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China in the WTO: Threat or Promise of Good Things to Come?

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The World Trade Organization (created in 1995) is an intergovernmental body comprising the great majority of the world's countries. The Organization's purpose is to promote multilateral trade through reduction in obstacles erected by individual countries to global trade in goods and services, settle trade disputes, and lay down rules governing international trade. WTO actions are to be taken on the basis of nondiscrimination and equal treatment, in the spirit of classical liberalism and the rule of law. Decisions are normally arrived at through the consensus of all members. China has expressed an intention to join the WTO principally, many hold, as a way of buttressing its domestic market reforms against opposition from sectional and ideological forces within the PRC with vested interests in the status quo. In the United States, opposition to China's entry into the WTO comes from varied quarters and hinges on three concerns: that China is a big, communist, and erratic state, and hence is both unreliable and potentially disruptive to the Organization. Despite such risks and taking due precautions against what are legitimate concerns, this article argues that China should be admitted to the WTO. The alternative of leaving China out is untenable.

KEYWORDS: **World Trade Organization (WTO); China; trade disputes; economic liberalization; most-favored-nation treatment (MFN)**

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The World Trade Organization

History, Structure, Functions

The World Trade Organization (WTO)[1] is an international intergovernmental body comprising (as of the end of 1999) 135 countries that between them account for more than 90 percent of world trade. Another 27 have applied for admission and in the meantime have observer status. Four have not applied "for the time being" (Ethiopia, Cape Verde, Bhutan, and Yemen), and one, the Vatican, being in the business of souls not sales, has not asked to be admitted. Current members cover the spectrum of political organization ranging from Switzerland to Cuba and Myanmar (Burma), and their levels of economic development range from Denmark to Djibouti.

The Organization's highest decision-making body is the Ministerial Conference which meets at least once every two years. The most recent gathering occurred in Seattle in December 1999, where a new series of trade negotiations, known as "rounds," was to be initiated.[2] Below the Conference are several decision-making groupings: a General Council composed of ambassadors and heads of delegations who meet several times a year in Geneva, and the Goods, Services, and Intellectual Property councils which report to the General Council. Many specialized committees, working groups, and working parties deal with individual pacts and other areas, such as the environment, economic development, regional trade agreements, and membership applications.

The Ministerial Conference and all councils and committees are made up of the WTO's entire membership and decisions are typically arrived at by consensus. A majority vote is possible but, as of January 2000, has never been used. Majority voting was also extremely rare under the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT), a less-structured ad hoc assembly lacking a clear legal foundation. The GATT,

[1]At <http://www.wto.org> (December 29, 1999).

[2]For reasons beyond the Organization's control, these initiatives were not adopted.

whose approach to conflict resolution was diplomacy and informal reconciliation, was terminated after the completion of the so-called Uruguay Round of negotiations (1986-94) and replaced by the more formal WTO.

Critics have suggested that the WTO runs the risk of becoming rigid, overorganized, overbureaucratized, and entrapped in legalistic minutiae. In the course of eight negotiating rounds from 1947 to 1994, the GATT in its low-profile way contributed importantly to economic growth through liberalization especially in one key area: the international trade in goods. The Uruguay Round was the first time that the GATT's scope was enlarged to include services and intellectual property (questions of copyright, trademarks, patents, trade secrets, and other issues which are also the subject of other international agreements). In the early rounds, obstacles to commodity trade were dealt with through tariff reductions. Later sessions also addressed more complex problems of nontariff restrictions (including quotas, licenses, and tendering requirements) and dumping.

Since the establishment of the WTO on January 1, 1995, several international agreements to liberalize telecommunications and trade in information and financial services have been concluded among a number of governments. A 1998 ministerial meeting agreed that the WTO would also take under consideration issues arising from electronic commerce. Countries applying for membership are expected to phase out domestic price controls and subsidies that have an impact on exports and imports. As of January 2000, the WTO had been involved in settling more than 150 trade disputes, 30 of which were withdrawn following consultations between the parties in dispute. More than 100 cases are currently going through a lengthy (sometimes lasting several years) and complex procedure of consultation, panel adjudication, and often appeal.[3] On a regular basis, the WTO also scrutinizes member trade policies, monitors the implementation of pacts, and reviews portions of trade liberalization agreements reached in earlier negotiating rounds.

In countering criticism that this procedure is slow, lawyer-heavy, and

[3]On the panel process of handling disputes in the WTO: <http://www.wto.org/wto/about/dispute2> (December 30, 1999), and <http://www.wto.org/wto/about/dispute>.

overstructured, supporters point out that agreement by consensus takes time. Moreover, whereas in the early days of the GATT the disputes were about relatively simple tariff barriers to imports erected by countries at their borders, today the disputes are about much more complex and sensitive issues. These issues, in addition, directly affect domestic corporate and financial structures and regulations involving food and drug safety, environmental protection, telecommunications, and industrial property rights—all areas which the sovereign countries in dispute regard as being in various degrees related to concerns of national security. Nevertheless, the slow pace at which the WTO's rule-making and dispute-settling machinery operates—dealing, as it does, with the often divergent interests of a congeries of prickly sovereign states—clashes with the rapid, spontaneous, swirling, multilateral, global exchanges of impalpables (conceptual values).

In an age of the "overthrow of matter," the world is no longer, as it had been for centuries, one marked by the leisurely transfer of physical goods on the international market.[4] Over the last two decades the weight in tons of the U.S. gross national product (GNP) declined by 25 percent, while its value more than doubled. Services—most of which are specialized, knowledge-intensive, high-end, and high value-added—now represent about 70 percent of GNP, whereas the manufacture of tangible products is migrating to less developed lands. In 1989, daily foreign currency trading worldwide—which had doubled in just the previous three years—came to more than US$500 billion. The annual volume of world merchandise trade in 1987 was US$2.5 trillion. In other words, five days' trade in intangibles was equivalent to one year's trade in more easily controlled physical goods. The gap has since grown wider. Bureaucratic rule-making, domestic and international, has a hard time regulating these volatile impalpables of modern commercial exchange. These intangibles are the products of invention and innovation, electronically transmitted economic values, knowledge, intelligence, ideas, financial claims, designs, analyses, models, strategies,

[4]At <http://www.wto.org/wto/about/dispute2> (December 30, 1999); George Gilder, "The Faith of a Futurist," *The Wall Street Journal*, January 1, 2000, R28.

insights of all kinds, electronic monies including digital cash that allows on-line financial transactions to be carried out instantaneously with near-total anonymity—hackers permitting.[5]

Economic Philosophy

Despite slowness in taking shape and alleged inclination to legalistic prolixity, WTO rules and rulings arrived at by the consensus of more than 130 countries by and large conform to the flow of history. The present understanding is that the enlargement of the realm of market freedom and competition brings undeniable benefits, including personal realization, to the greatest number of individuals. These benefits, moreover, are on a scale inconceivable under mercantilistic regimes of restricted and truncated markets or value-subtracting and personal liberty-destroying politicized central planning. This is exemplified in the WTO's regulations of state trading which require that in their purchases and sales connected with foreign trade, state trading enterprises "act in accordance with the general principles of nondiscrimination, and that commercial considerations only are to guide their decisions on imports and exports."[6]

At the core of what outwardly may look like an expression of narrow commercial pragmatism, however, are two principles of fundamental importance. First is "the absence of desire to exert power over others," which James Buchanan sees as an element in the "soul and spirit" of classical liberalism, and is embodied in the WTO's requirement of equal treatment which is somewhat misleadingly called "most-favored-nation" (MFN) treatment.[7] MFN requires that any special commercial favor granted by

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[5]The same difficulty is experienced by domestic regulatory agencies of national governments. See Jan S. Prybyla, "Modernization and Modernity in the Process of Economic Growth and Development," *Issues & Studies* 31, no. 4 (April 1995): 11.

[6]State trading enterprises are defined as "governmental and nongovernmental enterprises, including marketing boards, which have been granted exclusive or special rights or privileges, including statutory or constitutional powers, in the exercise of which they influence through their purchases or sales the level or direction of imports or exports." At <http://www.wto.org/wto/goods/statrad.htm> (December 30, 1999).

[7]James M. Buchanan (1986 laureate of the Nobel prize in economics), "Saving the Soul of Classical Liberalism," *The Wall Street Journal*, January 1, 2000, R29; Douglas A. Irwin, *Against the Tide: An Intellectual History of Free Trade* (Princeton, N.J.: Princeton University Press, 1996).

one member country to another be extended to every other member. That is why permanent granting of MFN treatment by the United States to China, rather than making such treatment contingent on annual renewal by vote of Congress, is a precondition for China's joining the WTO.

The second principle at the core of the WTO system is that economic exchanges must be conducted within a framework of law, the essential and integral part of which is the notion of ordered liberty, otherwise known as the "rule of law." This is a Western concept, the product of lengthy intellectual and cultural evolution and of many struggles at the grass roots of societies. This notion is quite different from rule by man (autocracy) and rule by laws, i.e., strict adherence to usually capricious legal formalisms (a favorite of Stalin's) that makes mockery of the rule of law.[8] Rule of law comprises meaningful representation of all concerned in the process of making and changing laws, advance knowledge of the law by those subject to it, transparency, due process, equal applicability, and the right of review and redress by duly constituted legal appeal agencies.

Nondiscrimination and the rule of law have actually been applied and not merely acknowledged by the WTO, albeit not flawlessly and to the accompaniment of much grumbling, whining, and complaining by offended parties. This success has been due in large measure to the conduct of the economically most advanced members of both the Organization and its GATT predecessor. In the post-Cold War world the WTO has acted as a school promoting the culture, ideas, and ideals of classical liberalism. The Organization has not promoted these values faultlessly, but has been generally successful if measured in terms of taking little steps that matter.

Why China Wants In

Assuming the above description of the goals and norms of the WTO to be substantially correct, why on earth would a communist-run China—

[8]Stalin once said that "paper will put up with anything written on it." Mao simplified things by dispensing with the writing altogether.

whose understanding of equal treatment and rule of law lags quite far behind—want to join an outfit that not just helps countries grow, but helps them grow up? [9]

First, not everyone in China supports PRC membership in the WTO. Some oppose the idea for practical reasons of short-run personal or sectional interests, and others balk for reasons based on residual ideology. Moreover, positions on the question are fluid. Given that our knowledge of the inner workings of China's top Party and government councils is not much better than the CIA's street maps of Belgrade, one would be well advised to read what follows with an open but skeptical mind. Many observers believe, for example, that Premier Zhu Rongji and President Jiang Zemin are supportive of the PRC membership in the WTO.[10] Conversely, National People's Congress Standing Committee Chairman Li Peng and Information Industry Minister Wu Jichuan, the latter who takes care of telecommunications and the Internet in China, are said to be against joining. These two positions are explored separately below, beginning with the opposition.

Arguments Against Joining

Those opposed on pragmatic grounds to China's courting of the young WTO via a prenuptial agreement with the United States point to the likelihood of disruptive short-term effects. In order to gain admittance, China has to make concessions on a number of vulnerable domestic economic sectors as the price of consummating the Union. These sacrifices will have secondary effects on the country's social stability, and hence on the Party's prospects for staying in power. The sectors that would be adversely affected by market opening in the short term are as follows:

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[9]"[O]ne of the world's most brutal dictatorships." *The Economist*, October 23, 1999, 18. However, the editors also recognize "the realpolitik of the situation," that the democratic countries have "to deal with the China that exists, not the China [they] would like to exist."

[10]The *Far Eastern Economic Review* (November 13, 1999, 40) notes, however, that Mr. Zhu, "blunt, impatient and uncorrupt . . . in many ways an admirable man," is in some ways the same as his colleagues in the communist bureaucracy of which he is a product. He does not believe in free choice and free markets, or the privatization of the biggest "strategic" state-owned enterprises, or that there has been anything seriously wrong with the handling of the Falun Gong, or "that Taiwan has the right to determine its own future."

(1) Money-losing, large state-owned industrial enterprises (SOEs, including autos and steel) which employ two-thirds of China's urban workers.

(2) The four very large state-owned banks (SOBs) under the Finance Ministry with 1998 assets totaling nearly US$1 trillion (80 percent of total banking assets by official count, more than China's gross domestic product [GDP] that year, but substantially less if their balance sheets were cleaned up). These "nasty giants," as they are sometimes called, have been ordered by their boss, the central government, to extend credit (in lieu of budgetary subsidies) to the tens of thousands of ailing SOEs, which the recipients treat as nonreturnable grants-in-aid, a dole they do not have to repay. By the not- very-reliable official count, 25 percent of the loans on the books of the four banks are nonperforming (dead). The real ratio is certainly higher.

(3) State trading companies with their lock on imports.

(4) State monopolies in the trendy telecommunications field and in insurance.

(5) China's farmers, already in considerable difficulties and unhappy with their relative standing in both the economy and society when the average tariff on imports of agricultural bulk commodities such wheat and corn falls to 14.5 percent from the present 31.5 percent; when subsidies on rice and cotton are ended; and when the formidable agribusinesses of the United States, Canada, and Australia move in on the Chinese market.

Major components of SOEs and three out of the four state "commercial" banks are as of now technically bankrupt if measured by any decent accounting yardstick.[11] After the PRC's entry into the WTO, foreign bank-

[11]See Nicholas R. Lardy, *China's Unfinished Economic Revolution* (Washington, D.C.: Brookings Institution Press, 1998); Jan S. Prybyla, "China and Taiwan: A Comparative Study of Economic Problems Since the Asian Financial Crisis," in *Taiwan, Hong Kong, and Mainland China: Democratization, Political Participation, and Economic Development in the 1990s*, ed. Winston L. Yang and Deborah A. Brown (Jamaica, N.Y.: Center for Asian Studies, St. John's University, 2000), (Forthcoming).

ing will be allowed in China—within two years access to Chinese companies will be granted and within five years foreign banks can enter into the field of retail banking. Under this reform, the state banks, which hold two-thirds of the country's total deposits and issue two-thirds of total loans, could rapidly lose out to their foreign competitors (once foreign banks are given the right to deal in *renminbi*). Most individual savings are now on deposit with the big four Chinese banks who use these funds to keep the SOEs on a life support system.[12] Thus, any such exodus of individual depositors would bring into the open, and deepen, the financial crisis that is currently hidden from public view by the "creative accounting" that thrives in a culture of opacity. However, even though the government announced unsolicited and generous liberalization proposals in February 2000, Chinese banks will still have preferential access to government funds after foreign banks enter China's retail market.

The major concern of those Chinese who are against the PRC's entry into the WTO on pragmatic grounds is economic stability. This group is fearful of the spiraling negative economic impact that would be caused by a foreign invasion that is accompanied by some sort of concurrent privatization (through "corporatization," shareholding, or outright sale) of state enterprises and state banks. They fear the possibly devastating short and long-term effects of foreign competition on domestic output and employment, especially given China's already double-digit levels (when properly counted) of urban joblessness as well as the 140 million or so displaced rural migrants.

In contrast to these economic pragmatists, those opposed to entry on ideological grounds into the "capitalist club" fear for China's security and socialist soul. They do not want to see the economy's industrial and financial bastions denationalized and privatized by foreign hegemonists and the

[12]The same could occur in the event of a significant economic slowdown, which currently the government is trying to prevent with massive infrastructural investment expenditures and, unfortunately, state bank bailouts of inefficient SOEs. "At its most serious, a loss of faith by depositors in state banks, into which households continue to shovel money, would pose an almighty test of stability." *The Economist*, March 20, 1999, 47. In the absence or underdeveloped state of other investment instruments, households shovel their savings into the banks in anticipation of future unemployment consequent on reform-induced economic rationalization.

reform-bred native *nouveaux riches*. They look on with apprehension as the definition of what constitutes state ownership is modified (for no nobler reason than to save the state money) from one of all-embracing state control to one of minority equity participation by the state.

This desire to remain secure but inefficient and insolvent in a monopolized market's protective wrapping due to dislike of foreigners and their alien values is, however, dismissed by supporters of China's membership in the WTO as being akin to "giving up eating for fear of choking."[13] The fear of Marx's wrath is seen by the hardier reformers as a superstitious belief in the retaliatory power of failed prescriptions for the betterment of society.

Arguments in Favor of Joining

China already belongs to 1,100 intergovernmental and nongovernmental organizations and has so far gained in international stature by behaving responsibly within them. Why should the country not participate in 1,101? Those who favor joining the WTO—the present power elite in China—seem to act in this regard from two motivations. The first is undoubtedly due to their conviction, shared by ordinary Chinese in and out of the country, that China has the right to be seated at "the high table of nations."[14] The second, which concerns us here, is the belief that such a place in the international system can be meaningful only if the reforms initiated by Deng Xiaoping in 1978 and aimed at making China strong and prosperous are not only pursued but speeded up and better focused (not just "groping for the stones" while crossing the river). National (including military) strength can be gained not simply by any economic growth, but rather by *efficient* growth. Inefficient growth—putting in valuable land, labor, and capital at one end, and getting worthless Trabants out at the other—destroyed the Soviet empire, a lesson many Chinese leaders have taken to heart.

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[13]Craig S. Smith, "Chinese Express Reservations about WTO Membership," *The Wall Street Journal*, November 17, 1999, A17.

[14]*The Economist*, November 20, 1999, 17.

Inefficient growth is, however, precisely what the SOEs, the SOBs, and the Ministry of Information Industry are encouraging in China today. Out of well-founded fear of great leaping, this group is continuously postponing solutions to the really tough problems. One of these issues is the denationalizing (debureaucratizing) of the state industrial sector and giving the SOEs the exit option supplied by the market to those who cannot stand on their own (as sanctioned by China's rarely enforced 1986 Bankruptcy Law). A second issue is the remonetizing of an economy. China's so-called "economy" has been reduced by planners to a state of primitive barter, where banks are not allowed to be banks but rather behave like fully-owned subsidiaries of the Ministry of Finance. By the late 1990s the reforms had lost their foothold and their way.

The PRC's economy has been mired in hypercorruption, *guanxi*, influence peddling, insider deals, rigid structures, excess capacity, sluggish aggregate demand, unsalable inventories, and—despite the fact that *danwei*-type entitlements are still in place over much of the economy—creeping unemployment. In the absence of workable administrative-command or market-socialist type alternatives, the reformers have realized the need to take a "real leap forward" into the classical market model of open trade, competition, private property, and the rest. Sponsors of the WTO membership initiative believe, paradoxically, that the diffusion of economic decision-making that entry requires would bring strength to the country and initial wealth to the people, and thus sorely-needed legitimacy to the Party. This legitimacy should assure that the CCP rules alone forever: one Party under the Heavens. Such a move is surely a gamble, and probably an illusion.

Old and new China hands are nowadays trying to figure out why the Jiang-Zhu leadership made concessions to the United States in 1999, concessions that to their critics at home must have seemed like betting the farm and then some on WTO entry. The first offer was turned down by President Bill Clinton in April for being insufficient, then accepted in a somewhat diminished form in November. The April offer was described by a leading American expert in such matters, one not habitually given to hyperbole, as "breathtaking," "overwhelmingly favorable," of "extraordinary sweep," "unprecedented," and "in excess of what could have been

anticipated."[15]

The more modest deal concluded with the United States in November was nevertheless hailed by "thrilled" American business executives as being "very positive," "very heartening," "just the first bite of the apple," "a plus" for both sides, and headlined by the *Far Eastern Economic Review* as "the deal of the century." Shawn Xu, head of research at CICC, a joint venture between China Construction Bank and the investment firm of Morgan Stanley, called it "the most significant move since the start of reforms twenty years ago." In New York, Human Rights Watch, normally not much taken by China's humanistic record, said that the deal was "good for trade but also for human rights and the rule of law."[16]

Most China hands agree that the main reason for the Jiang-Zhu proposals is the necessity and urgency of moving domestic economic reforms off dead center by attacking the difficult problems that have accumulated and grown through the years. Many of these problems accumulated because, in reaction to Maoist leaps and bounds, caution and incrementalism in the early post-Mao period were regarded as the better part of political wisdom.

Any WTO deal will bring a frontal assault on the inefficiency of resource allocation brought about by patchwork reforms, including reforms of the SOEs, the state banking system in its present subservient form, and the bureaucracy's monopolistic choke hold on promising sectors like telecommunications. Such reforms are certain to bring about painful, short-run "adjustments" (as economists call personal tragedies like loss of a livelihood). Therefore, resistance to reform within society, the Party, and the government might be expected to grow to the point where the entire experiment could be scuttled.

No reform is irreversible even in the absence of viable alternatives. By binding the reform, which would require increased competition, freer

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[15]Nicholas R. Lardy, "Clinton Spurned a Great WTO Deal with China," *The Wall Street Journal*, April 20, 1999, A22.

[16]"Deal of the Century," *Far Eastern Economic Review*, November 25, 1999, 11, which gives a summary comparison of the April and November terms of the deal. Also see note 15 above and *The Wall Street Journal*, November 16, 1999, A1, A2, A19, for the April offer.

trade, and greater transparency to membership in the WTO, the reformers add a broader external rationale for hard domestic choices. This is a sort of reform by proxy—by reintroducing this time around a more constructive version of the early 1950s strategy of "leaning to one side" (imposing radical solutions from abroad): "If we want to sit at the table of nations, modernize, and grow rich and strong from participation in global exchanges, we must take this or that temporarily painful domestic step as required by membership in and the discipline of the WTO."

From Beijing one American observer described Zhu's proposals as "signaling a profound shift in economic reform strategy," which "embraced a distinctly American vision of growth through free trade, liberalized markets, and open economies, though whether China as a whole will embrace this vision remains to be seen."[17] Indeed, one could say that the deal is done but is not yet a done deal. At the time of this writing twenty-four countries (the European Union included), whose priorities on many issues differ from those of the United States, had still to agree through bilateral negotiations on the terms of China's accession to the WTO. In a contentious election year, moreover, the U.S. Congress still has to approve the deal struck by the Clinton administration.

American Perspectives on China's Joining the WTO

The raucous political theater that took place in the streets of Seattle in early December 1999 was put on by an eclectic collection of opponents of free trade and globalization, organized labor, economic nationalists concerned with sovereignty, environmentalists, and human rights activists. These protestors carried radical placards that read: "Abolish Interest Rates!" and smashed plate glass windows in an apparent aversion for Starbucks coffee. This circus showed that not everyone in the United States speaks with one voice on the WTO question.

Moreover, what was billed as a shining example of the comity of

[17]Edward S. Steinfeld, "Full-Speed Around," *Far Eastern Economic Review*, October 7, 1999.

nations inaugurating a New Millennium Round of reasoned discourse on weighty issues affecting the material welfare of all, broke up amid squabbles and wrangling both inside and outside the hall. The question of China's membership in the WTO came up quite naturally as the next item on the protestors' agenda. "China," they yelled, "we're comin' atcha!" Why this focus on China?

It would serve little purpose to dismiss all the protestors as economic Luddites or disaffected loonies on the fringe, even though the last were certainly audible and visible in Seattle. Rather, under the market law of comparative advantage in a world economy with barriers to mobility falling thanks to WTO efforts, some economically mobile people gain, and others, less mobile, lose. Every day the simple, and soon thereafter more complicated semiskilled manufacturing jobs of all sorts move across the Rio Grande or the Pacific, and not just to China. So why did these protestors pick on China?

There are three reasons: China is big, China is communist, and China is erratic. Let us look at each.

China is Big

Even the most geographically-challenged protestor can locate China on the map, something that cannot be said for Burkina Faso. The PRC is big enough to cause waves if it chooses to do so, and big enough not to be pushed around when it misbehaves or breaks promises. "Big" in terms of absolute size of GDP but small to medium-sized on a per capita basis: about US$900 measured on a straight current *yuan*:dollar exchange basis (ca. 80th in the world), and perhaps US$3,500 when calculated at purchasing power parity (65th in the world). China is big in the minds of people at Boeing and McDonald's: "How can you not be excited about 1.2 billion people who all want to eat a hamburger," effuses an executive of the burger company. These sentiments echo the owners of cotton spinning mills in nineteenth century England who had visions of making a killing by adding an extra inch to every Chinese man's shirt-tail. Whereas the realization of the Manchester businessmen's visions could be brought about by gunboat diplomacy if necessary, the similar hopes of contemporary burger and jumbo jet producers rest on the peaceful intercession of the WTO. In the

meantime, however, the average return on foreign equity investments in China is 3 percent.[18] China's entry into the WTO will make the Chinese market bigger and better once the efficiency gains from reallocating labor and capital to comparatively more competitive uses are realized. Everyone will then benefit—except those unfortunates who in the United States and China drop out of the market or the *danwei*, by exercising what in technical language is called the "free exit option." "Free" here does not mean "costless" to the dropout, but only that nobody is going to stop him and—in the present absence in China of nationwide social safety nets—to brake his fall.

However, China is not big, not yet anyway, in two respects. First, the PRC's share of world trade, which in the best pre-World War II year was a little better than 2 percent, hit 2.7 percent in 1996. U.S. trade with China is half of that with Mexico and less than U.S. trade with Southeast Asia even in off years. Note that from January 1998 to September 1999, Americans invested 60 times more in the Thai economy than did Chinese investors. Of all the manufactures imported by the countries of the Organization for Economic Cooperation and Development (OECD), barely 0.5 percent comes from China. If China observes the trade liberalizing rules of the WTO, there is every reason to believe that the above figures will improve. American consumers, notably absent as an interest group from the riot-torn streets of Seattle, would for the most part see no objection to this kind of increase in China's size. Second—and this is what China's reformers now appear to understand, China will not be "big" until it makes improvements in technical and economic efficiency. This will occur when the PRC removes the structural impediments and cures the philosophical neuroses that stand in the way of its modernization, some of which we have discussed earlier. The purposeful dislocation of institutional structures and philosophical values is a risky undertaking, and unsettling in the short run. Doing nothing is, however, even riskier for China and more perilous for its near and far neighbors.

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[18]This according to a recent study by two academics at the City University of Hong Kong. *The Economist*, November 20, 1999, 28. Cf. John Dixon and David Newman, *Entering the Chinese Market: The Risks and Discounted Rewards* (Westport, Conn. and London: Quorum Books, 1998).

China is Communist

To much of the American electorate, the fact that China is communist means that Chinese live under an undemocratic, ruthless, cruel, intolerant, and duplicitous regime. At the same time, however, that China is communist does not mean obstructing China's declared desire to marketize or freezing it out of the world community, both of which would be a dangerous and fruitless exercise. The United States should, however, use cautious judgment when negotiating agreements on such areas as the sale to China of state-of-the-art, dual-use technologies and China's entry into the WTO, which promises to enhance economic efficiency in the PRC and, hence, the communist government's power.

Thus, important in this connection is to carefully evaluate, and perhaps restrain, the role of powerful domestic lobbies—business as well as labor—in the formulation of the nation's China policy. We must keep in mind that commercial interest and concern with worldwide labor rights (which some developing countries take to mean protection from competition), while important, are only part of the overall equation.

The American electorate's historically well-founded distrust of communism is not as crude or simple-minded, as some sophisticates believe. For one thing, the voters are not sold on the facile thesis that democracy, tolerance, and truthfulness follow from market-induced growth and higher income, thus giving rise to a kinder and gentler China. Growth, development, and a fuller purse can as easily sharpen chauvinism and encourage aggressiveness. Sitting at the table of nations does not exclude poor table manners. The WTO may be a school in the culture of classical liberalism and the rule of law, but even the best schools graduate their share of brutes.

China is Erratic

Throughout fifty years of communist rule, China has been prone to bouts of mass hysteria. One such round (the Cultural Revolution) lasted ten years, while another resulted in widespread famine and the death by starvation and disease of millions of people in the countryside. The total death toll directly attributable to mass campaigns used to build a socialism has been put at more than 40 million; this is the same socialism that is now being dismantled and for which task the help of the WTO is solicited by

socialism's former builders.[19] Unstableness has been in remission since 1978, but few are confident that maniacal outbursts will not recur.

Moreover, there is scattered evidence that disequilibrium is not limited to the economic structure. Addressing weaknesses in the economic arena while leaving others—including those in politics, the Party, culture, the restless nationalities, religions, and millenarian movements to the ministrations of factional struggles, discreet intra-elite purges, and Tiananmen-type rectifications by the PLA and the People's Armed Police—does little to change China's reputation for unpredictability.

Conclusion

The Germans have a saying: "Why make things easy when they can be made difficult." Regarding China's participation in the WTO, we have so far made things difficult. Now, in conclusion, let us make them easy.

Big or small, communist or not, erratic or stable, China is here. The PRC exists and has to be dealt with. The preferred method is to involve China in discussions about the ways of free commerce, the benefits and responsibilities of interdependence, and the rules of the game. The goal is to integrate China more closely in the world market within which it has expressed willingness to be a regular player. What better organization than the WTO exists to provide a multilateral forum and a mechanism for such discussion and involvement?

The wave of the future is economic modernization through globalization of economic exchanges. This process is facilitated by the revolution in information technology and the gradual dismantling of institutional obstacles to the worldwide movement of goods and conceptual values. Although not inevitable or irreversible, experience shows that globalization's strength and promise of success—which classical economic thought captured more than two centuries ago in Adam Smith's concept of "the extent of the market"—derives from the demonstrated failure of protectionist,

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[19]"The Party's Rule of Law," *Far Eastern Economic Review*, October 7, 1999, 54.

autarkic, and isolationist alternatives.

Similarly, there is no rational alternative to letting China in. The PRC should not and cannot be left out in the cold, as a bitter, revengeful victim left to its worst instincts, which are not lacking. As an outcast that is isolated and economically unreformed, China would be a far greater danger regionally and for the world at large than a China associated in the work of global modernization in the framework of international agreements and within the confines of the WTO.

There are, of course, risks of admission, and they are not trivial. China is big, at least in the sense that it contains one-fifth of the world's population, is communist in its political and social governance, and has exhibited erratic behavior. One should be prepared for tantrums, obstructionism, attempts at subversion, backtracking on commitments, and the nightmare of implementation. We have, however, dealt before with similar situations in international organizations with a variety of troublemakers. Problems of this sort can be dealt with and the damage contained, if not easily, surely more effectively within the Organization than if China carries on outside it. For the world's nations, the United States included, the risk of admission is bearable. The alternative is not. Besides, one important gain for the cause of justice, rule of law, and economic rationality will be the admission—long overdue—of Taiwan into the club. Taiwan's dignified entry should be one of the conditions for the admission of China.