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TRADE POLICY AND SUSTAINABLE DEVELOPMENT: CHINA’S ECONOMIC REFORM

Lulu Uriri Onakpoya
College of Law, Michigan State University lulu.onakpoya@gmail.com

Abstract

One of the hallmarks of sustainable development within any country is that country’s evident ability to meet her present needs (economic or otherwise) through the establishment of strong institutions which will in turn guarantee future sustainability. Sustainable development is about establishing institutions which cater to present as well as future needs and is hinged on economic development. In essence, this paper examines ways of achieving sustainability in emerging economies from the viewpoint that economic growth or development is the basis for effecting sustainability.

Trade policies have always played an important role in the development and advancement of the economies of many nations, providing avenues for businesses and for countries to maximize the benefits of access to international markets. However, do economies that implement policies which, for instance, lower barriers to international trade grow faster, assuming all other relevant factors are controlled? There is no doubt that, if practiced properly, international trade is very beneficial to those countries involved in it. International trade not only opens up opportunities which only access to a global market affords local entrepreneurs, it also opens the door to the latest technology available to businesses in the most developed countries. International trade further promotes healthy competition as businesses strive to meet up to international standards, thereby providing improved products and services to the local market, and in turn to the global market. Aside the more evident benefits of international trade which focus on the maximum utilization of local and external resources, there exist other ‘fringe benefits’ which accompany open trade policies.

*One can rightly conclude by saying that international trade, without doubt, leads to some form of economic growth and development, given that relevant economic policies and infrastructure can accommodate the resulting social and financial effec*ts

Keywords: trade policy, sustainable development, economic reform, China

1. Introduction

A report by the Organization for Economic Cooperation and Development (OECD) states that more open and outward-oriented economies consistently outperform countries with restrictive trade and foreign investment regimes; and a report of the IMF states that appropriate policies geared towards improving foreign trade are among the more important factors promoting economic growth and convergence in developing countries (Rodriguez & Rodrik, 1999). The success of international trade

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however is not achieved without heavy reliance on factors such as flexible trade policies, political stability and favorable macroeconomic environment, among others. Many countries have failed to reap the benefits of international trade due to a deficit in appropriate trade policies, and China's political and economic development has revealed that relevant policies which favor open foreign markets are crucial for sustainable economic growth (Hilpert, 2013).

In this article I offer a critical examination of the process of trade policy formulation and how effective trade policies influence a country's specific markets and overall economic development through the viewpoint of China's experience. I will review the provisions of the World Trade Organization (WTO) which guide the formulation of trade policies, oversee trade, as well as prescribe the process of addressing the issues which arise from international trade. The article will conclude with a prescription and recommendation for how countries involved in international trade can structure their policies to create a pathway for sustainability in their economic development.

Besides this introduction, this paper is presented in three parts. Part one examines the progress of China's economic reform from its early days until now. Part two reviews how WTO rules influenced China's trade policies and the impact of these policies on China's continued economic development. Part three offers a critique of the Chinese model, outlining the problems countries may face in instituting beneficial trade policies as well as the factors which make for sustainable development.

2. China's Economic Reform

China's economic reform began in 1978 with the State Owned Enterprise (SOE) reform. As the backbone of urban economy, SOE's served as the main source of government revenue; they paid taxes equal to 19% of GDP and remitted profits equal to an additional 19% of GDP (Sachs & Woo, 1997).

However, the World Bank estimated that manufacturing productivity in SOEs declined at an annual rate of 1.2% from 1978 to 1983 (Kau & Marsh, 1993), this was largely because the SOEs were overstaffed, poorly managed, and generally inefficient. As Professor Richard Vietor of the Harvard Business School rightly noted, although improvements in efficiency would necessitate reform, serious obstacles stood in the way of the SOEs. First, one of the burdens weighing SOEs down, known as the "iron rice bowl," was that they were the primary conduit for social services in urban areas; they were expected to provide housing, education, healthcare, and lifetime employment for their workers (Harvard Business School [HBS], 2007). Second, the interests of the bureaucrats who benefitted from the enormous control and leverage they exercised over SOEs would be threatened if SOEs were granted the greater autonomy they required. Third, the distasteful image of the Soviet Union's "one-man management system" which fostered despotism in factories loomed large in the minds of conservatives and made them unreceptive to reformers' arguments for greater manager autonomy; this proposed reform however, was only part of an overall SOE reform strategy referred to as the "manager responsibility system" (HBS, 2007) under the Enterprise Bill of Rights. Like other similar reforms, the Manager Responsibility System began in an ad hoc manner. Beginning in 1980, freedoms were negotiated on a firm-by-firm basis and featured increased autonomy over production and investment decisions, the right to retain a portion of profits and the right to sell additional output after meeting the official plan quotas (HBS, 2007). Initially planned to be sold at state-fixed prices, but as time went on, in 1984, it was allowed to be sold at market prices. This created a dual price system which resulted in some goods having two prices, depending on the context in which they were purchased.

As with many policies, the problem with this Enterprise Bill of Rights faced a challenge of implementation; a survey conducted in 1987 showed that the manager responsibility system was only partially implemented in 50% of the enterprises and not at all in 10% (Haughton, 1996, p. 231). In areas where the manager responsibility system was implemented, there was manifest corruption; the autonomy provided avenues for managers to receive and pay excess wages, enterprise directors also took advantage of their personal relationships with the local and national leaders to negotiate prices for industrial inputs. The quality of output of products meant for the state was considerably lower than those to be exported, as directors focused their efforts on above-plan production. The dual-price system, as the Harvard Business School review observed, created greater opportunities for corruption as managers could earn enormous profits from diverting plan output to the unregulated market, and making it possible for goods to be purchased at low state-set prices and then sold for a profit through a series of middlemen until they reached the market price (HBS, 2007, p. 7). It became clear that the purpose of the manager responsibility system had failed and all efforts to improve the performance of SOEs resulted in very limited success. Foreign firms began to effectively compete with the SOEs and SOE monopoly was greatly reduced and industrial output from SOEs began a nosedive to 38% in 1994. Only sectors such as resource extraction, utilities, petrochemicals, automobiles and construction which secured SOE dominance with regulatory or technological barriers to entry guaranteed some form of relevance for the SOEs. The resultant effect of all this was that the government and banking industry suffered from the burden of supporting the SOE's with subsidies, the SOEs having absorbed more than 70% of loans granted by state banks.

The government, seeking for a lasting reform of the SOE's, adopted a three-prong approach in 1994. The first prong was to preserve government control of a core group of 1000 large SOEs, while attempting to reform these enterprises by combining them into Chaebol-type conglomerates and by altering their governance structures (The Economist, 1997, p. 97-98). The second prong was to permit outright privatization—the Chinese definition of ownership change and nonpublic ownership—of the small SOEs controlled by local governments (HBS, 2007, p. 7). The third prong was to allow bankruptcies and mergers of the truly non-performing SOEs (HBS, 2007, p. 8). The political aspects of the SOE reform however proved to hold more challenges than the economic ones; as the SOEs were considered the backbone of socialism, an explicit privatization policy was very difficult to formulate; as surveys showed, it was not clear that the expected layoff of about 33 million SOE workers would substantially improve output.

The poor performance of China's SOEs greatly affected the country's economy. In an effort to reduce fiscal deficits, the government pressured the state banks to extend the loans to SOEs (set at 70% of all state-granted loans as at the mid-1990s). Local officers however directed a good portion of these loans to politically-favored projects rather than those which proved economically viable. The result was nonperforming loans accounting for 20% of the portfolios of the four state commercial banks which made up the core of China's financial system, rendering the banks' net worth negative (HBS, 2007, p. 8).

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Furthermore, the interest rates for these loans were ridiculously low and by 1996, banks' return on assets had also become negative.

In a desperate effort to effectively address these problems facing China's economy, the political and policy functions of Chinese banks were separated from their commercial functions. This led to the creation of three new banks in 1994. The plan was that over time, the commercial banks were to transfer their policy-lending portfolio to the policy banks (The World Bank, 1996). The idea behind this separation was that it would afford the four large state banks the avenue to specialize in commercial lending activities, a move which proved effective, although as the World Bank observed, up till 1997 the process continued to face political interference with the granting of investment loans by state banks, a significant portion of state bank investment loans still being diverted towards projects the state deemed necessary, for political reasons (World Bank, 1997, p. 31). The government further opened two stock exchanges in Shanghai and Shenzhen, and made way for the establishment of non-bank financial institutions whose purpose included financial intermediation. Soon after, several foreign banks opened representative offices performing strictly limited operations.

2.1.China's Introduction to World Economy

China's Cultural Revolution came at a time when the economies of other Asian countries had perfected systems which effectively utilized export promotion in achieving rapid economic growth.
China, under Deng Xiaoping believed that a similar system would work wonders for China's economy, but the fact was that the country's economy had been extremely isolated with a trade to GDP ratio of only 10% and no stock of foreign direct investment, and foreign trade reserves had fallen dangerously low (HBS, 2007, p. 9). The country recognized that a reform which allowed for increased imports was necessary for the growth of the economy, but a major worry for hard-liners however, was the real dangers of foreign influence which this move would pose.

Trade reform began in 1979 and lasted through the mid-1990s. Where previously, all of China's trade had flowed through 12 Foreign Trade Corporations (FTCs), after 1979, local officials began to license their own FTCs and this allowed local firms to bypass the government FTCs, leading to an outstanding increase in the number of FTCs to 5,075 in 1988, and the number of domestic firms with foreign trade rights mushroomed, reaching nearly 10,000 in the mid-1990s (Naughton, 1996, 273-344). The reform in the 1980s featured a slow reduction in import tariffs, though non-tariff barriers to trade—quotas and licensing requirements—remained (Naughton, 1996, p. 297). On the issue of liberalization of Foreign Direct Investment (FDI), hard-liners were more skeptical about implementing policies which they perceived would threaten China's socialist character and promote foreign control of China's assets. A compromise was finally reached on this highly sensitive issue by prescribing a restriction of FDI to a few geographical areas, thus limiting and controlling foreigners' influence, while at the same time allowing for a review of the costs and benefits of FDI. These few geographical areas on which the 'experiment' on FDI was to be carried out included four coastal cities designated as "special economic zones" (SEZs) in 1980. These SEZs were granted permission to experiment with tax rates and approval procedures for foreign investment. Enterprises operating in the SEZs were exempted from the central plan, labor regulations, and many taxes (HBS, 2007, p. 9). Shenzhen, a small town on the border of Hong Kong's New Territories was chosen to take advantage of the Hong Kong economy, and the local government took measures aimed at creating a friendly legal environment with the necessary infrastructure on ground. The result of these actions was astounding: Industrial output grew at an exceptional annual rate of 56% between 1979 and 1983 and increased to 100% in both 1983 and 1984. In 1984, 14 more SEZs were established, and by 1993 there were more than 9,000 economic zones of varying types around the country, featuring free-trade zones to economic-development and technological-development zones (HBS, 2007, p. 9). The World Bank cites a study that credits foreign investment as being single-handedly responsible for the extra growth experienced by SEZs in the late 1980s. (World Bank, 1997, p. 11).

2.2.Currency Reforms

One factor which influenced the success of the SEZs was the currency reforms in force throughout the 1980s and 1990s. Prior to the liberalization of FDI, the state had fixed the yuan's value exceptionally high as a means of subsidizing specific imports. This resulted in increased demand for foreign exchange as the government heightened measures to maintain control on the exchange system, in order to preserve a balance. One of the ways the government maintained balance was to require that all exporters turn over all foreign exchange earnings to the government, and were required to obtain permission from the government to buy foreign exchange for the purpose of trade; the goal was to slowly reduce and relax these restrictions over time and this was implemented in the early 1980s, allowing exporters the freedom to retain an increasingly large share of their foreign exchange earnings, making exporting attractive to manufacturers. The steady devaluation of the yuan through the 1980s and 1990s effectively boosted participation in export activities. Furthermore, in 1986, the government established an alternative foreign exchange market called the 'swap market' where the yuan's traded value was considerably lower.

China's emphasis on gradual economic growth against the background of appropriate trade policies was guided by a determination to balance the financial integration which would result from FDI. In doing this, China maintained a dual currency system; under this system, foreigners were not allowed to hold yuan, but were restricted to the use of 'foreign exchange certificates' (FECs) when conducting transactions within China. This went on till 1994 when the government went back to the single currency and merged the official exchange rate with that of the swap market. In 1995, the nominal exchange rate was fixed at RMB 8.3 (8.3 Renminbi) up from RMB 1.5 in 1981—a cumulative loss of more than 80% in the value of the yuan since reforms began (HBS, 2007, p. 10). This currency reform sparked a dramatic transformation of China's link to the global economy. Exports increased from 4.9% to 18% of GDP over the course of the reforms and by the 1990s, the current account was in surplus nearly every year. FDI flows, mostly stemming from Chinese individuals and businesses in Hong Kong, Singapore and Taiwan grew from $57 million in 1980 to $42 billion in 1996 (HBS, 2007, p. 10), making China the world's largest developing-country beneficiary of FDI.

In 1986, China recognized that in order to be a full member of the world economy it would need to conform to the General Agreement on Tariffs and Trade (GATT) in conjunction with the more recent World Trade Organization (WTO). Incidentally, China had been a signatory to the GATT in 1948 but the then Nationalist government had pulled the country out the following year. China's efforts to rejoin the GATT were laborious as trading partners doubted whether the country had shed enough of its traditional institutions of planning and central control. They were also apprehensive of whether China was willing to further liberalize, making reference to China's burdensome import tariffs and licensing requirements, especially the ban on the import of automobiles, and the country's policy on the registration of foreign banks or its policy which disallowed foreign investors from holding majority shares in Chinese companies. In response, China reduced tariffs on about 4000 goods by one-third, it also cut the number of items subject to import quotas from 660 to 384 and made the yuan fully convertible for current account transactions. China also offered to abandon its licensing requirement for importers within five years of receiving WTO membership.

Critics however challenged China's position, arguing that China's tariff cuts were limited in their usefulness to foreign firms in China because the few firms that had permission to engage in foreign trade were mostly SOEs. Also important to critics was the assumption that even if China were to abandon its licensing requirement for importers as promised, the government may not grant foreigners the right to distribute imports, as well as the requirement that foreigners willing to invest in China have Chinese partners who would hold the majority stakes in the company. Other activities spearheaded by the Chinese government led to economic sanctions, and these proved to be a setback in negotiations for China's inclusion in the WTO.

3. World Trade Organisation Rules and China's Trade Policies 3.1.Most-favored-Nation

On December 11, 2001 China gained membership of the WTO under Article XII of the Marrakesh Agreement setting up the WTO, thus joining the international community of market economies. This move was decisive for China's integration into the world economy and symbolizes the coming together of a shared world. WTO membership compelled China to concede extensive market opening measures and permitted in return, guaranteed access to the markets, investment capital and technological expertise of the industrialized nations. Article 2(A) (1) and (3) of the Protocol on the Accession of the Peoples Republic of China provides that: *the provisions of the WTO Agreement and this protocol shall apply to*

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the entire customs territory of China including border trade regions and minority autonomous areas, Special Economic Zones, open coastal cities, economic and technical development zones and other areas where specific regimes for tariffs, taxes, regulations are established (collectively referred to as "special economic areas")…

> *China's local regulations, rules and other measures of local governments at the sub-national level shall conform to the obligations undertaken in the WTO Agreement and this Protocol" (Protocol on the Accession of the Peoples Republic of China, 2001)*

China's world-market-driven economic dynamism experienced a decisive boost. Reform, opening and integration in the global economy received internal and external institutional and legal backing.

Externally, WTO membership depoliticized China's trade and trade conflicts as China came under the Most Favored Nation (MFN) rule. Bilateral trade agreements had to be resolved by rules in a form consistent with the WTO and without reference to Beijing's foreign or human rights policies (Hilpert, 2013, p. 11). The WTO Trade Policy Review of China in 2012 further reported that China had enjoyed strong economic growth in 2010 and 2011 (WTO Trade Policy Review).

Five years later, scholars, governments and businesses debated on how successfully China was meeting its WTO commitments, and how its membership had changed China and the rest of the world.

China's inclusion in the WTO was a highly significant event, not only to China, but to the rest of the world; foreigners were promised more direct access to Chinese markets based on new policies and attractive lower tariffs. China's new position however conflicted with the interests of many countries, chief of which was the United States, as U.S. trade deficits with China rose steeply, even reaching $202 billion in 2005 (Vietor & Galef, 2008).

Considering the benefits of membership which were greatly desired,—a new level of global integration, the status of Most Favored Nation (MFN), less inefficiency in its economy, becoming an important link in transnational production chains, avoiding the embarrassment if Taiwan were to attain

WTO status first—China's leaders expected the country's economy to continue to shoot to new heights each year.

3.2. Impact of China's Economic Reforms on the World

China has become a forerunner of world and regional growth, a veritable "engine of growth" for Asia and the rest of the world. Studies show that 50%, 44% and 66% of exports from Hong Kong, Japan and Taiwan respectively go to meet continued demand from China. The consensus among experts is that China's trade deficit with the rest of East Asia has further helped to revive the economies of Japan and Southeast Asia. Economists estimate that China's Gross Domestic product (GDP) grew from 1978 to 2013 at between 9.5% to around 11.5% a year, a tenfold increase since its beginning. Some scholars believe that China's economic growth has been understated due to large sectors of the economy not being counted.

The dynamics unleashed by Deng's reform leading to the open-market policies and other institutional changes have propelled continuous capital accumulation, productivity gains, trade and income growth on a scale the world has never seen before. Considering the current impact China has on the world and the projected impact the country is expected to achieve, the pertinent question now is whether trade can *really* sustain Chinese growth over the next 30 years, or whether its scale of growth thus experienced from international trade can be sustained, given the significant impact it will have on the domestic as well as global economy.

For the rest of the world, without deliberate economic, structural and political adjustments to China's rise, there will be economic and political tensions that will inevitably frustrate the redistribution of power in the world economy. As a result of past and future economic policies, China is setting itself up to take center stage in the world economy. One instance which demonstrates this assertion is the recent devaluation of the Chinese yuan in August 2015. This devaluation alone is capable of triggering, as a writer put it, a 'race to the bottom' effect whereby Chinese exports will inevitably increase as a result of low prices of goods. This may 'force' other countries to also reduce their prices.

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3.3.The Price of Membership

The WTO's goal is to achieve non-discriminatory bilateral and multi-lateral world trade, and this requires that member countries make autonomous and decentralized market decisions. To this end, China's accessions protocol ensures that its structures converge as prescribed in the protocol, with those of other existing free-market WTO members, creating a uniform world trade order, and closing the gap in WTO law (Qin, p. 512).

China's membership of the WTO as a developing country was contingent on the assurance that it would make far-reaching commitments on market opening and liberalizations that were without parallel in the history of GATT and the WTO—granting considerable tariff reductions and almost total abolition of import quotas and import licenses, decisive market openings in the service and utilities sector. In order to enforce the principle of equal legal treatment, the U.S and European Union insisted on explicit rule of law obligations in the accession protocol, such as legislative and administrative transparency and the possibility of judicial review. China agreed to strictly regulate subsidies, generally abolish export subsidies and restrict agricultural subsidies to 8.5% of production value. China granted its trading partners special safeguard clauses. With WTO's accession also came a series of trade-related agreements which came into force to regulate China's Trade Related Investment Measures (TRIM), Trade Related Intellectual Property Rights (TRIPS), the Technical Barriers Treaty (TBT) and Sanitary and Phytosanitary Measures (SPS) (World Trade Organization).

While Europe and the US remained skeptical about the promised tariff reductions and market openings being realized, China on its part was feeling the problematic impact of WTO membership as increased foreign competition was threatening the country's relative economic stability by worsening China's already high unemployment rate and widening the growing rural-urban income gap; China feared structural dislocations in agriculture, industry and banking, feeling that the price for WTO membership may become too high. Thus, the question on the mind of the Chinese government was whether WTO membership would help or hinder their ability to address the country's troubled banking system, regional and social inequality, as well as problems of persistent corruption. Also, they wondered if the WTO membership would serve to enhance the state power, as the country intended, or eventually weaken it. Could the Communist Party really meet an increasingly complex set of international rules with the backdrop of domestic demands while maintaining political power? China needed to review the country's decision to open up her market on a balance of its pros and cons.

3.4.China on the Losing End?

In comparison to the 124 founding members of the WTO China assumed additional obligations on accession but received fewer rights. Pointedly formulated, it is a second-class member (Wu, 2011, p. 227-270). China's additional obligations include transparency and adherence to the Rule of Law (Protocol of the Accession of the Peoples Republic of China, 2001, Article 2[c], [d]), a detailed list of transformational steps (Protocol of the Accession of the Peoples Republic of China, 2001, Article 5, 9) and specific requirements relating to the principle of non-discrimination of foreign individuals and enterprises operating in domestic markets (Protocol of the Accession of the Peoples Republic of China, 2001, Article 3). At this time, China had renounced the developing countries' privileges to which it would have been entitled on the basis of per capita income which as at 2001 was considered low. (The Enabling Clause permits developing countries to export goods to industrialized countries tariff-free or at considerably lower tariffs, and to agree to bilateral trade concessions with other developing countries.)

Under the provisions of Article 15 and 16 of the Protocol, China was significantly 'placed on the losing end' by safeguards which permitted its trading partners to impose import protections (World Trade Organization [WTO], 2001, note 11), (Cattaneo & Braga, 2009, p. 19-21). These economic restrictions served to discriminate against Chinese exports. First, as already mentioned, is the China Safeguard Clause which permits China's trading partners to impose safeguard measures in the event of market disruptions or 'significant' diversion of trade, as against after a 'serious' market disruption. Second, the rules make dumping easier to prove by simply comparing Chinese production costs against that of comparable market economy producers (this is possible because China is still viewed as a non-market

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economy in the WTO, with the exception of instances where market economy status is explicitly identified and accepted in a bilateral agreement). Third, countervailing measures can be imposed on the basis of an expanded definition of subsidies (Protocol of the Accession of the Peoples Republic of China, 2001, Article 10). Fourth, specific safeguards applied until 2008 in the area of textiles and clothing products. Each of these restrictions, on its own, could lead to market foreclosure measures against China. Scholars have criticized the restrictions as a systematic breach of the WTO rules, however, it has subsisted because under the principle of reciprocity, the WTO cannot allow for 'free' admission, especially for a large trading nation like China. The existing members of the WTO thus demanded certain concessions in return for granting China admission to most-favored treatment (Cattanoa & Braga, 2009, p. 1-7). This has formed the basis for many conflicts between China and other members of the WTO.

Meanwhile, China's export sector remains exposed to discrimination and protectionism defeating and violating the WTO principle of most-favored-nation treatment. China's contention is not with the WTO and the rules governing multilateral trade—seeing as the country draws significant benefits from its membership—but with protectionism directed against China.

The hope is that reasonable interest-driven trade policies would be formulated to positively respond to this issue within and outside the WTO.

4. Issues of Conformity

In the big picture, China's trade policy shows mixed results. On the one hand, the country has put enormous efforts into far-reaching policy reforms to conform to WTO rules, and has opened its markets considerably wider than other major emerging economies. On the other hand, China has not fully satisfied its WTO accession obligations and only partially adheres to general rules such as nondiscrimination, transparency and legal security. China's implementation of the WTO agreements, though widely applauded, still came under criticism from other countries, chief of them, the United States. As of 2005, the US trade representative reported that some of China's nontransparent practices

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continued to impede US trade, and the WTO estimated that only 32% of Chinese customs decisions followed international standards (WTO, 2006, p. xi). US farmers also were uncertain about official tariff-rate quotas as it was not always clear what they were, as bureaucratic and administrative bottlenecks prevented US goods from qualifying for in-quota tariff rates. In 2004, China was still restricting export of coke, an important material necessary for steel production, against WTO regulations which prohibited restrictions on exports except for non-payment of tax or stipulated fees. These actions by China hurt the US, Europe and parts of Asia, who continued to put pressure on the country.

Continued pressure from the West, in addition to a 2006 review by the US Trade Representative (USTR) which identified pending issues like Intellectual Property Rights (IPR) criminal enforcement thresholds, certain market access concerns, and WTO prohibited subsidies that had not been resolved (United States Trade Representative, [USTR], 2006, p. 5) caused China to express misgivings over the impact of economic reform (The Economist, 2006, pp.34-35).

4.1.Factors Which Threaten China's Sustained Growth

China's economy has evolved faster than most economic analysts could have foreseen, but the country's economic philosophy sadly has not. According to Long Yongtu, a major facilitator of China's WTO accession, in a bid to modernize its economy, it has remained connected to industrial policies, state-owned enterprises, and a "techno-nationalism" that protects and promotes home-grown technologies. The Chinese economy, as projected, might continue to expand at least at a consistent rate; or even more likely, at an increased rate. A recent article in the Economist entitled "The Great Fall of China" also reveals the overplayed and misplaced concerns and fears of analysts. Nonetheless, some factors and internal policies exist which may stand in the way of China's sustained growth and position in the global economy.

First, China may not, in the long run, be able to rely on the economic model that propelled growth for the past two decades. That model saw the emergence of unsustainable current account imbalances. The next phase of growth requires a strategy of domestic market integration and internally-driven development, and it requires that China be actively involved in global cooperation to achieve balanced growth in the global economy, considering how China's current economic reforms and strategies are impacting the global economy (Song, 2010).

Second, China must focus more within and address the issue of inequality and regional disparities that have grown in the course of rapid growth. This has already started but needs to be intensified. Failure to deal with domestic inequalities will threaten social stability in the next phase of growth and development.

Third, China is entering a stage of growth in which the relationship between an increment in output and an increment in demand for energy and metals is exceptionally strong. This will add pressure to balancing global supply of, and demand for, resources and energy products. The impact on world markets for energy and resources is likely to be intense. China will also have to move more rapidly towards a low-carbon growth economy which will require accelerating the pace of change in industrial structure, and a faster pace of technological innovation in the energy-using sector of the economy, than was achieved in the industrialization of already-developed economies. The policy commitments towards this goal are still being put in place.

Fourth, the one-child policy and the impact of income growth on fertility will see China's demographic structure rapidly change. Aging of a majority of the population may, in the long run, constrain the supply of labor, put a strain on wages, reduce the capacity to save, change industrial structure, and the composition of trade, and make building human capital, based on addressing the current demographic challenges, accelerating technological change and raising productivity more urgent national priorities.

Finally, China must not fail to recognize that its rise as a global economic powerhouse will thrust on it the mantle of increasing responsibilities in global affairs, requiring it to contribute positively to global stability, progress and prosperity through cooperation with other members of the WTO. This reflects not only on how China manages its external economic relations, but also how it conducts itself politically, especially with regard to fulfilling its accession requirements under the protocol.

4.2.The Future of China's Trade Policy

China is growing more comfortable with the WTO machinery. With the recent conclusion of trade agreements with Switzerland and Iceland, China's new interest in a WTO Trade in Services Agreement (TISA) and the opening of movement of capital and financial markets in the new special economic zone in Shanghai can thus be interpreted as the first indications of a more liberal alignment of trade policy. Also, China's trade policy is directly challenged by the bilateralism of other major trading powers: the European Union, Japan, and the US. Successful conclusion of the ongoing talks for Pacific, Atlantic and Japanese-European Free Trade agreements (TPP, TTIP, JAPEU) would cause China losses of profits and sales through trade diversion and exclude it from the ongoing development of international trade rules (Hilpert, 2013). Again, China has gained enormously in power and influence in international trade policy. In terms of trade volume and import growth, it is now the world's most important trading power and could well expand its lead in the years to come. While China has risen to become at par with other nations within the WTO, in the medium to long term, hegemonic stability is conceivable, at least in principle, where China would assume a leadership role, and supply a variety of resources to support and stabilize the multi-lateral trading system (Hilpert, 2013). China will be in a position to decisively shape international policy through its own liberalization proposals, and by placing demands on its trading partners. It is however unclear how China will respond to the pressures from the West on the issue of realignment, thus it makes sense to draw scenarios or options which China may act on and the attendant likely consequences. These options range from internal and external economic liberalization to backsliding into protectionism or opportunist bilateralism.

Option I: Liberalism

We will assume that China eventually successfully establishes internal policy and structural reforms as well as external market openings. The foundation of liberalization is supported on two major prongs: the import and export sectors and a policy of internalization of the RMB which would require a dismantling of capital controls, thereby ending financial repression and permitting a realistic exchange rate for the Chinese currency (Hilpert, 2013). If we further assume that the liberalization is accomplished via unilateral measures and through bilateral and multilateral negotiations achieved by China being assertive and offering attractive concessions; and also that China then reduces its industrial and agricultural tariffs, enforces WTO principles of transparency, non-discrimination and the rule of law, and opens services and public procurement to international competition. In return, considering that China's trade threat may evaporate with rising wage costs and an appreciating RMB, the country's trading partners may concede tariff reductions, better market access and legal security in anti-dumping conflicts in the hope of gaining maximum export profits.

Liberalism would likely protect China's interest in open markets and a stable multilateral world trade system based on stable rules, because without access to foreign markets, international supply networks, sources of materials and advanced technology, China would hardly be able to continue its economic growth and its story of international political rise will be cut short (Hilpert, 2013).

Option II: Protectionism

We will assume that China's reform process becomes plagued by problematic resistance from SOEs and government officials and growth rates, employment possibilities and welfare distribution recede accompanied by mass dissatisfaction in the population leading to social and environmental problems and the resultant conflict with state authorities. This combined with external problems such as supply of moderate growth stimuli from the global economy, a reduction in transfer of industrial manufacturing to China due to cost, and low export demand caused by weak foreign economic growth.

China's priority will lie in first preserving internal stability and securing political and economic consolidation, leading the country to refuse foreign demands for further market opening. China may issue new regulations to protect weak domestic enterprises and promote growth industries. This would mean rescinding existing liberalization and market opening, resulting in China defaulting in fulfilling its WTO obligations.

The only possible outcome of this would be that retribution measures would worsen and further intensify China's foreign trade conflicts, especially with the US, EU and Japan.

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Option III: Bilateralism

We will assume here that despite China's considerable economic growth, a skeptical stance on globalization wins the day, the political assessment of the international trading system by the government and party leadership, regardless of the success of the reform process, may be the deciding factor for the future alignment of trade policy (Hilpert, 2013). China's economic stakeholders may object to discrimination against Chinese exports and investments and to pressure from the West to open markets and to the overall worsening of China's terms of trade under its accession protocol, considering social conflicts and environmental problems as costs of growth and the effect of globalization. As long as no progress is apparent in the Doha Round, bilateral negotiations remain the option for trade liberalization. A China prioritizing bilateralism would be more strongly affected than others by the erosion of the multilateral world trade system, but as the biggest trading nation, would also reap special benefits. (Hilpert, 2013).

In a trading world organized along bilateral lines, China would be in a better position than the US or EU to demand exclusive trade privileges such as tariff preferences and preferential market access on the basis of bilateral trade agreements, exclusive supply contracts for energy, raw materials and agricultural commodities (Hilpert, 2013).

4.3.Taking the bull by the horns

As the country with the current largest and fastest-growing domestic market, arguably with small domestic consumption, and a model for many emerging economies, China possesses economies of scale which it exploits in strategic industrial and economic policy, supported by subsidies and regulation, in the international establishment of its own norms and standards and in negotiating special conditions in international purchasing (Hilpert, 2013). Any economy that intends to adopt China's model must be prepared to face strong internal and external oppositions to drastic and sometimes unwelcome economic policies. As an offshoot of economic policy reformation and efforts to protect its culture, norms and values from unnecessary influence, it must see international trade not just as a means to achieve economic development, but also as a means to further promote its national interests around the world, and promote its policies which reflect these goals; this will serve to emphasize its role as a strategic partner and source of investment and trade.

Emerging economies must being to examine means of formulating favorable internal and external economic policies which would facilitate the building of sufficient fiscal and monetary capacity (a government's ability to generate sufficient funds to run the country through effective budgeting and planning), as well as serve as safeguards in attaining and sustaining growth. Such a country might benefit from putting in place the structures which facilitate the transformation it desires, through taking necessary political and socio-economic risks in ensuring strong economic institutions, as evidenced in the China model. Although the process of applying this model to long-standing democracies will evidence great departures from the strategies under the model, whatever the political machinery to be employed, like China's experience, it would be a torturous road but one which leads to the desired economic growth as embedded in the economic sustainability concept. This will contribute to sustainable development from the economic angle.

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