Chinese Economic Challenges to the World Trade Organization: Separating Myth from Reality

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**ABSTRACT**

China has taken the world with a different angle; an angle that kept China mostly behind its conservative mercantilist restrictions and access to foreign investors largely remained actively initiated. Even though China was admitted to the World Trade Organization (WTO) in 2001, and remained an observer to the General Agreement to Tariff and Trade (GATT), cost of receiving membership meant extreme modifications to Chinese system of economy. Modifications that required China to allow access and tariff concessions to global community and demanded Chinese nationalist mercantilist designs to be affable to international standards. This however, never meant that China would stop expanding, or at least take a recess from its economic augmentation. WTO quickly saw China rise to a point where even though it remained compliant to international economic norms, it still remained a formidable rebel to set patterns, tacitly compelling WTO and other international economic forums to feel impractical, if not impotent. Chinese economic investments, together with its dominance on international relations, has often raised questions on its intentions into becoming a member of WTO. It is often miscalculated that China intends to implode WTO from within by introducing a change in the international economic system through sheer pressure or somehow, China is strategizing to manipulate WTO as a nascent member in order to introduce another form of global competition against members that are already in antagonism towards China.

**Key Words:**  
WTO, China, Mercantilism, Expansionism, International Political System, Trade Liberalization

**Introduction**

China has emerged as a global economic force and many speculate that China tends to replace US as the sole economic superpower. Speculation of this account is made on how China’s exceptionally steady growth has made its rise a reality, if not a plausibility. Assuming that by 1950s, China was still confused in adopting a balanced system of economics and then it finally decided to seal itself shut and restrict access to international investors for fear of nationalism. This meant that China was either not ready to adjust to international economic designs or was unwilling to allow any international influence on its domestic economic framework. Indications were clear that China would like to compete on
international scale but on its own terms and any foreign dictation or direction shall remain unacceptable (Mansfield, 2014).

This meant that international community had to accept China for what it was and largely ignore such a backward and constrained mercantilist state during its most important phase of development. However, the 15 year delay in approving China’s request to be added to WTO (Prime, 2002) as a contracting member meant that China was willing to change and the internal pressures of not doing so were either countered or mitigated temporarily. The follow-up of China becoming a member of WTO was remarkable; China significantly reduced trade tariffs to comply with international standards and repealed harsh legislation to conform with providing access to international investments. Major multinational companies and international trading initiatives sought best to invest in and with China and allowed China ample space to develop its relationships inside the global economic system. WTO kept a watchful eye on China and its steady GDP growth rate (Spencer, 2014) which quickly transformed China into a leading economic force. This is where the problem came; where international community wanted China to do more, domestic preferences kept hindering its openness to meet international requirements (Rumbaugh & Blancher, 2004). Chinese system of government plays a crucial role in determining future steps and with most of the economic sector still maintaining nationalistic dominance of state institutions, China remained a question mark as to the future of its economic relationship in the world over. This meant that where China was by far the best place to seek investment from or to invest with, its designs were a combination of overt agreement and covert designs that did not allow international community to rely on China as a compliant partner. This based itself on a more serious approach as to whether China would take WTO as a forum to compete with US and this meant that US needed to be more cautious of China as a competitor on the economic front. With China and major global economies still maintaining the anti-monopoly laws as last resort, theory would ultimately suggest the outbreak of an economic Cold War. WTO, with its proactive policies and reactive nature, seems to only serve as a toll for regulating status quo and instead of pursuing member states to show compliance, resorts to serve as a silent spectator while states manipulate its rule for their own interests. In this instance, even if China is somehow restricted to refrain from advertising its economic plans, the international economic organizations can do little to restrict economic insecurities. With global economic recession imposing a much needed break to this economic turmoil, recessive economic patterns allowed China to reconsolidate its efforts towards major global markets much against the rules prescribed by WTO (Paradise, 2015).

The experiences China has had with GATT and the lessons learnt from its economic transition post-1978 reform period are indicative of the fact that China may not challenge the international political system but might continue to act as the major threat perception due to its impact over global trade and production as well as the overall magnitude of its steady growth. The only barrier imposed upon China in successfully taking over global political throne and assuming role of
principal economic hegemon is its domestic rural and urban situation and ever increasing population as well the demand structure of accommodating such a huge population.

**Chinese Economic Paradigms: System Challenging or Compliant?**

The more recent debate as to Chinese membership in WTO is that since China had largely remained a closed economy with little to no international participation during GATT regime, also being a newly recruited member of WTO initiative, China will certainly feel the need to adjust global economic order in its own favor to suit the needs that it has set in order to maintain a steady economic grip over global political affairs. This alignment would mean that China would most likely misconstrue WTO rules and guidelines to best suit its cause and this would also mean that China would try to modify international economic fabric in order for it to allow their own semi-mercantilist system to reap maximum benefit. This is where China is presumed to be acting maliciously and even though rigorous tariff and trade restriction amendments were imposed in China in exchange for its membership into WTO, the fear that WTO cannot personally intervene and can only instruct governments on aligning their legislative preferences towards a certain malpractice, China could utilize this loophole to its advantage for economic dominance (Scott & Wilkinson, 2015).

Interesting to note is that GATT was what transitioned into formation of WTO and this meant that economic liberalization was largely subject to operationalization of same concepts by GATT only with a few amendments. GATT (Qin, 1993) was significant as it primarily focused on rehabilitation after devastation from World War II. The primary motive behind formation for GATT was to facilitate a liberal economic order based on reciprocity and mutual advantage and the framework was to reduce tariffs and trade barriers. Another principle argument was elimination of preferences which meant that mercantilist behavior patterns in economic system were to be curtailed exponentially. Prospectively, decisions were made as to trading commodities and negotiations had settled trade in industrial merchandise and refrained from acknowledging agricultural products to be included in ambit of liberalized trade.

Much of the developing world at that time was either colonized or recently independent meaning that their principal commodities were either raw material for industrial goods or agricultural products and economic systems were primarily mercantilist. GATT tariff removal allowed a better commercial consolidation between US and Europe and rehabilitation through trade meant establishment of principal markets between the two. With agricultural products remaining non-negotiable due to political preferences, removal of tariff barriers did little good. This meant that advantage was determined on a first-come-first-serve basis and China, being a latecomer, had to free-ride its way towards benefits. Manipulation of GATT/WTO rules by China would then be superfluous as it had to gain accession through a rigorous amendment mechanism in accordance to WTO
framework and as far as GATT was concerned, China remained an observer with minimum active participation (Bockman, 2015).

US and the Western block assisted formation of GATT and later, after Uruguay Rounds, formation of WTO (Koopmann & Wittig, 2014). The principal negotiations and agreements, as well as framework was tailor-made to suit their own economic preferences. Liberalization of economics through institutionalization of global economics preserved the right of manipulation in control of Western powers. When China joined WTO, it had already been established as a global institution with considerable membership and all its frameworks and rules had been determined and globally implemented. Rationalizing that China would be able to circumvent or amend WTO framework with sheer economic power is a fallacy at best because Chinese membership in WTO allows its founding members adequate legislative command to curtail any economic adventurism. Even accession of China as a member had dealt a fine blow to Chinese mercantilist socialist economic fabric and in order to be at par with WTO requisites, China had to undergo colossal economic amendments to trade regulations and tariff markers. This meant that China would presumably be system challenging in its attitude towards WTO and international economic system because of grievances it would have as a free-rider relying upon regulatory mechanism of WTO to set its economic behavior in check. However, China’s inclusion in WTO was based on the principle of avoiding global isolation it had undergone in pursuit of membership into GATT (Scott & Wilkinson, 2015). Chinese industrial degradation and Maoist mercantilist economic fascism had already derogated Chinese stance in international forums, its survival as a sustained commercial entity solely relied on being compliant and docile.

Learning from the Great Leap Forward: China’s Economic Revisionism

China regarded Mao as a savior and a liberator but his economic policies were not what a revolutionary was supposed to manifest upon his followers. As China progressed towards socialist state formation, most of its policies were sacrifices instead of collectivization of consolidated opinion. Chinese economic structure is based on the principle of ‘Five Year Plans/Guidelines’ and this means that each economic section would entail a revision of previous goals and reiteration of successful initiatives with modifications to match status quo. The Great Leap Forward was the second five-year plan that was meant to facilitate Chinese needs by massive expansion of both industrial and agricultural sector (Brown, 2012). There were two major flaws with this plan; firstly, simultaneous growth of both agricultural and industrial sector in a recently independent China meant that resource production would be greatly marginalized as prioritization of investment sector is no longer available and secondly, simultaneous growth of two important economic sectors without appreciation of ground realities meant that economic policy would consequently lead to strain and might engage in a collapse which the
Great Leap Forward did. Even though annual growth statistics for China during this tenure were considerably higher, they were not at par with the statistics of the first Five Year Plan chiefly because of excessive political intervention and primarily unplanned paradigm shift of prioritization of investment into industrial sector without deliberation (Powell, 2001).

As international economic organizations were under development and most of them faced cardinal issues of imposed tariffs and overall global mercantilist trading attitude, China remaining mostly isolated from the global economic model, the Great Leap Forward was somehow thought to be a replicated phenomenon of the Soviet Model of socialist economy. Following the Sino-Soviet struggle and extreme political compartmentalization of the Chinese Communist Party, ever stagnant self-reliant strategy adopted by China finally gave way and economic policy reforms under Deng Xiaoping opened China to global economic and political canvas (Brown, 2012).

Chinese willingness to join GATT came with confusions; the international community was uncertain whether China would remain compliant to its commitments if entered into the arrangement and China itself was rather unwilling to surrender to an organization that had already sufficiently manipulated tariff structure based upon personal preferences. Interesting to note is the tariff plan in GATT where the United States and Europe had resorted to restrictive mercantilist options when it came to agricultural sector and resorted to manipulate agricultural tariffs to suit their national needs. This meant that GATT largely became a tool for economic regionalism and China, recently coming out of isolationism had more concerns than confidence. The international community worsened this pressure by introducing extensive reforms in exchange of up-gradation of China from an observer to a member which further exacerbated Chinese concerns (Bockman, 2015).

Once China acquired member status into WTO, things became more ambiguous. The global community feared that Chinese trading volumes were increasing with such a magnitude that any international structure would be eventually insufficient to cater to Chinese growth and there would be regional backlash to such a formidable economic powerhouse. The pertinent factor was that Chinese economic designs were supposed to be system challenging as China would no longer require any international trade organization to regulate Chinese economic impression and this would mean that China would secede from this initiative. The basic point of concern was that even though China had opted to internationalize its domestic economic sector, the prevalent control of State Owned Enterprises (SOE) under the domain of strategic economic sectors makes Chinese designs dubious which means that international community reserves its uncertainties. WTO has done little to curtail Chinese economic expansionism because then it would have served as a viable alibi to ascertain institutional partiality. China already maintains sufficient economic leverage as being an active member of WTO but still maintains a low profile so as to retain the role of a critic to policy negotiations. Owing to its experiences from the Great Leap Forward
Second Five Year Plan, China has learned valuable lessons in not manifesting aggressive economic domestic policies and also not to rapidly engage development on simultaneous fronts so as to pressurize its local financial sector. As far as Deng model for openness is concerned, China has initiated a rather mystifying approach of agreeing to negotiate economic reforms and tariff adjustments but has resorted not to liberalize trade beyond a specific threshold, decided by the Chinese government with due consideration to domestic structure and strategic SOEs (Li, Wang, & Whalley, 2014).

**Hegemonic Stability Theory: Replacing US with China**

The long standing debate that China may or may not be able to replace US as the global hegemon has necessitated a closer look into what international economic system demands. Hegemonic Stability Theory (HST) proclaims that existence of a state with practical capability to dominate a singlehanded approach to international situations. After demise of the Soviet Union, it had been made clear that US would remain a dominant and formidable, if not undisputed, global hegemon and that all other states would have to comply. China somehow managed to dissuade such claims as its steady growth in economics and subsequent ascension to prominent international trade organizations meant that China was more than willing to compete for the position for hegemon. According to the HST, Chinese competition made situation different as it disturbed theoretical claims of the idea and addition of a competitor meant that the HST was no longer in effect. This signposted that instability would be inevitable and there would be a hostile exchange between both competitors vying for hegemon status (Milner, 1998).

A more immediate concern that circulated in intellectual sectors was the fact that China has adequate potential to sustain its prevalent higher growth margins but will lack experience and leverage reserved by US that had initiated institutionalization of global economics. Institutionalization of economics translated into economic alliances and commercial regionalization. China, remained an inactive participant and its policy framework received significant amendments before China was finally admitted to WTO structure (Blum, 2003). As far as the paradigm shifts in domestic economic structures are concerned, China remains unable to compete with US that still holds considerable legislative leverage in international economic organizations. Conclusively, even though Chinese participation has been more than positively progressive and its legislative presence is significantly proactive, China is still dominated by mercantilist imprint allowing US to persuade China into increased trade liberalization to which Chinese reluctance remains prominent (Young, 1986).

Displacement of employment was a noteworthy factor ever since China joined WTO. International community had not predicted China’s willingness to comply to WTO perquisite conditions regarding its mercantilist tariff imposition and global cooperation but once it had agreed to amend its local economic design, much of Chinese economic expansionism has directly infringed American
economic structure. Manufacturing sector plays a vital role on economics that is generally fueled by industrial development. The Chinese manufacturing patterns have revealed immense stress on US in order to maintain pace and economic recessions have further exacerbated status quo as American companies declared bankruptcy and many had exceptionally downsized its employee levels to maintain bare minimum economic stability (Keohane, 2005). The pertinent concern was that China would eventually replace US market dominance through cheaper production and exceptionally flexible trading policies. Considerable foreign investments in China are still maintained by US and interesting to note is that where global trade is conducted in dollars, Chinese aspirations to replace US as an economic hegemon (Blum, 2003) might hold weight in terms of growth rate or GDP value or even PPP, it would still not be able to substitute US because of domestic constraints (Keohane, 2005).

International trade is regularized and conducted by WTO and other monetary organizations and this principle implies a significant paradigm shift; the HST, in its economic dimensions, does not apply to status quo as international organizations and MNCs hold considerable global trade volume within their operational jurisdiction and it would be difficult to ignore their sphere of commercial influence. International organizations now dictate terms and conditions and states are gradually refrained from interference in pursuance of global economic integration through trade liberalization. Labor Intensive policy of China, shifting its focus on light industrial products and mass production through assembly lines for international corporations cooperating with China meant that China had cemented its position as an important segment in international economics but still was unable to compete or outrun MNCs that had grown in considerable magnitude (McKeown, 1983).

Most MNCs are operational through US and utilize China for its labor intensive manufacturing needs which means that neither US nor China (Blum, 2003) are economically potent enough to claim hegemon status with respect to global economics and military preponderance only upsets delicate balance of peace. The HST, in this one instance may not see a paradigm shift of focus from US to China but rather it manifests redundancy through empowerment of MNCs and international trading organizations as economic dominators. (Young, 1986)

**China and the Future of WTO**

WTO has revolutionized international trade and institutionalization of economics has integrated global financial scenario. China, consequently, was a question mark for global financial order for the reason that Chinese economic system still resisted trade liberalization despite its substantial interaction with foreign MNCs. WTO, in this instance became an organization that would either serve as a yardstick to curtail Chinese economic expansionism or restrict Chinese economic influence over bilateral or multilateral financial initiatives that circumvent WTO rules. Moreover, reservations on Western dominance on WTO structure means that
China would translate all subsequent initiatives as prejudiced and predisposed set of standards. In this, the future of international trade mechanism ensures neutrality only in instances where global consensus is achieved. (Cook, 2015)

China’s global trade growth and substantial increase in trade volume with US meant that there would eventually be a disagreement on international trading rules whereby major Chinese investment sectors are still under state domination. This is where WTO and all other international trading organizations would attempt to bring China into the ambit of trade liberalization despite its efforts to contain Chinese expansionism. Foreign affiliates operating in China have utilized it as an industrial platform and this has enhanced domestic markets substantially. Domestic sector, in order to compete with foreign conglomerates operating within, has transformed production techniques and have increased their productivity in order to match manufacturing potential. (Mattoo & Subramanian, 2014)

The profitability of local manufacture, added with foreign investment has renovated traditional Chinese economic fabric. This implies that even though international economic institutions will seek an endeavor to maximize financial benefit from China’s competing market production. In this instance, China aims to apply reciprocity into its economic interaction, something which remains unfavorable as per international standards. China has a decline in SOEs and foreign affiliates have been able to accumulate maximum labor benefit for enhanced production. This implies that Chinese traditional economic patterns are slowly becoming redundant and the impact of such redundancy on its protectionist regime structure would surely exhibit fissures and might even lead to partial, if not complete, reversal of prospective liberalization. Speculation dictates that when decline in workforce of state owned enterprises will allow more worker employment in private sector and foreign associates, Chinese strategic sectors will push for sterner protectionist policies to maintain competitive advantage against foreign competitors. (Paradise, 2015)

As far as WTO is concerned, there is a rhetorical phase in policy meetings where states often divert liability to other states and China could one day be held responsible for the collapse for WTO framework. The principal reason behind such an assertion would be that China does not share the intellectual heritage with the EU and US, consequently, China is assumed to view international economic system as an ‘Americanized’ subject matter. Where this assumption might not be entirely true, China does concede to the case that adjustment to international trading norms would be according to what prevalent standards are set. This implies that American dominance and support from EU remains operational in setting the pace for Chinese compliance. (Koopmann & Wittig, 2014)

WTO has yet to conclude the Doha Development Agenda (DDA) (Wolfe, 2015) and disagreements in previous rounds of negotiations means that WTO itself is facing challenges with respect to defining national priorities. WTO has yet to conclude agreements on restricting preferential behavior by member states that destabilizes uniformity of trade and internationalization of economic order. Developing countries already find it difficult to maintain balance with WTO
regulations and China is thought to exploit such institutional fissures to its maximum advantage. Anti-dumping rules have invoked a check and balances system on Chinese economic dominance but similar mechanism offers a reversed dimension where China itself invokes analogous reciprocation of same rules in accordance to necessity generated by domestic SOEs. Even if China shows willingness to cooperate on new norms in order to redeem DDA guidelines, also its inclination towards a softer stance in G-22, Western economic order determines the limits of Chinese flexibility. (Wolfe, 2015)

WTO, after negotiations in accordance to GATT initiatives, has substantially reduced tariffs and trade encumbrances to allow developing countries parity and level playing field, China still maintains itself as a developing state and this behavior worsens concerns associated towards EU and US. Recently Added Members are thought to be an alliance in WTO and it is perceived that this segment would be difficult to counter and China would manipulate this bloc to stand against the Western states. Since the DDA has repeatedly failed to accommodate its initiatives within the prescribed deadlines and failure to meet the limits means that trade liberalization shall be delayed accordingly. (Cook, 2015)

**Challenges to WTO**

Doha Development Agenda has been unsuccessful in order to curtail mercantilist behavior and this is evident in its inability to reach a conclusion. China is presumed to be a blockade in asserting its dominance over tariffs concerning agricultural commodities. The reason being that disagreements between US and India on Special Safeguards Mechanism which was aimed at allowing agriculture oriented states an option to manipulate tariffs in order to accommodate their import surge. China, blamed for being obstructive, has done exactly the opposite. Its compliant behavior towards finalizing a solution for WTO Doha Rounds and its willingness to facilitate trade liberalization at the G-22 means that China is not obstreperous rather it is cooperative. Considering that US had initiated GATT and subsequently WTO, it is believed that global economic initiatives are moving towards Americanization instead of internationalization. The major challenge to WTO and China as it member rests with the idea of Chinese nationalism predominantly after the Communist economic imprint was diluted. (Lake, 2014)

China is seen as a major challenge because of its clandestine bilateral and multilateral trade agreements particularly with respect to application of trade norms. This behavior is called hypocritical and contradictory to international economic standards and WTO is seen as a last resort to curtail Chinese expansionism. Implementation of rules along with permission to implement regulatory checks means that WTO has remained incapable of addressing the problem at hand. Similarly, India is seen to replicate the Chinese model and where it remains compliant to international trade rules internationally, its regional behavior is quite contrary. Also, India remains a developing state that has a strict
agricultural regime and shows inflexibility to this sector with respect to its competition with China. (Bockman, 2015)

WTO sees regionalization of trade as a principal encumbrance to liberalization and economic uniformity. Asia, after its devastating economic recessions in the 1990s has recovered with an unprecedented pace with massive accommodation to foreign affiliates, signaling that Western economic models are developing fissures in their globalized frameworks. China and the other Recently Added Members (RAM) have briskly attained economic status beyond that of the psychological barrier of imposition of international trading policies (Paradise, 2015). This meant that WTO would have to curtail regionalism (Ahnlid & Elgström, 2014) of economics as well as allow RAMs sufficient flexibility and relaxation in maintaining parity with international economic systems. This would mean that EU and US collaboration would also have to be amended accordingly and agriculture oriented states would have to be extraordinarily compensated to allow a more trusting environment. DDA relies on trustworthiness and deficit of trust would have to be initiated with a more flexible tariff and regulation regime. (Shen & Fu, 2014)

Conclusion

Chinese expansionism is in no small manner a matter of technical assessment and speculated exaggeration. Even if China attains a major position in global economics, its internal situation coupled with a restrictive domestic system would not allow it sufficient leverage to liberalize domestic economic fabric. As far as WTO regulations are concerned, China has shown ample flexibility and leniency towards an indulgent interest in trade regularization and even if it is unable to align all of its domestic sectors in line with international standards, there would be sufficient foreign affiliates operating in China and contributing to its domestic economic yield to keep China both docile and compliant. The main reason behind inability of concluding DDA is primarily because of hyperbolic threat perceptions and inadvertent dialogue deadlocks because of domestic concerns. (Watson, 2014)

Agricultural sector has always remained a key issue with international trade as it is seen as a lifeline strategic sector and states are often unwilling to comply to allow liberalization on such domains as was the case during initial years of GATT. China to much surprise, is not the root cause of deadlock in this initiative but India and other agro based economies and their inability to reach consensus against proposals floated by US and other developed states is what has caused DDA to reach to a deadlock. Solution, however, lies in consolidation of dialogue and amalgamation of priorities. This way, the DDA would be able to reach goals set in the Ministerial Conferences. Deadlocks are primarily on tariff imposition and trading leverages where concessions are not on equitable basis and compliance to Westernized standards is often hard to meet. (Wolfe, 2015)

WTO needs a more proactive approach in its interpretation of Chinese economic expansionism and mere assumptions and state based imposition of
restriction and Anti-Dumping regulations are too discouraging and damaging. WTO needs to assert its influence as a global economic regulator rather than a mere forum to support conventional mercantilist interpretation and misconstrued application of liberalizing initiatives. GATT was unable to assert maximum influence because its founding members were vying for economic institutionalization through their own enterprises and sectors where they had absolute economic advantage. The RAMs of WTO have yet to align and amend their domestic economic structure to homogenize according to standards set by WTO. China, would surely tap into states willing to expand their economic horizons and this behavior can be termed hypocritical but such bilateral or multilateral arrangements cannot be termed contradictory to the essence of rules prescribed by WTO. (Yang, 1996)

Chinese expansionism in economic domains is something that cannot be interpreted as threat perception because China still has a dominant imprint of former policies. The state administrative structure of China still does not allow flexibility for Chinese economy to operate at maximum potential for liberalization. China was immediately accommodated into WTO core member list and this meant that all future discourse would have China participating as an active member rather than the previously acceded GATT observer notions. Furthermore, this entailed the economic rivalry and politics between China and US on the floor of WTO and keeping into consideration Chinese system of governance (Ahnlid & Elgström, 2014; Koopmann & Wittig, 2014; Lake, 2014), it was entirely difficult for WTO to take measures in diffusing the situation. This means that WTO, which still operates on footprints set up by GATT have left a profound impact of explicative measures and rules. This means that China would have to adjust to US set trade policies and US would have to be accommodative to allow China sufficient leverage for growth, keeping due consideration its trade volume and Sino-US bilateral trade magnitude. If China fails to comply or US fails to accommodate, WTO would be unable to sustain its future discourse for trade liberalization like the Doha Rounds have suffered.

References


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