the process of the transition from socialism, the government attempted, where possible, to provide palliatives for those who stood to lose most from the dismantling of the old system, while allowing a new more market oriented system to develop. In urban sectors, the palliative was largely provided by maintaining production in State Owned Enterprises through formerly the provision of grants through the planning system, and more latterly, through the extension of loans through the banking and financial system. In the countryside, the provision of subsidies for producers has also been more recently supplemented by the extension of loans through the financial system, particularly as many small scale township and village enterprises turned from being engines of economic growth to drains on the financial system in the late 1990s. Such is the extent of this politically motivated and directed lending that taken as a whole, “China's banking system is insolvent: its bad debts exceed its capital”¹⁰.

It is worth remembering here that at the turn of the century, the PRC had a potential workforce in excess of 700 million people, and if such debt is viewed as the price of

10 James Harding, ‘Jitters in Beijing’, *The Financial Times* 10 November 1997, p.3.

ensuring social stability during a period of potentially destabilising economic reconstruction, this level of debt might be considered a price worth paying. The question is whether this “model” is sustainable. Even with this level of support through the financial system, the “model” has only slowed and staggered the increase in unemployment, rather than preventing it. While it is difficult to calculate the exact number of unemployed in China¹¹, it is probably safe to say that at least 8 per cent of the urban population did not have a job, while one Chinese academic calculates that the number of surplus rural workers at the beginning of 2002 was nearer 200 million than the official figure of 120 million¹². Furthermore, there are vast differences in the regional distribution of unemployment, with the old industrial centres – particularly in central and north-eastern China – that were the main beneficiaries of the old state planning system, now the main centres of unemployment¹³.

We should also note here that there is no national welfare system in China. In the countryside, the de-socialisation of agriculture removed much of the access to health, education and welfare that had previously been provided through the collective. In the urban areas, where such welfare services had been provided through the work unit, the bankruptcy of state owned enterprises could result not only in the loss of jobs and income, but also threatened the provision of basic welfare¹⁴.

11 See Dorothy Solinger, ‘Why We Cannot Count the “Unemployed”’, *The China Quarterly*, No 167 (2001), p. 671.

12 Interview in Beijing, Jan 2002.

13 Wang Dongjin, Vice Minister of the State Commission for Economic Restructuring has pointed to the north-east and the north-west as the two areas which would suffer most. *China News Digest* 7 May 1995.

14 Hu Angang from the Chinese Academy of Social Sciences has produced a number of good articles on employment and unemployment in China. A good example in English is Hu Angang,

For the sceptics, then, an existing fragile system could potentially become unstable if WTO commitments made it impossible to continue providing such support for vulnerable groups. Agricultural incomes could fall through a reduction of subsidies and an influx of cheaper grain from the international markets; loss making enterprises could go to the wall, and even those that were operating at a profit might fall into the red in the face of increased international competition; exporters – particularly from the state sector - might suffer through the eradication of government support. As a research report from the Chinese Academy of Social Sciences argued, “structural unemployment may be China’s chief adjustment cost for WTO accession”¹⁵. Whether this comes true or not is in some ways irrelevant – in politics perceptions, combined with uncertain futures, are often more important than realities.

A good example of the required changes are found in the “November Roadmap” drawn up by the USTRO in 1995 as a guide to the reforms that they wanted to see implemented before China could join the WTO. Although this came half-way through the negotiating process, it more or less provides an overview of the main areas where WTO member states wanted to see China implement reform before membership could be agreed. In addition to “normal” trade issues such as tariffs, trading rights, and access to “closed” sectors of the Chinese economy, USTRO pressed for a number of other reforms. For example, the subsidies provided to exporters, agricultural producers, and loss making

¹⁵‘Employment and Development: China’s Employment Problem and Employment Strategy, *World Economy and China*, Nos 3&4, (1999).

enterprises created an un-level playing field for domestic and foreign producers. So too did the lack of price reform, which allowed favoured domestic producers to purchase inputs below the real market cost, while foreign companies in China which pay the market price for the same inputs. In addition, incomplete currency convertibility resulted in restricted access to foreign currency and also meant that converting and repatriating profits is difficult if not impossible; the lack of transparency in China's policy making (and in particular, the monopoly of the state news-agency, Xinhua, in the dissemination of economic information) placed outsiders at a disadvantage; intellectual and property right infringement was costing millions to copyright owners; and the differential application of fiscal system where local companies typically negotiated tax free deals with the local government, effectively provided a hidden fiscal tariff for foreign companies.

Joining the Club: GATT/WTO (Re)Entry Requirements

The domestic “embedded socialist compromise” between protecting domestic producers whilst promoting exporters – to resist globalisation where it was perceived to be “damaging” and promote it where it was beneficial – was threatened by the search for WTO entry. And in the process of negotiation, until the late 1990s at least, this dualism informed much of the Chinese negotiators activity.

15 Yu Yongding, Zheng Bingwen, and Song Hong (eds), *Zhongguo “RuShi” Yanjiu Baogu: Jinru WTO de Zhongguo Chanye (Research Report on China’s Entry into WTO: The Analysis of China’s Industries)*, (Beijing: Social Sciences Documentation Publishers, 2000) pp.1-2.

The Chinese leadership formally notified GATT of its decision to seek resumption of its status as a contracting party in July 1986, and negotiations proceeded with the establishment of a GATT working party on China's accession in May 1987. From the beginning, the Chinese negotiators attempted to maintain its dualistic approach as far as possible by deploying two issues of not quite semantics. The first relates to whether China was joining or re-joining GATT/WTO. China could, at the onset, have requested to join GATT as a new member as long as two-thirds of members voted in favour. But the Chinese approach was to “resume” the original membership that was held by the Taiwanese leadership under the name of the Republic of China, which was terminated in 1950. At that time, the Guomindang regime on Taiwan was (largely) recognised as the sole legitimate government of all of China by the international community. Beijing’s argument was that as there is only one political entity called China, then the People’s Republic of China was entitled to simply resume the original Chinese membership, irrespective of the fact that original membership was signed and terminated by a different (rival) regime. On the other hand, the US argued that “members” of the GATT were “contracting parties” to an international agreement that participants signed on to after an open-ended accession process. As such, there were no country seats as in the UN, and the concept of a “China Seat” in the GATT was fundamentally misconceived¹⁶.

16 Discussions with Bill Abnett, USTRO official. Note that as the WTO is open to all entities that have “full autonomy in the conduct of its external commercial relations” (ie: economic entities, not “states” Taiwan also joined the WTO after the PRCs accession. Indeed, there are now four Chinese economic entities in the WTO – the People’s Republic of China (2001) , Hong Kong (1986), Macao (1991), and the rather inelegantly titled Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (2002).

An explanation for this semantic and diplomatic juggling is found in the responsibilities of existing WTO members to new signatories – which since the establishment of the WTO, is now laid down in XIII of the Marrakech agreement. In short, existing members do not have to extend full national treatment to new members, including the automatic right to Most Favoured Nation (MFN) status by the US (in the same way that the Japanese were denied some benefits in 1955). Thus, if China acceded as an “old” member rejoining, then the US would have been obliged to automatically extend MFN status to China. If China acceded as a new member, then everything was up for grabs during the negotiation process, including the possible retention of restrictions on Chinese exports.

The question of China’s entry or re-entry was essentially solved by a fudge that resulted in China formally requesting resumption of membership, but being treated in practice as a new member. One of the then USTRO negotiators, Bill Abnett, notes, that it took two years of intense arguing and explanation before the Chinese would accept that they were a contracting member, and that the concept of a “China seat” was irrelevant. In the final protocol on “Accession Of The People's Republic Of China” in November 2001 which admitted China into the WTO, the preamble simply starts, “Recalling that China was an original contracting party to the General Agreement on Tariffs and Trade 1947”¹⁷, A key element here was a special agreement that allowed the US to opt out of its commitments to offering full and reciprocal national treatment to China even if it was not satisfied by any agreed “accessions package” that allowed China’s admission. In practice, this special

agreement was unlikely to have anything other than symbolic importance, as reaching the stage of an “accessions package” was all but impossible without US agreement.

The second, more problematic, question of semantics was over China’s position as a developing or a developed nation. The Chinese placed great emphasis on being classified as a developing nation, which they insisted meant that the criteria for membership in terms of domestic economic liberalisation would not be as extensive as those required of developed nations. In particular, they argued that as a developing nation China would be subject to the generalised system of preferences that essentially allows special consideration for exports from developing states. It would also allow China to retain some import restrictions (to protect agriculture and young industries) and to provide limited subsidies for exporters.

The Chinese authorities also believed that developing country status would give them a longer time scale to implement reforms after entry¹⁸. However, it is notable that since the WTO replaced the GATT in 1995, none of the new members have been allowed to use the transitional periods set out in the WTO Agreement that were granted to developing countries that were members of the GATT. In this instance at least, new “developing nations” under the WTO regime have less to gain than new developing country members of the GATT, and meant that the continued delays in China’s entry negotiations beyond 1995 actually reduced some of the benefits of developing nation status.

17 WTO, ‘Protocol On The Accession Of The People's Republic Of China’ WTO document No WT/L/432, 23 November 2001.

18 For details of the preferential treatment afforded to developing country members, see Michael Trebilcock and Robert Howe, *The Regulation of International Trade* (London: Routledge, 1999).

By May 1996, the Chinese authorities claimed that they had already reached the criteria for membership as a developing nation¹⁹. But in reality, no such criteria exist. Indeed, both the concept of developing nation and the criteria for joining the WTO are, to say the least, vague. As Jackson puts it in a rather understated manner, “the whole legal system is one of extraordinary ambiguity”²⁰. Within the WTO constitution, there is a tight definition of “least developed country” which uses the definitions established by UNCTAD²¹. But while many of the WTOs regulations refer explicitly to the specific position of developing country members, the classification actually has no legal status under WTO provisions. As the WTO itself states:

“There are no WTO definitions of “developed” and “developing” countries. Members announce for themselves whether they are “developed” or “developing” countries. However, other members can challenge the decision of a member to make use of provisions available to developing countries.”²²

In providing a legal basis for the generalised system of preferences that extended preferential special treatment for developing countries, it was agreed that this must take the form of a waiver to the then GATT MFN clause. But as Jackson notes, “it was left to each industrial country to define what was a ‘developing country’” and “a great deal of

19 China News Digest, 7 May 1996.

20 John Jackson, *The World Trading System: Law and Policy of International Relations*, (Cambridge, Mass: MIT Press, 1989) p. 279.

21 See UNCTAD, *Statistical Profiles Of LDCs, 2001*, (available on-line on <http://www.unctad.org/en/pub/ldcprofiles2001.en.htm>).

22 See http://www.wto.org/english/tratop_e/devel_e/d1who_e.htm.

individual discretion was left to each of the sovereign industrial nations implementing it”²³.

If anything, the legal basis of negotiating membership to the GATT/WTO is even more vague, and the legal provisions in the WTO constitution for negotiating membership are remarkably short. There are no set patterns or processes. Instead, not only the terms of the agreement, but also decisions on how these terms should be negotiated, are developed on a case by case basis. Article XII of the WTO Marrakech agreement places the process in the hands of a special WTO working party that is established to consider individual countries accession, and also through bilateral negotiations between the prospective member and any existing member state that requests a bilateral agreement²⁴. So irrespective of China's level of development, and how it wanted to classify itself, the real issue is what the negotiating partners insist on during the process of drawing up an individual and case specific accession package. Rather than the process consisting of crossing clear and identifiable hurdles, it is instead a process of negotiation and (economic) diplomacy based on the many and varied interests of the negotiating parties.

So while the WTO is a multilateral organisation, negotiating entry proceeds through multiple bilateral negotiations. As there are no set criteria for what should be discussed, or how it should be discussed, this can generate considerable confusion as each set of bilateral negotiations is conducted in isolation from other bilateral negotiations. Much of the reason for the protracted negotiations over Chinese entry resulted from domestic

23 John Jackson, *The World Trading System: Law and Policy of International Relations*,

concerns within China over the impact of WTO membership on employment, rural incomes and social stability: But after 1999, it was also in part a consequence of this multiple-bilateral negotiation process. For example, if the US and China agreed a concession in bilateral negotiations, the EU would subsequently want and need to negotiate the same concessions in their own negotiations. Furthermore, what was agreed in a negotiation between the US and China could be subsequently compromised, undermined or even contradicted by subsequent separate bilateral negotiations between the Chinese and the EU. Indeed, one of the US negotiators complained that the big problem in the negotiations was not the Chinese, but the Europeans:

“I have learned that the EU spent most of its energy (after the US did the heavy lifting of course) negotiating a bilateral side deal with China on a number of issues, including insurance licenses. Nothing wrong about it, but hardly noble either. What I do find alarming is that the EU inserted language in this side deal that would prevent some of our firms from equivalent treatment. And worse, the EU negotiator thought it all very amusing.”²⁵

The negotiator also noted that the EU negotiator abrogated previously agreed concessions on opening the Chinese market to foreign retailers. The EU “gave up” access to dealerships for petrol stations:

“in a very confused effort to help Carrefour. So much of what we have been doing over the past six months is clarifying the original commitment, no thanks to the incompetence of the EU services negotiator.... I speak of course entirely on a

(Cambridge, Mass: MIT Press, 1989) p. 278.

24 Or in the case of individual EU states, through the EU as a bilateral partner.

25 Discussions with USTRO negotiator – cited with permission.

personal basis, but I'd rather negotiate with the Chinese any day than the EU. They have done very little to carry these talks forward on a multilateral basis, and instead have been preoccupied with bilateral deals only".²⁶

It might be true, as a 1995 report in *The Economist* put it that "Were it any average-sized developing country, China would have been admitted years ago"²⁷. It is also true that China "has, in many ways, a more open economy than, say, Japan or South Korea at a comparable stage of development"²⁸. But this is beside the point. China is not just an average-sized developing country. It is a large state, with a potentially lucrative market, which ran large trade surpluses with the EU and the United States throughout the negotiation process. It is also a state with a human rights record that is the subject of considerable criticism from sections within the major industrialised states. Whilst trade and economic considerations were clearly the main focus for negotiators from the US, the EU and other advanced industrial democracies, domestic political pressures on matters such as Human Rights needed to be sidelined with care.

Time and time again through the 14 years of negotiation, China's entry bid stalled over disputes over its status. It can be argued that the ambiguity in the WTO's legal framework for new members and the lack of a clear concept of what a "developing nation" actually is made this conflict all but inevitable. But in many respects, it was also pointless. As the then acting US Trade Representative, Charlene Barshefsky, put it in 1996, the issue was

26 Discussions with USTRO negotiator – cited with permission.

27 'China: World trade ordeal', *The Economist*, 4 November 1995.

28 'China: World trade ordeal', *The Economist*, 4 November 1995.

“a red herring and largely irrelevant to the discussions”, and that developed, developing or whatever, China should only be allowed to join “on a commercially meaningful basis”²⁹.

In the final report on the activities of the Working Party on China’s accession presented at Doha in November 2001³⁰, it was simply noted that the working party members “recognized the importance of differential and more favourable treatment for developing countries”. However:

“because of the significant size, rapid growth and transitional nature of the Chinese economy, a *pragmatic* approach should be taken”³¹ (emphasis added).

Furthermore, there is no mention of the words “developing country” at all in the official accession document presented to the ministerial meeting on 10 November³².

After the formal decisions to accept China’s membership was made at Doha, the official Chinese media emphasised the “victory” of Chinese negotiators in ensuring that China had entered as a developing country³³. As we have seen, this self-designation carries no formal legal weight, and “pragmatism” prevailed irrespective of how the Chinese government sought to classify itself. Thus, for example, despite reported long protracted arguments over whether China would limit agricultural subsidies to 5 per cent (as a

29 Reuters via China News Digest, 10 December 1996.

30 WTO, ‘Report Of The Working Party On The Accession Of China’ Doha Ministerial Conference Fourth Session, 9-13 November 2001, p.8. WTO document no. WT/MIN(01)/3.

31 WTO, ‘Report Of The Working Party On The Accession Of China’ Doha Ministerial Conference Fourth Session, 9-13 November 2001, p.8. WTO document no. WT/MIN(01)/3.

32 WTO, ‘Accession Of The People's Republic Of China, 10 November 2001. WTO Document No. WT/L/432.

developed country) or 10 per cent (as a developing country), the final agreement was for subsidies for agricultural production at 8.5% of the value of farm output. In addition, China agreed to adhere to Article 6.2 of the WTO's Agriculture Agreement, which, according to the US Department of Agriculture Foreign Agricultural Service, means, "China agreed to forego the developing country exemption".³⁴

In reality, China's accession protocol entailed significant concessions far exceeding the obligations of previous "developing country" members. For example, Lardy argues that China's agreement makes it very easy for other countries to restrict the import of Chinese goods under transitional safeguard measures that, unlike other new entrants, do not have to be gradually phased out during the 12 years of their enforcement³⁵. Under the Transitional Product-Specific Safeguard Mechanism section of the accession protocol, importers may place restriction on goods from China if those imports "cause or threaten to cause market disruption to the domestic producers of like or directly competitive products". In addition, the designation of China as a "non-market economy" increases the chances of anti-dumping legislation being placed on Chinese imports. Under the Price Comparability in Determining Subsidies and Dumping section, importing countries can impose anti-dumping measures on goods from China for 15 years after entry "if the producers under investigation cannot clearly show that market economy conditions prevail." Note here that if an anti-dumping movement is moved, it is up to the Chinese producer to "clearly" prove that they are operating under market conditions – it is not up

33 For just one example, see 'zhongguo weihe yaocan yu xin yi lun tanpan (Why China Should Participate in a New Round of Negotiations)', *People's Daily*, 13 November 2001, p.5.

34 <http://www.fas.usda.gov/itp/china/accession.html>

to the importing country to prove the case, but the Chinese producers, and the definition of what is or isn't a market condition depends on "the national law of the importing WTO Member", rather than being defined either by the Chinese, or by internationally agreed standards and norms³⁶.

Even after the 12 year time limit expires, Section 201 of the US 1974 Trade Act still permits temporary exemptions from WTO rules if cases of "serious" injury for a period of up to eight years. In some respects, the conditions for implementing section 201 are harsher than "normal" anti-dumping legislation³⁷, as there is no requirement to prove unfair or non-market pricing of imports. The only criterion is that a team of commissioners appointed by the US International Trade Commission finds that an industry is facing a vaguely defined "serious injury", and "that the increased imports must be a 'substantial cause' (important and not less than any other cause) of the serious injury or threat of serious injury"³⁸. It should be noted that the imposition of section 201 legislations is rare – though an action against steel imports in December 2001 shows that it the legislation is far from moribund, and raised concerns in China about its potential use to offset increased imports from China in the future³⁹. Finally, as some Chinese exporters found immediately following WTO entry, importing states can use safety

35 Nicholas Lardy, *Integrating China into the Global Economy* (Washington D.C.: Brookings, 2002).

36 Anti-dumping legislation in the WTO is enshrined in Article VI of the General Agreement on Tariffs and Trade 1994, 'Anti-Dumping Agreement'.

37 And also less stringent than 301 legislation which can only be enacted if the US finds that a particular act, policy or practice of a foreign country is unreasonable or discriminatory and burdens or restricts U.S. commerce. ie: with 301, the US has to find fault on the exporters side, which they do not have to do with 201.

38 United States International Trade Commission, "Understanding Safeguard Investigations"
<http://www.usitc.gov/us201.htm>

standards to bar imports. Thus, Chinese shrimp imports were banned into the EU in January 2002 due to contamination with chloramphenicol, and similarly banned imports of honey, rabbit meat, poultry, pet food due to health concerns⁴⁰.

Far from being a great success in negotiation, the Chinese deal appears to be one of, if not the, most restrictive of all new entry deals. As Kawai and Bhattasali from the World Bank argue, “In many areas, the range of liberalization measures agreed surpasses efforts made in many developing *and developed* countries” (emphasis added)⁴¹. Indeed, Jeffrey Garten, dean of the Yale School of Management, argues that Chinese concessions have gone so far, that the US should accept that it will be politically and economically difficult for the Chinese government to implement all the agreements:

“in order to join the WTO, China made extraordinary concessionsBeijing has committed to tariff rates that are lower than any other developing country, and it has forgone the use of key subsidies that the WTO normally permits. It has allowed other governments to shut out its goods with much less justification than required under existing international trade law and permitted them to retain import restrictions on textile and clothing products for an unusually long time.”⁴²

The last section in this quote refers to the special exemptions or “Reservations By WTO Members” that were negotiated by member states in their bilateral discussions with China prior to accession. Such reservations were negotiated by Argentina, the European Union,

39 See ‘zhong fang qianglie guanzhu 201an keneng jieguo (China pays close attention to the result of 201 case)’, *People’s Daily*, 14 December 2001.

40 Some low cost cigarette lighters were also banned on safety grounds.

41 Masahiro Kawai and Deepak Bhattasali, ‘The Implications of China’s Accession to the World Trade Organisation’, paper presented at Japan and China: Economic Relations in Transition January 2001 Tokyo, p.2. Cited with authors’ permission.

42 Jeffrey Garten, ‘China in the WTO: Let’s Cut It Some Slack’, *Business Week*, 8 October 2001.

Hungary, Mexico, Poland, the Slovak Republic and Turkey. These reservations were largely related to exports of items of textiles, clothing, footwear, toys, ceramics and cigarette lighters. Mexico, which did not resolve its bilateral disputes with China, but agreed not to block accession, has 21 items on its reserved list.⁴³.

Domestic Politics and the WTO

An explanation for the emphasis within China on gaining developing country status can be found within the dynamics of domestic politics in the PRC. It is incorrect to talk in terms of “China” wanting to join the WTO. The reality is that while some of China’s leaders have been keen to join, others have been more sceptical, and others downright hostile. This division of opinions is also reflected in the population at large. Despite a campaign to emphasise the benefits of WTO membership in the Chinese media, there is considerable scepticism – not least amongst that section of the population that perceives the international community as trying to pressure China to conform to “unfair” international standards in an attempt to at best manage (and at worst obstruct) China’s re-emergence as an international power. These sentiments were fired over the years of negotiations when the US and China came into confrontation over security issues – most notably when the US bombed the Chinese embassy in Belgrade in May 1999, and over the spy-plane dispute in the Autumn of 2001.

In this respect, the pro-membership leaders were forced to tread a difficult line between their assertions that they were standing up for China in a hostile international

43 WTO, ‘Accession Of The People's Republic Of China’ 10 November 2001. WTO Document No.

environment on the one hand, and their desire to achieve accession to the WTO on the other. The only way of maintaining this balancing act was emphasising the fact that WTO membership would be on China's terms – terms which, from the beginning, had included the assertion that China would join as a developing country to safeguard China's national interests⁴⁴. Having declared again and again that China would join as a developing nation, then to accede on other terms would look like a defeat. Thus, whatever the reality of the situation, for a domestic audience at least, maintaining the vision of joining as a developing country remained an important element of controlling both elite and public opinion towards WTO membership.

This helps explain why such a positive slant was placed on the implications of China's entry in the Chinese media. It would be going too far to suggest that negative reporting was banned. Indeed, the official media contained numerous articles outlining the "challenges" of WTO entry (though often balanced by the "opportunities"). Nevertheless, interviews in Beijing and Shanghai make it clear that academics and journalists were expected to present a positive view of a future under the WTO. This positive view was most evident in the announcements of China's chief negotiator, Long Yongtu, and other senior politicians. The "win-win" scenario of China's entry was also prevalent in statements from the WTO itself, the World Bank and other international organisations. In considering such reports, we must remember that economic analyses and forecasts are themselves politicised. It is hardly in the interests of the Chinese authorities to suggest

44 WT/L/432, Annex 7, Reservations by WTO Members.
For one of numerous such declarations, see 'Zhu Rongji: China joins WTO only as developing country' *China Daily*, 11 November 1999.

that what they have just signed up to will cause severe damage to the Chinese economy and Chinese society. Those emanating from organisations like the World Bank, the IMF, and Washington consensus economists also have a political mission – to prove that there will be huge benefits of free trade to China, and these benefits will also bring gains to the developed world. They are as much about selling an idea as anything else.

Opposition to Entry

The case for chasing WTO entry seems even stranger in light of the lessons of the Asian financial crises. A key reason why China survived the worst excesses of the crises was because it retained a relatively closed economy, with a strictly protected financial structure. Perhaps even more than the first generation of late developing states in East Asia, China's re-engagement with the global economy appeared to be a great example of how to reap the benefits of the global market-place whilst maintaining strong defences against the dangers of globalisation. As Yu Yongding put it in 1999:

“For many years, observers have criticized China's slowness in developing financial markets and liberalizing its capital account. The Chinese government itself was also worried by the slow progress. Rather theatrically, the disadvantage has turned into advantage. Owing to capital controls and the underdevelopment of financial markets and the lack of sophisticated financial instruments, such as

stock futures and foreign exchange forwards, RMB escaped the attack by international speculators.”⁴⁵

Why then, risk all this in pursuit of WTO membership?

Explaining Chinese Entry

I have suggested above that a desire to join was partly inspired by the “necessity” of delivering on political promises. But this clearly is not the whole story. We need to consider, for example, the importance of becoming involved in the negotiations on the WTO's future. As the then General Secretary of the WTO, Renato Ruggiero, suggested in Beijing in April 1997:

“Only inside the system can China take part in writing the trade rules of the twenty-first century. This will be an unprecedented set of rights and obligations negotiated internationally by consensus An outward-looking China cannot afford to stand on the sidelines while others write the rules of the game.”⁴⁶

Outsiders have no say in framing the rules of multilateral trade. Power in the WTO rests largely in the hands of the Quad – the United States, Japan, the EU and Canada – which meets in private to establish agendas that they want to promote. But whilst the opaque nature of WTO power processes makes it difficult for countries such as China to set agendas, membership at least allows China to participate in discussions and negotiations. Exclusion would not only prevent any Chinese input into any new rules of international trade, but might also see a new set of criteria and expectations being established for

45 Yu Yongding, ‘China’s Macroeconomic Situation and Future Prospect’ *World Economy and China*, Nos 3&4, (1999) p.15.

membership. Better, then, to accept the current set of criteria than face a possibly more stringent set of conditions in the future, and try to mobilise support against the power of the Quad.

Another explanation lies in the need to stabilise China's access to major markets in the west – and particularly the US. Although access to the US market was facilitated by the annual renewal of Most Favoured Nation Status, there was considerable unease in China over the lack of certainty. On one level, the size (and growth) of China's trade surplus with the US was used as an example of the dangers of engaging China by those whose economic interests are at stake (most notably, US toy and textile producers). On another, those who opposed China's human rights record, Tibetan independence supporters, critics of China's one-child policy, opponents of nuclear technology transfer to Pakistan, and critics of Chinese arms sales, call for political conditionalities to be placed on any economic deals with China. WTO entry, then, was seen as a means of depoliticising market access issues, and of providing access to multilateral dispute resolution mechanisms.

A cursory glance at China's direction of trade statistics do not give a real indication of the significance of markets in the developed world for Chinese exports due to the high percentage of exports to Hong Kong that are subsequently re-exported to a third

46 Renato Ruggiero "China and the World Trading System" Speech at Beijing University, 21 April 1997, with thanks to colleagues at Renmin University.

country⁴⁷. If we factor in re-exports through Hong Kong, then roughly 26 per cent of all Chinese exports go to Japan, around the same to the US, and around 16 per cent to the European Union. In short, two-thirds of all exports go to three major markets. And since 1979, 450 anti-dumping cases have been brought against Chinese exports, mostly from the developed world⁴⁸.

But to truly understand the importance of export markets for Chinese development, it is essential to consider the relationship between export growth and “domestic” growth. China’s desire to join the WTO peaked twice – once in 1989 and again at the end of the 1990s. At both times, the domestic Chinese economy was in deflation, leaving export growth as essentially the only means of generating growth, and in turn minimising the impact of deflation on unemployment. In 1989, this was fired by a real fear that the EU and NAFTA might become economic fortresses that developing countries outside the global trading organisation would be unable to penetrate. In the 1990s, continued export growth was seen as providing the breathing space required to tackle domestic inflation, and to close down the high proportion of loss-making state owned enterprises (SOEs).

In combination, these dynamics help explain why sections of the Chinese leadership felt the need to push for WTO membership during 1999. But what they don’t do is explain the timing - nor the acceptance that the benefits of WTO membership at this stage outweighed the drawbacks resulting from opening the Chinese economy to real

47 Shaun Breslin, ‘The Politics of Chinese Trade and the Asian Financial Crises: Questioning the Wisdom of Export Led Growth’, *Third World Quarterly* 20 (6) Dec (1999), pp1179-1199.

48 But also from developing countries like Brazil and India. See Mark O’Neill, ‘Anti-dumping lawsuits rankle’, *The South China Morning Post* October 29, 2001.

competition. Here, I suggest we need to look to a third explanation that combines a consideration of the internal politics of China with the interests of key external actors. A central issue here is the issue of potential unemployment discussed above, and the related question of SOE reform.

Despite promoting a number of followers to key ministerial appointments, it is a mistake to consider the Premier Zhu as an all-powerful leader. Indeed, in many ways, he is more popular outside the Chinese political structure than he is within it. And to a large extent, it is the international community that represents Zhu's major political constituency of support in pushing for WTO entry. Faced with apparently growing domestic opposition to his reform package, Zhu turned to an international constituency when he visited Washington in March 1999. In an attempt to settle a WTO deal once and for all, Zhu offered a wide range of concessions to the US government. A deal here would have given external validation and support for Zhu's position, and impose externally defined constraints on his more conservative colleagues. Many within the Chinese policy elites thought that these concessions went too far – and to make matters worse for Zhu, even these concessions failed to gain an affirmative response from the US.

Not surprisingly, those who were sceptical of Zhu's approach were not slow to capitalise. Calls for caution and restraint were also fuelled as Zhu's anti-inflation strategy pursued after 1994 overshoot its targets turned into deflation. With workers concerned about potential unemployment, and the possibility of increased education, health, welfare and housing payments, repeated interest rate reductions and keynsian reflation strategies

failed to have any impact on domestic demand. The potential, then, existed for a rethink of policy. Not a return to the old Maoist path, but a more moderate path of liberalisation and a much slower pace of opening to the world (if not a moderate reversal).

For a second time, Zhu looked to the international community and the United States for external support and validation. As Groombridge and Barfield note “For China, WTO membership will help bolster the position of Premier Zhu Rongji, who faces the difficult task of keeping China on the reform path.”⁴⁹ And within the US itself, there was a growing recognition that the alternatives to a Zhu Premiership and Zhu’s economic preferences were not that palatable. Thus, by November 1999, Zhu was looking for external support and pressure in his battle with other members of the Chinese party-state elites. At the same time, US interests were keen to lock China into the world system and to lock it into a liberalisation agenda – and the best way to do this was to find a way of maintaining Zhu Rongji’s position within the Chinese leadership.

This is not to suggest that the US would have signed any deal whatever the concessions on offer. The two years of intense negotiations after the signing of the November 1999 deal between China and the US go a long way to proving this. Indeed, the original agreement made in November 1999 illuminates some of the domestic US interests that informed US policy, in that it was only signed once the Chinese agreed to liberalising non-banking financing – as US Trade Representative Charlene Barshefsky put it in announcing the agreement, “it’s the non-bank that’s most critical. Foreign financial

institutions can provide auto-financing from the date of accession.”⁵⁰. It is worth noting here that the leading US car manufacturers have long coveted access to the Chinese market – not only to sell cars, but also to lend money people to buy their cars. Subsequent negotiations were similarly informed by US interests. For example, the US Department of Agriculture considers China’s WTO entry to be a great deal for US farmers, echoing Clinton’s remarks on the “unprecedented opportunities for American farmers” made in the wake of the November 1999 agreement⁵¹.

So China’s WTO entry clearly has specific benefits for US domestic interests – particularly agricultural producers, the auto industry, and financial services. But the deal also served wider interests. In the short run, it provided Zhu with an external tool to use to pressure reluctant domestic forces to accept greater domestic liberalisation. Fewsmith argues that:

“Frustrated by bureaucratic obstruction to fundamental reform, Zhu was willing to avail himself of foreign competitive pressures to force restructuring. As Zhu put it in his report to the recent meeting of the NPC, ‘China’s economy has reached the point where it cannot further develop without being restructured’.”⁵²

In the long term, it should lock China in to “international norms” of trade that have been established by the advanced industrialised democracies. And this approach is enshrined

49 Mark A. Groombridge and Claude E. Barfield, *Tiger by the Tail: China and the World Trade Organization* (Washington DC: the AEI press, 1999).

50 “Transcript: USTR Barshefsky’s Remarks After China WTO Negotiations”
<http://www.usconsulate.org.hk/uscn/trade/general/ustr/1999/1115b.htm>

51 Clinton’s comments were widely reported on various news media at the time. For an optimistic assessment of the impact on US agriculture, see Stewart Truelson, ‘The China Factor in US Agriculture’, *Farm Bureau*, 22 November 1999.

in official US statements on the impact of WTO entry on China, summarised by an official White House statement of March 2000

“China's accession agreement will deepen and help to lock in market reforms -- and empower those in China's leadership who want their country to move further and faster toward economic freedom. In opening China's telecommunications market, including to Internet and satellite services, the agreement will expose the Chinese people to information, ideas, and debate from around the world. And China's accession to the WTO will help strengthen the rule of law in China and increase the likelihood that it will play by global rules”⁵³

Nor is it just an American approach, as the EUs trade commissioner, Pascal Lamy's speech in Beijing in October 2000 illustrates:

“It can only lock in and deepen market reforms, empowering those in the leadership who support further and faster moves towards economic freedom”.⁵⁴

In addition to the specific concessions on tariffs, subsidies and so on, WTO membership entails a fundamental shift in the legal basis of the Chinese political economy. The National People's Congress is charged with the task of making China's domestic legislation WTO conforming, and it is many respects the Chinese legal structure that faces some of the most immediate tasks in the wake of WTO entry. In short, as Wang and Deng put it:

52 Joseph Fewsmith, 'The Political and Social Implications of China's Accession to the WTO', *The China Quarterly*, No 167 (2001), p. 574

53 'The U.S.-China WTO Agreement Will Help Promote Reform, Accountability, and Openness in China' The White House Office of the Press Secretary March 8, 2000
<http://usinfo.state.gov/regional/ea/uschina/wtifact2.htm>

54 <http://www.ecd.org.cn/WTO/1023.htm>

“International enmeshment facilitates China’s social learning in terms of the values, norms and principles, and rules of the international system and adds China’s stakes in the existing institutions and order. China’s worldview and definition of national interests can be transformed toward greater compatibility with the rest of the world through transnational activities and networks, including tourism, academic and cultural exchanges, and commercial ties.”⁵⁵

Of course, this does not mean that China will immediately implement all international norms and become a capitalist economy. Indeed, there are serious question marks over whether all obligations will be enforced, particularly at the local level. The question of compliance is not unique to China. All countries, even those in the developed world, face problems in fully liberalizing in keeping with WTO requirements. The Chinese have already argued that they need time to allow prices to rise to market levels. In the meantime, Chinese exports may well still find themselves subject to anti-dumping procedures – actions hardly likely to play well to a domestic Chinese audience. There is also the very real possibility that WTO membership will exacerbate existing social tensions, at least in the short term, and increase political strains with the Chinese system.

But perhaps the biggest obstacles emerge from the internal structure of the Chinese system itself. Despite attempts to give Beijing more control over the national economy since 1994, local authorities retain significant local control over their economic affairs. For example, while the fiscal reforms have provided more funds for central coffers, fees

55 Yong Deng and Fei-ling Wang (eds), *In the Eyes of the Dragon: China Views the World*

exacted by local authorities now exceed taxes as the major source of government income at all levels in China. In addition, local protectionism abounds in China to the extent that it is almost a defining characteristic of the Chinese economy. After twenty years of reform, the Chinese economy has done more to open to the outside world than it has to open to itself.

Conclusions: Theorising China's WTO Entry and the Implications for the Study of Chinese IR

How then, can we best explain the logic for China's WTO entry and the implications for the study of Chinese politics and IR in the future. On a very simple level, the example of China and the WTO can only be explained by accepting the most basic tenets of IPE – that the politics and economics and the domestic and the international are inextricably linked. As the editors of New Political Economy put it in their introductory editorial:

“The separation between the global and the local no longer holds, as the new hierarchies of the global economy cut across regional and national boundaries”⁵⁶

Domestic political interests and bargaining – not just in China, but in the US and other developed countries – have influenced the negotiation of international trade relationships; and international agreements and transnational alliances are a key determinant of the future evolution of China's domestic political economy.

56 (Lanham: Rowman and Littlefield, 1999). p.7.
Andrew Gamble, Anthony Payne, Ankie Hoogvelt, Michael Dietrich and Michael Kenny, 'Editorial: New Political Economy' *New Political Economy* 1:1 (1996), p: 10.

The process of negotiating Chinese entry, and the results in the WTO protocol, appear to be in line with Gill's conception of disciplinary neo-liberalism. Gill argued that:

“the US government is using access to its vast market as a lever of power, linked to a reshaping of the international business climate, by subjecting other nations to the disciplines of the new constitutionalism, whilst largely refusing to submit to them itself.”⁵⁷

A key element in this process is the establishment of transnational alliances, or classes, built on changing political strategies within developing states. As Bowles notes, while political elites in the developing world once struggled to resist dependence on the global economy:

“By 1991 the fear of developing countries was no longer one of dependence on the global economy but rather was seen as a measure to ensure continued participation in it.”⁵⁸

In the Chinese case, this internal process of change has been promoted by what Leslie Sklair terms “globalising state bureaucrats”⁵⁹, who might also be considered as constituting a party-state comprador class. This group, epitomised by the policies of Zhu Rongji, is engaged in a process of making the investment regime within China more and more liberalised and “attractive” to international capital, and reforming the domestic economic structure to reduce domestic protectionism, and institute a more neoliberal

57 Stephen Gill, “Globalisation, Market Civilisation, and Disciplinary Neoliberalism” in *Millennium*, 24:3 (1995) p.415

58 Paul Bowles, ‘ASEAN, AFTA and the “New Regionalism”’, *Pacific Affairs* 70:2 (1997), pp.219-233.

59 Sklair outlines four groups that constitute the new transnational elite class in the South. In addition to globalising state bureaucrats, these are Capitalist-inspired politicians, Transnational corporation executives and their local affiliates, and Consumerist elites. Leslie Sklair, *Sociology of the Global System* (Baltimore: John Hopkins University Press, 1995) pp. 135-136.

economic paradigm. In combination, these processes can best be understood by using a framework of analysis established by Robert Cox:

“There is something that could be called a nascent historic bloc consisting of the most powerful corporate economic forces, their allies in government, and the variety of networks that evolve policy guidelines and propagate the ideology of globalisation. States now by and large play the role of agencies of the global political economy, with the task of adjusting national economic policies and practices to the perceived exigencies of global economic liberalism. This structure of power is sustained from outside the state through a global policy consensus and the influence of global finance over state policy, and from inside the state from those social forces that benefit from globalisation (the segment of society that is integrated into the world economy)...Neo-liberalism is hegemonic ideologically and in terms of policy.”⁶⁰

In terms of the implications for China, it is not my intention here to consider possible scenarios of the impact of WTO membership on the Chinese economy in any detail. There is already a considerable literature considering what might happen in concrete terms, ranging from wider global perspectives to individual industry case studies. Instead, when talking of implications, I refer to the changing structure of the Chinese polity, and how best to study Chinese politics in the future under conditions of globalisation. Two

60 Robert Cox ‘Civil Society at the Turn of the Millennium: Prospects for an Alternative’, *Review of International Studies*, vol. 25, no. 1, January 1999, p. 12.

key hypotheses from the unpublished original unpublished version of the introduction to Grugel and Hout⁶¹ are apposite here.

First, and perhaps most clearly, globalization adds more actors to the policy process in developing states, and, it could be argued, increases the power of 'external' actors over state policy. Using Payne and Gamble's words:

‘States now have to recognise the power not only of other states and international organisations but also of international capital, the banks, and foreign exchange markets.’⁶²

Second, globalization leads to the recomposition of and renegotiation of relationships between state actors within the national sphere. As Sassen⁶³ argues, the effects of economic globalization often ‘materialize in national territories’ and that ‘the strategic spaces where global processes are embedded are often national; the mechanisms through which new legal forms, necessary for globalization, are implemented are often part of national state institutions’⁶⁴.

Following Sassen, then, we need to investigate the impact of globalization on the institutional balance of power within China's governmental structures. Sassen's main

61 Jean Grugel and Wil Hout (eds), *Regionalism Across the North South Divide* (London: Routledge, 1998).

62 Anthony Payne and Andrew Gamble, ‘Introduction: The Political Economy of Regionalism and World Order’ in Andrew Gamble and Anthony Payne (eds) *Regionalism and World Order*, (Basingstoke: Macmillan, 1996) p:15

63 Saskia Sassen, ‘Embedding the Global in the National: Implications for the Role of the State’ in David Smith, Dorothy Solinger and Steven Topik (eds), *States and Sovereignty in the Global Economy* (London: Routledge, 1999) p. 159

64 Saskia Sassen (1999) ‘Embedding the Global in the National: Implications for the Role of the State’ in David Smith, Dorothy Solinger and Steven Topik (eds) *States and Sovereignty in the Global Economy* (London: Routledge) p. 167.

emphasis was on the shifting balance of power between different ministries and agencies within government – the financial agencies might gain power and influence while others may lose. In the specific case of the WTO, we can suggest that the state organs in charge of reforming the legal structure in WTO conforming manners within the National People’s Congress will play an increasingly important role in shaping the bases of China’s domestic political economy. While separating the state from the party is still an inherently difficult task in China, WTO membership should further strengthen the role of state organs, particularly legal institutions of the NPC, vis-à-vis those of the party.

Finally, while not wishing to engage in debates over whether membership will benefit China or not, in considering the impact of the WTO in the future, I suggest that we need to avoid “growth” as an indicator of success. Perhaps more correctly, we need to avoid national growth figures. Most models suggest that WTO membership will lead to an aggregate increase in Chinese growth of between 0.5 per cent and 1.5 per cent per annum. If we assume for the time being that this is correct, the political dynamics of economic growth should not be ignored. Even if aggregate income and employment is increased, there is still a political dynamic of growth to consider. Where the new jobs come, what type of skills they need, what wages they pay and what associated benefits they bring are massively significant. A World Bank paper that posited a very rosy “win-win” future as a result of WTO entry noted that those who face the biggest risk are “rural

farmers on marginal land...resulting in greater poverty”⁶⁵. Those who can and will engage will benefit, but those who can’t won’t

The aggregate approach not only misses the significance of sectoral differences, but also of geographic differences. And in a China where the locus of economic decision-making often rests at the provincial level, this is a crucial determinant of responses to the impact of WTO reforms. In agriculture, the impact, according to the same World Bank predictions, is likely to “vary by province” – too true. Furthermore, “the export intensive coastal provinces will gain, while the inland provinces – which contain the bulk of grain production and capital-intensive SOEs – may not gain much or lose”.

Those industries and sectors that stand to lose most, even under rosy assumptions, are those where the hand of the state – or the hand of the old style of state control – still dominates. Those that stand to gain most – in particularly clothing and textiles – are sectors where the new quasi-private sector and foreign ownership dominate. For example, attempts to calculate the impact of WTO entry on China’s share of world markets suggest that Chinese exports of clothing will rise from 19.5 per cent of world exports in 1995 to 42.2 per cent in 2005⁶⁶. The new opportunities in the service industry will likewise favour those who are not under old-style state control. To call it a quasi-privatisation of the Chinese economy is perhaps pushing it too far – not least because current party-state

65 Masahiro Kawai and Deepak Bhattasali “The Implications of China’s Accession to the World Trade Organisation” paper presented at Japan and China: Economic Relations in Transition January 2001, p.11.

66 Martin Ianchovichina and Emiko Fukase, ‘Comparative Study of Trade Liberalization Regimes: The Case of China’s Accession to the WTO’ Third Annual Conference on Global Economic Analysis, Monash, Melbourne, June 2000.

officials (the party-state bourgeoisie) are key actors in the new non-state economy. “But WTO membership will further facilitate the transition from state ownership to private ownership of the means of production. And in the process, the CCP will have to further accommodate the rise of private economic actors within the policy process. The CCP has already gone a long way to abandoning any pretence that it represents the interests of the Chinese working class. According to Jiang Zemin, the CCP now represents “the most advanced mode of production, most advanced culture, and the interest of the majority of the people” – the *sange daibiao* or “three represents”⁶⁷. Joining the WTO can only further accelerate this fundamental transition in the basis of communist party rule.

⁶⁷ Jiang Zemin, “Jiang Zemin zongshuji zai qingzhu zhongguo gongchandang chenglili bashi zhounian dahuishang de jianghua (General Secretary Jiang Zemin’s Speech at a Meeting to Celebrate the 80th Anniversary of the Chinese Communist Party” in *Guangmin Ribao*, 1st July 2001