

# Chapter Eight

## China in the Global Economy

Since the first missionaries and explorers arrived on China's shores, Westerners have gazed upon East Asia with a mixture of awe, quizzical scrutiny, and even disdain. The West has long held this part of the world as a distant other, where riches and potential abound, but where differences are great enough that the cultural divide always looms in the background, threatening to swallow even the most amicable trade relations. In recent years, as China has emerged from its isolation and entered the global economy, debates over how to view, acknowledge, and accept Asian difference have taken on a pitched tenor, as the realms of economics, politics, military prowess and human rights have all become intertwined in a discussion of weighty questions. Is democracy a universal ideal to which all nations should aspire? What individual rights should we consider inalienable? To what extent should economic and political relations among nations be intertwined? Will China ultimately be friend and economic partner, or military foe? And to what extent do cultural differences—particularly differences between East and West—play a role in how we address these issues?

The courses of development in East Asia have belied standard assumptions about how we should answer these questions. In different ways, China and the East Asian Newly Industrialized Economies have shown the benefits of a strong state-led development, and the economic success of these development projects has provided concrete evidence against the neoliberal alternative of rapid privatization. If a strong authoritarian state can deliver economic prosperity to its people, do Western democracies have a legitimate position in advocating liberal democracy for these countries when the cost may very well be the economic success the countries have achieved? As the largest remaining communist regime, China is often lambasted by human rights advocates—not to mention the U.S. government—for its record on human rights, and many argue that a country's poor human-rights record should be at the center of any bilateral relationship with an authoritarian government. In addition, China is fast-emerging as one of the key geopolitical powers that will offset U.S. hegemony as the military force policing the world. Will China's integration pose a threat, as many hawkish members of Congress would have us believe? Or will tensions with the United States and the rest of the Western world rise as China rises? Will the country continue to evolve in the realms of human rights and political reform?

### **Engagement and Global Integration**

In this book, I have advanced the view that China's transformation has fundamentally been a global project. Reformers have used the country's need to develop economically as a force to push the country down the path of economic and political reform. Even those who have been against the reforms have had to accept that China needed to grow in the economic sphere. From the time of

Deng Xiaoping's visit to the United States in January 1979, the orientation has been toward the global economy. In the early years of the reforms it was about cash and technology. The coastal development strategy helped turn China into an economic juggernaut, one of the most active producing and trading countries in the world, and it has generated a tremendous amount of economic growth in the process. With foreign firms also came the transfer of needed technologies and management practices. In later years, this integration came to be about more than cash and technology. Reformers like Zhu Rongji used the pressures and standards of the global economy as a means for social reform. The laws that were passed under Zhu's watch were not only helping to create a stable institutional infrastructure for investment in China, but were also creating the institutions of social change. In this final chapter, I turn to the issue of what China's integration into the global economy will mean for the rest of the world. Drawing upon the information and arguments of previous chapters, I will discuss China's emerging role in the constellation of powerful nations around the world.

## The China Threat

A recent issue of the *Atlantic Monthly* presented a picture of a sinister-looking member of the People's Liberation Army and a jingoistic title, "How We Would Fight China: The Next Cold War." The article within, penned by Robert Kaplan, is the doomsday China scenario at its worst: "The Middle East is just a blip. The American military contest with China in the Pacific will define the twenty-first century. And China will be a more formidable adversary than Russia ever was. . . . If not a big war with China, then a series of Cold War-style standoffs that stretch out over years and decades. . . ." <sup>1</sup> Unfortunately, this type of irresponsible rhetoric is not uncommon, and it is not confined to irresponsible reporting. Indeed, the much trumpeted Cox Report, issued in 2001, warned,

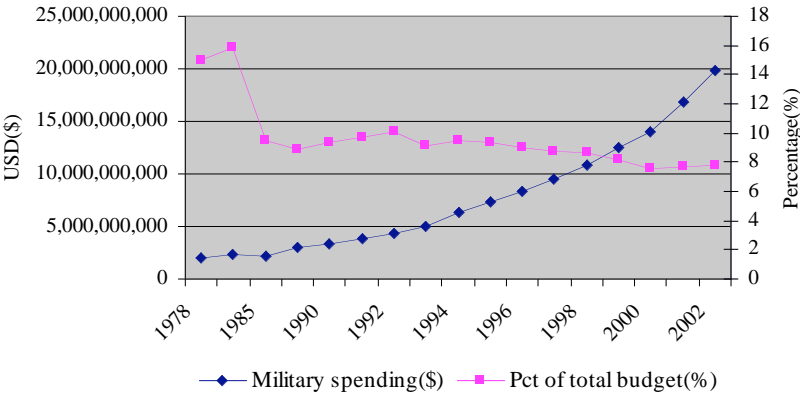
The PRC began developing its ballistic missile system in the early 1960s. The first missile, the CSS-2, showed strong Soviet design influences. Launched from mobile launchers, it has a range of up to 1,926 miles. The CSS-3 was the PRC's first intercontinental range missile, but with a range of 3,417 miles it cannot reach the United States. The CSS-4 is the PRC's main ICBM threat against the U.S. With a range in excess of 7,457 miles, it can hit most of the U.S. During the 1990s, the PRC has deployed approximately 20 CSS-4s in silos, most of which are targeted at the U.S. An improved version of the CSS-4, known as the CSS-4 Mod 2, could allow the PRC to deploy multiple warheads.

And U.S. secretary of defense Donald Rumsfeld (citing no evidence) recently speculated that China's military budget is actually much higher than it officially acknowledges, ominously stating, "Since no nation threatens China, one must wonder: why this growing investment?" <sup>2</sup>

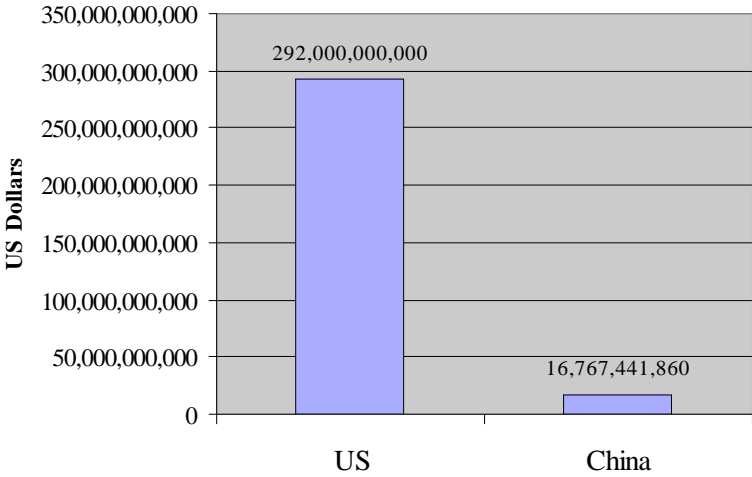
But what is the truth? Does China pose a serious threat to the military order of the world? Has it undertaken a level of activity that is significantly different from that of other powerful nations? One of the key issues that is often pointed to in doomsday scenarios is the rapid rise in military spending that has occurred in China since the economic reforms began. As figure 8.1 illustrates, China's defense spending has indeed increased more than tenfold in the two-and-a-half decades since the economic reforms began. From spending less than \$2 billion on national defense in 1978, that commitment has risen to nearly \$20 billion by 2002. One thing we might first ask to contextualize such a figure, however, is whether this spending has outpaced the growth of the economy overall. In other words, has China's commitment to the military grown more rapidly than its overall rise as an economy and society in the reform era? As the second axis in

figure 8.1 illustrates, in fact, since the 1980s, China's spending in this area has remained relatively stable, at about 8 percent of the national budget. A second and perhaps more important question we might ask is: Compared to what? How does China's military spending measure up to other countries' spending? On this point, a comparison with the United States reveals an interesting story. As figure 8.2 shows, in 2001<sup>3</sup> the United States spent nearly \$300 billion on national defense—a figure more than seventeen times larger than what China spent in the same year, and a figure that is greater than the combined military spending of all other countries in the world. And in terms of percentages, the U.S. allocation for national defense is more than twice that of the Chinese (16.4 percent, compared to 7.6 percent in 2001).

**Figure 8.1: Military Spending in China, 1978-2002**



**Figure 8.2: Military Spending, 2001**



China is certainly growing in power, and its strength as a nation will extend well beyond the economic realm into the world of geopolitics. However, from these figures, it is not obvious that China's expenditures are unreasonable given the size of the nation, the size of the economy, and what other large nations

spend on national defense. The real issue behind the concerns over China's military spending is that hawks in the United States want to ensure that China does not emerge as a credible counterbalance to U.S. military hegemony. Whether the United States merits or should strive for the role of unopposed military power in the world is not the subject of this book. However, it is important to note that China's military activity pales in comparison to that of the United States.

## The Human Rights Debate

An equally significant debate over engagement with China has been around the issue of human rights and questions about engagement with an authoritarian government. Starting in 1986, China actively campaigned to resume its status in the General Agreement on Tariffs and Trade (GATT), the predecessor of the World Trade Organization (WTO), which was established in 1995.<sup>4</sup> However, following the Tiananmen Square massacre in 1989, the logic of the Jackson-Vanick Amendment guided U.S.-Chinese relations for more than a decade.<sup>5</sup> The basic position was that the United States would agree only to have normal trade relations with China on an annual basis, depending on an annual review of the country's record on human rights. At the time, following the language of Jackson-Vanick, this was referred to as Most Favored Nation status (MFN), and then later as Normal Trade Relations. Each spring a group of politicians, pundits, and lobbyists would converge on Washington to debate the merits of engaging in trade relations with China. Behind the annual debate was a set of issues that are intimately tied to larger theoretical questions about the relationship between economic and social reforms. On one side of the divide sat the proponents of engagement, who argued that social change would follow from economic engagement. The view among many in this group is that liberal markets create a kind of freedom that transforms authoritarian systems from within. As U.S. president Bill Clinton, who was a proponent of this view, once put it, "In the new century, liberty will spread by cell phone and cable modem. . . . We know how much the Internet has changed America, and we are already an open society. Imagine how much it could change China. Now, there's no question China has been trying to crack down on the Internet—good luck. That's sort of like trying to nail Jello to the wall."<sup>6</sup> And scholars like Michael Santoro (1999) have argued that American firms were really playing a significant role in changing China from within. On the other side of the divide sat opponents of engagement. Individuals in this camp believed that engaging with an authoritarian regime (1) rewards the very systems they believe should change; (2) actually strengthens the regime in question; and (3) gives away the one bargaining chip we have to force social and political change in the world today. Opponents of engagement also remained very committed to the view that, while the reforms have clearly transformed the economy in fundamental ways, little has changed in social and political realms in China, that it is still the same despot and corrupt place it was twenty years ago. On this side of the debate sat a diverse political alliance, which included labor and liberal politicians like Nancy Pelosi and Paul Wellstone, and hawkish politicians like Jesse Helms and Christopher Cox.

Opponents of engagement fundamentally misunderstand the situation in China today. First, while change has been gradual, over the course of two-and-a-half decades of reform, we have seen radical changes that make China a fundamentally different society than what it was before the reforms began. Statutes like the National Compensation Law, which allows Chinese citizens to sue the government for past wrongs, and the Prison Reform Law—which, according to most extensive research on the topic, has fundamentally altered the treatment of prisoners—have radically reshaped the reality of human rights in

China. In the area of legal institutions and labor, the Labor Law and the Labor Arbitration Commissions are radical steps toward a rational, rights-based workplace and society. These changes amount to nothing less than radical social change. Reform in China has been a gradual process, and in our desire to see something dramatic like the fall of the Berlin Wall, we have imperiously ignored and arrogantly dismissed the radical changes that have evolved over the course of two decades of reform.

Second, as was discussed in chapter 6, it is on the factory floor where the emergence of a rights-based workplace is the most apparent, and it is here that we can see the direct impact of foreign (particularly Western) investment. Those who blithely state that foreign direct investment has resulted in no increased protections for human rights in China simply have no idea of what is going on there. In my own research I have visited hundreds of factories, spent hundreds of hours interviewing hundreds of managers and workers, and systematically studied the impact of foreign investment on the transformation of labor relations. I have watched these factories transform over the course of the 1990s. The emergence of rights-based labor practices is easily apparent to anyone who cares to look, but it is the Chinese firms that are engaged in relationships with Western investors who are leading the way in these changes. The findings of this body of research speak to the real issues before us—the impact of foreign investment in the transformation of Chinese society.

Formal relationships with foreign firms has a significant impact on the ways in which enterprises are changing in China's urban industrial economy. As I described in chapter six, Chinese factories that have formal relations with Western MNCs are significantly more likely to have formal grievance filing procedures and a variety of other intra-organizational structures that protect workers' rights. They pay significantly higher wages, and they are more likely to have adopted institutions put them on track with other firms in the global economy. Managers trace these rapidly changing practices to their relations with foreign firms, arguing that, although they are primarily motivated by the prospect of attracting foreign investment with these changes, the changes may, at the same time, be fundamentally altering the lives of workers in their firms. Partnerships with foreign MNCs are fundamentally altering the lives of citizens in the Chinese economy.

As I argued in chapter six, foreign investment—and therefore engagement—has influenced this process of change in China in fundamental ways. Corporations are rarely the leading advocates of civil liberties, human rights, or labor reform. However, the Chinese case is special for a couple of reasons. Because many MNCs in China are interested in long-term investments as they are in cheap labor, they most often seek Chinese partners that understand the needs, goals, and desires of MNCs investing in China. They seek long-term partners that have embraced a rational-legal approach to doing business—partners that are predictable, stable, and knowledgeable about Western-style business practices and negotiations. These partnerships are important to Chinese factories—with them come an infusion of capital, access to international markets, and often technology transfer—and they want desperately to land these partnerships. They position themselves as suitable investment partners by adopting a number of the practices that Western partners will recognize as stable, reform-minded business practices. Among the basic reforms they adopt to show their fitness for “linking up” with the international community are labor reforms, and the adoption of these reforms has fundamentally changed the lives of workers and citizens throughout China today. Thus, commitments to stable Western-style business practices and commitments to labor reform has led to key changes in the labor relations in the Chinese workplace. These changes have had radical consequences for human rights across China.

There is also a good deal of evidence that the sanction and isolation position does not work in any except the most extreme circumstances. What do the forty-four-year-old embargo of Cuba and the ten-year embargo of Iraq (before the recent war) tell us about the usefulness of isolation in toppling despotic regimes? Has isolation done anything to transform North Korea? If anything is clear, it is that the citizens of these countries suffer while the resolve of their leaders is strengthened. The only case in which a successful international coalition has brought a country to its knees for social change is South Africa, and this case is so different from that of China that the comparison does not even merit discussion. (There will quite simply never be an international coalition united to isolate China the way there was South Africa.)

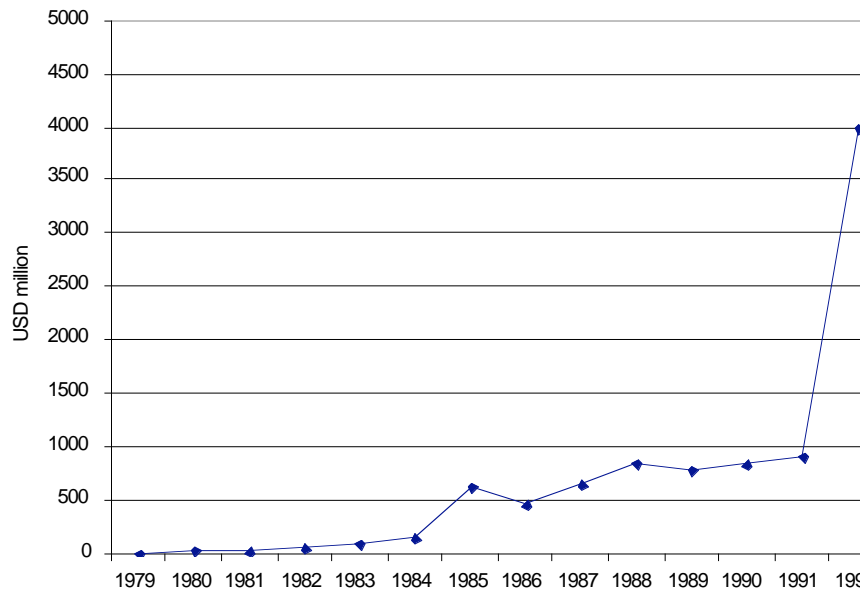
Those who advocate isolation (in the name of human rights) should look closely at whom they are aligning themselves with in China: the true despots of Chinese society are the ones who would like to roll the clocks back on the economic, legal, and political reforms in China—and they would welcome the isolation position, because they know that the WTO will further erode their dictatorial power in China. In the 1980s, Zhao Ziyang was focused on reform and the opening up of China, and he knew that the further integration of China into the international community would bring this about. Zhu Rongji followed Zhao, focusing on further integrating China into the international community. (Where Zhu diverged from Zhao's path was in being open about any goals of political change.) It is these individuals who have been changing China from within, and they have been using the arguments about stability and global integration to do so.

### **Integrating China into the Global Community**

Although there is much hand-wringing about the China threat among hawkish writers and politicians and an equal amount of concern from more liberal camps about China's human-rights record, the likely scenario is one of continued integration rather than conflict. The main reason has to do with the fact that economic integration has already occurred to such an extent that it would be simply too costly for any parties to go down the road of conflict.

As I described in chapter 4, since the early 1990s China has become a major recipient of foreign direct investment (FDI), which occupies the major part of total foreign capital (along with foreign loans and other investments) that China has received. In 1993 China received more FDI than any other country, and since then China had been the second largest recipient in the world of FDI, behind only the United States. By early 1999, FDI in joint ventures and wholly foreign-owned companies exceeded US\$250 billion, several times larger than cumulative FDI since World War II in Japan, Korea, and Taiwan combined (Lardy 2002). In 2002 China's total inflows of FDI reached US\$400 billion, making it the world's largest recipient of FDI. According to Nicholas Lardy (1995), four factors contribute to such dramatic increases of the FDI China attracted in the early 1990s: (1) the increasing magnitude of aggregate FDI flowing to developing countries in the 1990s; (2) China's political stability in the post-Tiananmen square era, combined with the explosive growth of domestic economy, rebuilt the confidence of foreign firms and investors; (3) after a decade of economic liberalization and the practice of coastal developmental strategies, China's foreign investment regime had been systematically liberalized by then and more sectors had been opened to foreign investors; and (4) Chinese firms disguised their money as "foreign investment" to take advantage of the special policies only provided to foreign invested enterprises.

**Figure 8.3: China's FDI Outflows, 1979-1996**



**Table 8.1: The Ten largest Trading Countries in the World, 2001  
(Billions)**

Country	1990			2001		
	Total	Imports	Exports	Total	Imports	Exports
<b>United States</b>	910.6	517.0	393.6	1911.0	1180.2	730.8
<b>Germany</b>	756.3	346.2	410.1	1056.8	486.3	570.5
<b>Japan</b>	523.0	235.4	287.6	752.6	349.1	403.5
<b>France</b>	451.0	234.4	216.6	586.6	292.5	294.1
<b>United Kingdom</b>	409.7	224.4	185.3	588.3	321.0	267.3
<b>China</b>	115.5	53.4	62.1	509.8	243.6	266.2
<b>Canada</b>	250.9	123.3	127.6	487.2	227.3	259.9
<b>Italy</b>	352.5	182.0	170.5	474.9	236.6 <sup>1</sup>	238.3 <sup>1</sup>
<b>Netherlands</b>	258.3	126.5	131.8	410.5	194.4	216.1
<b>Mexico</b>	84.2	43.5	40.7	341.2	182.7 <sup>1</sup>	158.5

Source: *Chinese Statistical Yearbook*, 2002, National Statistical Bureau of China Press.

<sup>1</sup> Data refers to 2000.

It is less widely known that China has also become an increasingly important FDI exporting country in the reform era. Figure 8.3 shows the growth pace of China's FDI outflows from the late 1970s until 1996. Before the late 1970s, China's outward FDI was minimal, and even in the early years of the open-door policy, China's outward FDI was insignificant. In 1984, China invested about US\$134 million dollars abroad, and in the early years of China's economic reform most of its investment projects were to a great extent motivated by political rather than commercial interests (Cai 1999). Starting in

the mid-1980s, China's outward FDI began to develop, and investment projects became more business oriented. In 1985 China's FDI outflows reached \$628 million, and five years later this figure was \$830 million. In the 1990s, China's outward FDI quickly escalated, and in 1992–1993 the annual FDI outflow surpassed \$4 billion before settling back to just over \$2 billion. By this time, China had become the largest outward investor among developing countries and the eighth largest supplier of outward investments among all countries (Lardy 2002).<sup>7</sup> The rapid growth of China's outward FDI in the reform era has been caused not only by the growing economic strength of the nation as a whole, but also by the increasing integration of China's economy into the global community, particularly with neighboring countries. Although China's outward FDI flows are still quite small relative to the largest economies in the world, the current trajectory is further evidence of the growing links between China and other nations in the global economy.

Perhaps more important than the trade issues, however, is China's economic support of and integration with the U.S. government. Few people understand the extent of the integration of our economies, but suffice it to say that trade is only one part of this equation. For the last several years, China has been the largest purchaser of U.S. Treasury Bonds, making it second only to Japan in its holding of such bonds. It is difficult to get exact numbers on the amount of U.S. securities held by China, but industry insiders place the magnitude at several hundred billion dollars held by China. This is China's trump card. If the country decided to suddenly dump a significant portion of their bond holdings, it could wreak havoc on the U.S. economy, sending ripples throughout the world economy. It is difficult to predict what the true effects would be, but there would certainly be an impact on U.S. stock markets, interest rates, mortgages, and, eventually, consumer spending. Some industry insiders predict that it would undoubtedly lead to a recession. As one bond trader who does significant business with China put it to me, "if they started suddenly dumping bonds, they could turn our economy upside down in a day. It could all come tumbling down if they did that. I don't think people realize what is at stake here. And it would hurt us a lot more than it would hurt them." One analyst described the potential impact in a similar fashion:

What would happen if China decided to dump, say, \$100 bn of U.S. government bonds on the market all at once? The effects on the U.S.'s financial markets would be immediate, though possibly only short-term. The U.S. stock market would tumble. I would find it easy to believe that a one-day rise in long-term rates of 1% could easily trigger a stock market fall of 10%. The dollar would also immediately fall... If these changes in asset prices persisted for a period of some weeks, we would then expect there to be noticeable effects on the real economy [as] the sharp jump in U.S. government bond yields would feed through to mortgage and consumer rates.<sup>8</sup>

Another point of economic integration lies in the Chinese purchasing of U.S. corporations. The recent purchase of Maytag by Haier, the takeover of IBM's computer business by Lenovo, and the bid of the China National Offshore Oil Corporation to purchase Unocal are key examples of the global integration of U.S. and Chinese corporations. Chinese corporations are no longer simply the second-class partners in joint venture relationships with U.S. multinational corporations; today, they are emerging as the owners of these corporations. The U.S. and Chinese economies are, at this point, intimately intertwined, and the ironies here are many: as the U.S. Treasury blusters about "forcing" China to revalue its currency, it is increasingly China that holds the cards in the stability of our interdependent economies. As the U.S. government has plunged into fiscal irresponsibility over the last four years, it is China that has softened that decline through its voracious appetite for U.S. bonds. And as U.S. consumers

and labor leaders complain about the trade deficit, it is we who drive that deficit by shopping at Wal-Mart, which is the single largest contributor to it. Our economies are far too interdependent at this point to talk of coming conflicts with China. We are not even in a situation any longer in which we can dictate the terms of this relationship. Instead, it would behoove all hawks in Congress and in the American media to figure out how we can constructively coexist with China.

As a final note on integration, it is important to briefly address the area that often causes the greatest concern as a potential catalyst for a pending conflict with China—Taiwan. But even here it increasingly looks like integration is largely being guided by economic integration. In the early 1990s, an important shift in Mainland China–Taiwan relations occurred (Hsing 1998). After 1989, many countries in the Organization for Economic Cooperation and Development pulled out of China; foreign investment dropped from US\$2 billion in the fourth quarter of 1988 to \$900 million in the first quarter of 1990. In order to win back foreign capital, China appealed to Chinese investors from Hong Kong, Macao, and Taiwan by offering favorable investment conditions. Among these were several industrial zones in Fujian Province, the ancestral birthplace of many Taiwanese citizens, that were designated for Taiwanese investors. As a result direct Taiwanese investment in China increased by 75 percent in 1990. Taiwanese linguistic and cultural affinity with Mainland China made it relatively easy for small- and medium-sized investors to cross the straits. And in 1990, under pressure from Taiwan’s business communities and industrial organizations, the Taiwan government finally allowed Taiwanese firms to conduct indirect investment in China. Taiwanese investments in China have been small in terms of the size of the project (average investments are less than US\$1 million); however, by 1992, Taiwan had become the second largest investor in Mainland China, behind Hong Kong. This economic interdependence combined with the weakening of the Taiwanese economy over the last decade has rendered the economic viability of an independence bid feeble. Before the Asian financial crisis of 1997, Taiwan might have been in a position to push the issue of Taiwanese independence, but not today. Today, even politicians like Chen Shuibian, who was once bullish on the issue in years past, backs away from explicit conversations about independence. Taiwan’s economic fate is now heavily dependent on good relations with Mainland China, and it is likely that both countries will simply continue to move down the path toward integration.

### **The Impact of China’s Entry into the WTO**

It is one of the most common statements you will hear in conversations with managers across China: “We are getting on track with the international community.” And entry into the WTO has been a focal point of this process of “getting on track.” After fifteen years of arduous negotiations with the United States and other Western nations, China reached an agreement with the WTO on September 17, 2001, becoming the 143rd member of the WTO on December 11, 2001. By becoming a full member in the WTO, China has made commitments on three levels: (1) a commitment to the objectives of the WTO, such as free trade among all member nations; (2) a commitment to the international rules governing trade for specific sectors, such as agricultural and textile goods, or information technology and telecommunications; and (3) a commitment to bilateral agreements that China signed with its major trading partners, without whose support China’s accession to the WTO would have been impossible. The protocol of China’s accession to the WTO provides for “additional liberalization of China’s trade regime and further opening up of opportunities for foreign direct investment” (Lardy 2002, 65). Around these provisions are broadly two

categories of issues: market access, and evolution of the institutions that govern the market within China.

The issues around market access are substantial. For agricultural products, China has pledged to reduce tariffs from an average level of 31.5 percent to about 15 percent. It will eliminate export subsidies and rapidly increase the volumes of tariff-rate quotas on most imports. For industrial products, China has pledged to phase out restrictions, and cut the average tariff from 24.6 percent to 9.4 percent by 2005. China has also agreed to sign the WTO Information Technology Agreement, which will result in the elimination of all tariffs on telecommunications equipment, semiconductors, computers and computer equipment, and other information technology products. The most far-reaching change, however, is expected to take place in the service sector, which has largely been closed to foreign competition. China has promised to open important service markets, including those of telecommunications, banking, insurance, securities, and many other professional services, to foreign service providers. Foreign firms will be granted trading and distribution rights, and thus they can engage in wholesale and retail trade, transportation, service and maintenance as well as import and export.

Besides these commitments in the area of market access, China has pledged to comply with almost all provisions set forth in the WTO agreement, with the aim of increasing transparency in China's trade and investment regimes. The country has agreed to eliminate all prohibited subsidies (including those to state-owned enterprises), liberalize trading rights, and standardize the operations of state trading companies. Perhaps the most significant commitment within the WTO agreement is that China has consented to accept the provisions of trade-related aspects of intellectual property rights, among the thorniest of issues in U.S.-Chinese trade relations in the last decade.

The depth of China's WTO commitments compare favorably with those of other WTO nations (Lardy 2002). Both market access and rule-based commitments far surpass those made by founding members of the WTO and also go beyond those made by countries that have joined the WTO since 1995. What, then, has been the incentive behind China's pursuit of WTO membership in the last decade? First, as a result of China's WTO accession, the United States has granted China permanent normal trade relations status, ending the decade-long annual conflict over considering China's trade status under the Jackson-Vanick Amendment (discussed above). Second, several of China's trading partners will have to lift most of their restrictions against China on a range of products. According to the Agreement on Textiles and Clothing, for example, all quotas on China's textiles and clothing will be phased out. Other quotas will also be phased out in accordance with negotiated schedules. This is actually an important point in understanding the politics behind the United States blocking China's entry into GATT and the WTO since 1989. To wit: every year, U.S. senator Jesse Helms, from North Carolina, was one of the loudest proponents of blocking China's bid for Most Favored Nation (and later Normal Trade Relations) status on the grounds that the United States should not be doing business with an authoritarian government that brought on such human-rights abuses as China did in Tianenmen Square in 1989. However, the jingoistic Helms could hardly claim a longstanding position in advocating for human rights around the world. What was behind this? Economic interests, plain and simple. North Carolina is one of the largest producers of textiles in the United States, and the phasing out of the "multifiber" agreement meant that North Carolina would be hurt most by growing competition from China. And the other sector that would be threatened by China's entry into the WTO would be tobacco, also a mainstay of the North Carolina economy.

There is little doubt that WTO accession will benefit Chinese consumers and lead to greater economic efficiency, even though some heavily protected sectors

will suffer as trade barriers fall. For China's labor force, increasing unemployment will be unavoidable in a few state sectors, but the opening of the service sector will likely generate some employment in the near term. Finally, with WTO membership, China can now resort to the WTO dispute settlement mechanism to protect its own trade interests, as well as participate in multilateral negotiations on trade rules and future trade liberalization. Another potential benefit of WTO membership is the opportunity for China to play a role in shaping the rules of the international trading system over time.

Probably the most important motivation behind China's joining the WTO is rooted in the realization among liberal reformers that the country needs greater external impetus to overcome domestic obstacles to further reform. During the past two-and-a-half decades, China has experienced dramatic institutional change in almost every field. The country has come a long way in liberalizing and opening up its economy, but some of the most difficult structural adjustments still lie ahead, especially in the highly protected industries. WTO membership will inevitably exert increasing pressure on the measures China will take shortly in the areas of institution building and in continuing to reform the state sectors. There is little doubt that China's WTO membership will further push the nation toward broader and deeper integration into the global economy.

The implications stemming from China's accession to the WTO and thus greater integration into the international community lie on three levels. First, on the level of the international economy, the implications of China's membership in the WTO are immense. China's emergence as one of the largest players in the global economy will inevitably lead to shifts in world production, trade, investment, and employment. China's economy and foreign trade are so large that the growth of global trade and the pace of expansion of global output will undoubtedly be affected. Not surprisingly, concerns have been raised in some developing countries that global demand for their exports will shrink and their FDI inflows will fall due to China's vast market and great potential in the production of labor-intensive exports. Advanced industrialized nations worry that China's exports will flood their domestic markets. The reality, however, is that the ways in which China's WTO accession and relative openness affect other countries is a much more complex issue than simple FDI and exports statistics reveal. China's accession to the WTO will definitely strengthen trade and investment ties with its Asian neighbors and thus provide them with a more stable external environment. The newly industrialized economies of Asia are likely to benefit the most from China's WTO accession, given their heavy investment in China in the past two decades. China's WTO membership also brings many opportunities and challenges for the United States and other advanced industrial economies. Over time, the opening up of China's services sector should offer these countries with large trade and investment opportunities. Most advanced industrial nations are expected to increase their exports of capital and technology-intensive manufactures to China. In addition, as the only major trading nation that is not an advanced industrial economy, China will bring "a distinct perspective to the negotiations" and will "be influential in future rounds of WTO trade negotiations" (Lardy 2002, 134), and will thus be able to exert greater influence over the multilateral trading system.

Second, with respect to China's macroeconomic policy, it is likely that China will rapidly dismantle its remaining central planning mechanisms, formulate more laws and policies consistent with its WTO commitments, and enforce uniform rules through the country. In the past two decades, foreign capital and global corporations that have moved to China have exerted considerable pressure on China's economic reforms, mainly concentrating on driving economic organizations within China to adapt to the rules of the global market. Starting in the early 1990s, the government has made greater strides in creating a rational legal economic system based on which Chinese firms could

“get onto the international track” as quickly as possible. Among the important strides is the construction of numerous laws and regulations directly tied to the building of a rational economy such as the Joint Venture Law (1979), the Enterprise Bankruptcy Law (1986), the Company Law (1994), the Labor Law (1994), and the Securities Law (1998). At the beginning of this century, China’s entry into the WTO will bring more intensive pressure in this ongoing institution-building process.

Third, influences from foreign investors and global trade partners are also evident in the organizational changes at the firm level that are affecting millions of Chinese citizens on a daily basis. With China’s increasing involvement with international organizations and Western investors, a process of rationalization has been occurring in the workplace, where Chinese companies are adopting a number of the rational bureaucratic systems that are most often found in Western organizations. China’s accession to the WTO will likely accelerate the rationalization of the country’s economic system at both the state level and within firms. While stable, rational, legal systems are adopted more often to attract foreign investors or comply with the universal rules than they are for the good of workers, they nevertheless have radical implications for the structure of authority relations and therefore for the lives of individual Chinese citizens.

## Conclusions

It is no longer controversial to state that China will play a pivotal role in the political and economic structure of the world in the twenty-first century; the question that remains is what that role will be. China’s reform process has been an inherently global one, and all indications are that China’s growth will continue to integrate the country into the global economy. The reforms of the last two-and-a-half decades have radically transformed China’s economy and society. From the agricultural policies that transformed rural China and the transformation of the state sector to the institutional changes that have transformed social life in China, the changes have been radical and deep.

This is not a story about the ways that markets lead to liberal policies. Rather, it is about the ways in which reform-minded elites have engineered a gradual reform process, slowly liberalizing economic, political, and social realms. In this book I have emphasized four key points about the economic reforms in China. First, changes in China are much more radical than is often understood by outside observers.

Second, the enacting of China’s reforms has fundamentally been a state-led process. For decades we have been skeptical about the possibility of a successful transition to capitalism in which the state plays a key role. China’s reforms not only show that states can be effective in this process; they suggest that state-led development may be far superior to letting the market work its magic. The reasons for this, I argue, are stability and experimentation. New economic and political systems take time to learn, and it is important for states to provide stability as societies make the transition between the two. These processes of change are driven by state-led initiatives that have gradually transformed the rules of society across the board. Experimentation has emphasized getting the institutions right rather than blindly assuming that one path of institutional change—rapid privatization—will necessarily lead to the successful development of a market economy. The state begins this process gradual experimentation that is then codified in broad-based institutional changes (in the form of laws and policies). As the state gradually implements these new policies, Chinese citizens adapt to these new rules, and the social worlds that they live in are transformed as well.

Third, economic reform in China will lead to democratization, but not because of what some neoliberals argue is the fundamental connection between

liberal economic and political systems. Rather, China will become a democracy because that is the agenda some of the key powerful leaders in China have had over the course of the economic reforms. They have used the economic reforms to bring this change about. They have not talked about it openly, because, since 1989, they have lived in the shadow of Zhao Ziyang's fate. But both Zhao Ziyang and Zhu Rongji were clearly pushing radical reform agendas. Markets do not in and of themselves breed liberalism; liberal-minded leaders do. Finally, this process of change in China has been a fundamentally global one. Chinese leaders have leveraged the process of global integration to transform China from within.

As the twenty-first century unfolds, China's role in the global economy will continue to grow and transform. And that role will also continue to transform China from within.