Globalisation, international coalitions, and domestic reform

Abstract

This paper considers the impact of China's insertion into the global political economy on the nature of political power. It argues that for most of the period of the transition from socialism, state leaders attempted to protect domestic interests where possible from the perceived detrimental impacts of globalisation. However, China's entry into the WTO marked a key shift in this strategy. Through the creation of an international coalition for reform, key state leaders used WTO entry as a tool to enforce change on reluctant domestic constituents, rather than the previous strategy of protecting them from competition and change. While many of the changes to the Chinese regime have emerged as a result of domestic reform, external actors and interests have played an important role in altering the fundamentals of politics in the PRC, and in particular, changing the raison d'etre of communist party rule.

Level One Heading - Introduction

In many respects, studying China's political economy in the pre reform era was much simpler than it is today. To be sure, China was never a purely totalitarian state, and there considerable time and effort was spent by analysts trying to find the real locus of power, with particular emphasis on elite factionalism, the role of the military, and the power of provincial leaders. And of course, China's leaders always had relations with the superpowers in mind when defining domestic development strategies. Nevertheless, the increasingly autarkic nature of Chinese politics made it possible to study China's political economy almost entirely in domestic terms.

With China's re-engagement with the global economy in the post-Mao era, and particularly after Deng Xiaoping's southern inspection tour (南巡) in 1992, such a domestic focus can no longer be efficacious. This is not to say that the domestic context is unimportant – far from it. Domestic considerations must remain crucial for any understanding of the contemporary political economy. It is just that on its own, domestic issues do not let us truly understand the many dynamics at play. Trying to get to grips with the domestic context of reform is hard enough in itself, but the rather daunting reality for students of contemporary China is that it is now essential to also get to grips with the dynamics and workings of the global political economy as well.

This paper considers way in which 'the new hierarchies of the global economy cut across regional and national boundaries' (Gamble *et al* 1996 : 10) have impacted on the functioning of the Chinese state. Two specific cases warrant specific attention here; first, a capital accumulation strategy that has placed a high importance on attracting foreign direct investment (FDI) to generate export growth, and second, China's entry into the World Trade Organisation (WTO). Whilst both of these cases originate primarily from internal political decisions, the resulting economic dynamics of China's insertion into the global economy have fundamentally influenced the evolution of economic and political process in China, that have ultimately altered the entire basis of the power of the Chinese Communist Party (CCP).

Level One heading - Studying China in an Era of Globalisation

The authors in this special collection all utilise political economy approaches of various varieties to consider the relationship between globalisation and political regimes in the region. But this does not necessarily mean that we can simply apply one size fits all models of political economy to understand the impact of globalisation on China. Indeed, the IPE discipline displays many elements of epistemological ethnocentrism. By this, I mean that much of this literature is based on understandings that are predicated on conceptions of the role of the state in the contemporary world that is based on the experience of advanced industrialised democracies. For example, even in some of the best works on comparative capitalisms, the emphasis remains on comparing advanced industrialised economies[1]. While these works serve a very useful purpose in exposing the varieties of capitalism within advanced industrialised societies, the lack of analyses of less developed economies is marked.

In particular, we need to pay close attention to understandings of the division between state and market, and between the public and the private, that underpins much IPE analysis of and in the developed world. Van Wolferen (1990), for example, has long argued that analysts from the 'west' fail to understand Japan because they start with false assumptions. The concept of a separation between 'public' and 'private' that lies at the heart of some investigations of political economy is, according to van Wolferen, absent in Japan. For Deans (1997 : 17-43), this is a consequence both of 'both the traditional understanding of 'economy' in East Asia and the way in which market economies were established there'.

In a similar vein, the concept of neo-patrimonialism has been deployed to explain the blurring of public and private in many contemporary African states. While Weber's conception of traditional patrimonialism saw no distinction between public and private, in the new-patrimonial states, a formal distinction exists based on institutionalised state system underpinned by laws rules and regulations. But despite this formalised separation, of public and private, this separation is not reflected in the action of political leaders who continue to utilise and dispense public resources – not least because it is much harder to change practices and cultures that it is to change laws. As these political leaders are not only the utilisers of public resources, but also the regulators, there is weak state capacity to enforce control, usually accompanied by weak civil society to act as check and balance on power.

Level Two Heading –Public and Private and the Chinese Financial System

The neo-patrimonial approach is most often used to explain the significance of patronage, clientelism and corruption in modern African states (Bratton and de Walle, 1994; Tangri, 1999). Space forbids a consideration of the relationship between economic reform and corruption in contemporary China in this paper. However, it is worth noting that holding political office has allowed thousands of corrupt Chinese officials to capture the market and to utilise public resources for private gain. But more important for this paper, the neo-patrimonial approach draws attention to the fact that despite formal legal changes, the legal separation of public and private in China has not always been recognised by political leaders (particularly at the local level), even when they are not acting for purely private gain. Perhaps the best example here is the way that the financial system has been used in large parts of China to provide many of the employment/welfare related functions previously funded by state-planning.

In 1994, Zhu Rongji introduced a number of reforms intended to bring down inflation and to increase the central government's control over fiscal resources. In earlier periods of reform, the central leadership had deliberately and consciously created a link between local collection and control of finances in an attempt to unlock local initiative as a spur to economic growth. But while this move did indeed act as a key impulse for economic growth, the extent to which the localities increased their share of national fiscal revenues vis-à-vis the central government 'caught officials in China by surprise' (Wong, 1991: 690).

Thus, a new taxation was introduced which immediately increased both the total amount of all fiscal revenues, and the proportion accruing to the central authorities (which immediately rose around 30 per cent to around 50 per cent of all fiscal revenues)[2] (Zheng 1999: 1168-9). On the face of it, then, the fiscal reforms were successful in that they increased the total volume of fiscal resources. More important, they partially redressed what the central leadership perceived to be a structural imbalance in the division of finances between centre and locality. However, local authorities have been highly innovative in finding new ways of funding local projects, and maintaining local employment through the provision of quasi-public investment in loss making enterprises.

On one level, they have developed new forms of ‘extra system’ revenue, which Gao Peiyong (1999: 41) defines as ‘revenues whose regulations are formulated independently by various departments and localities and which are collected and disposed of by them as well’. The biggest source of extra system income is fees to the extent that tax revenues now account for less than half of all revenues collected by government institutions at local and national levels combined. On another, local authorities have continued to exercise leverage and often downright control over local financial institutions. Here we need to focus on the notion of dual control of local level organisation in China. Administrative organisation is built on twin and simultaneous functional and geographic channels. Thus, a provincial branch of a bank is vertically responsible to the bank's central offices, and ultimately to the Ministry of Finance. But at the same time, it is also responsible to the provincial finance bureau and the provincial government. The latter has the advantage of hands on contact with the branch, since it is in direct day-to-day contact with bank officials. Furthermore, it possesses considerable power in terms of allocating goods, services and personnel to the banks. Thus, while not formally an agency of local government, local branches of banks often act as if they are part of the local government structure. In addition, there are over 200 locally controlled International Trust and Investment Corporations (ITIC) which borrow money on international markets to fund domestic investment projects, and over 50,000 small scale locally controlled rural and urban credit cooperatives in China today. And as access to capital remains more dependent on government influence than financial prudence, we can consider loans from these institutions to be ‘para-fiscal’ investment (Wang, Liu and Liu, 1999: 6) and can be considered to be quasi-government debt.

The central government has responded to the situation, abolishing 49 local branches of the People’s Bank of China in 1998 to ‘set free state-owned commercial banks from the intervention of local government’ (Xie Ping, 1999: 4), allowing the heavily indebted Guangdong ITIC to go bust and ordering the restructuring of credit cooperatives. But the key point for this paper is that in the process of the transition from socialism, local leaders have utilised both public and quasi-private resources to provide a soft-landing for those who stand to lose most from economic reform. The desire for rapid economic growth has been tempered by a concern of the impact on social stability of potentially declining rural incomes, and increased urban unemployment. And although the example of local control over financial resources is largely a consequence of domestic economic reform, it is also related to China’s insertion into the global economy, and the perceived detrimental impacts of globalisation on the stability of the Chinese state and society. Here, we focus on how the Chinese leadership has attempted to square two apparently contradictory sets of understandings. First, that insertion in, and reliance on, the global economy is the quickest and easiest way of generating of economic growth in China; and second, that such integration with the global economy might provide serious challenges to wealth, employment and social stability.

Level One Heading - Globalising While Defending

At the risk of oversimplification, we can divide China’s relationship with economic globalisation into four main phases. The first, from 1978 to 1986 marked a very gradual opening of only parts of China to the global economy. Following the Third Plenum of the

11th Central Committee in 1978, China opened four Special Economic Zones (SEZs) with the (limited) freedom to conduct international economic relations[3]. At the Fifth National People's Congress in July 1979, the government passed a supporting law which provided a legal basis for the existence of joint ventures and foreign investment. The initial success of these SEZs in attracting investment resulted in considerable lobbying from other coastal cities to be allowed the same access to the global economy, and a further 14 coastal cities were 'opened up' in 1984 (Hamrin, 1990: 83).

The second key change came in 1986, with what has now come to be known as the 'twenty-two regulations'. These regulations created a more beneficial environment for foreign investors including lower fees for labour and rent, tax rebates for exporters, and made it possible for foreign companies to convert the Renminbi (RMB)[4] into foreign exchange and repatriate profits. It also extended the joint venture contracts beyond the original 50-year limit, and created a legal basis for wholly foreign owned enterprises (rather that investors having to sign a joint venture with a Chinese partner). This move considerably increased the attraction of investing in China to produce exports for other markets. While foreign invested enterprises only accounted for two per cent of exports and six per cent of imports before 1986, the figure increased to 48 per cent and 52 per cent respectively by 2000 (Braunstein and Epstein, 2002: 23).

The third key change came in 1992. From 1989, Premier Li Peng instituted a retrenchment policy with a limited reversal of reform in an attempt to bring inflation under control. China's international image was also somewhat tarnished (to say the least) by the 1989 Tiananmen incident, and the resulting conservative wind in policy. In a tour of southern China in 1992 (the *nan xun* 南巡) Deng Xiaoping effectively set policy in an ad hoc manner praising the emergence of proto-capitalist practices in open areas and calling for a new policy of rapid economic reform and further opening. Following Deng's exhortations, the Party Congress in October 1992 formally declared that China now had a 'socialist market economy'. As with the original decision to open China at the 1978 Third Plenum, the key issue here is the ideational change promoted by key leaders to pursue a more open and marketised strategy, rather than specific legal changes.

In many respects, it was only in 1993 that China began to emerge as a global trading power. From 1993, exports increased by 60 per cent in two years (53 per cent in real terms), and doubled in the space of five years[5]. In the process, a US$12.2 billion trade deficit in 1993 was transformed into a US$5.4 billion surplus the following year, with the trade surplus rising to US$40.3 billion in 1997. And it is no coincidence that 1993 also marked the emergence of China as a major recipient of FDI – indeed there was more FDI into China in 1993 than in the entire preceding fourteen years of reform put together. The fourth and to date unfinished stage began with China's entry into the (WTO) at the Dohar Ministerial round of 2001 – a key turning point that we will return to later in this paper.

Prior to WTO entry at least, the strategy of dealing with globalisation was to protect domestic actors from international competition whilst simultaneously attempting to reap the benefits of globalisation. To this end, China constructed a remarkably liberal ***internationalised*** export regime built on encouraging FDI to produce exports for external markets - indeed, as China joined the WTO entry, some 60 per cent of all imports came into China tariff free in the form of components that were processed and subsequently re-exported as finished goods (Lardy, 1998, 2002). But this liberal export regime sat alongside a relatively closed and protected ***domestic*** trading regime designed to protect domestic producers from competition. As such, any analyses of Chinese trade should start by following Naughton (2000) and dividing the focus of analyses into two. China's insertion into the global economy was largely achieved without a concomitant insertion of the global economy into China. On one level, this provided the Chinese economy with strong defences against the dangers of financial globalisation. Commenting on why China did not suffer during the 1997 financial crises, Yu Yongding (1995: 15) argued that:

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

On another, vulnerable economic sectors were shielded from the impact of international competition. Of course, there is a strong school of though that argues that protection from competition does more harm than good in the long term – an issue we shall return to later – but in the short term at least, protection allowed the government to deal with the impact on incomes and employment that emerged from domestic reform without having to deal with the simultaneous impact of international competition and globalisation.

And it is through insertion into the global economy that the Chinese economy has continued to grow so quickly even during periods when the domestic demand and expansion has been sluggish and even negative[6]. With investment into the USA declining sharply in 2002, China became the worlds largest recipient of non-stocks and shares FDI, reaching a new high of US$53.5 billion in 2003. As the vast majority of this investment uses China as a production platform for exports to other states, it has helped promote China to the position of the world's fourth biggest exporter, helped generate a foreign exchange surplus of US$26 billion, and contributed to foreign currency reserves second only to Japan at US$403.3 billion (and this was after US$45 billion had been used to recapitalise state banks).

Level Two Heading – Globalisation, Nationalism and Hegemony

The economic logic of embracing economic globalisation – albeit with considerable state efforts to limit the impact of globalisation on China – appears to be compelling. But not all in China (or elsewhere) are totally convinced. This is partly because of fears that Chinese growth has become too dependent on exogenous factors – on the investment decisions of foreign companies, and on demand in external markets. An imbalance has occurred between endogenous demand and growth and exogenous demand and growth. More important are those voices that point to the political spillovers of economic globalisation, and the association of globalisation with hegemony. Here the emphasis is on the geometric problem of triangles that only have two points. The collapse of the Soviet Union means that the balance disappeared, and the US was now free to impose its hegemony[7] over the international system in general, and China in particular – a hegemony which is deployed to prevent China's development.

This understanding is not simply confined to military conceptions of hegemony. The 'new American hegemony' (Zhou周, 2002) includes a wide range of features. On one level, there is the danger of broadly defined 'cultural hegemony' (Liu 刘, 2002). 'Culture' here does not just refer to the spread of the MacDonalds/CNN culture across the world, but a wider conception of culture that includes political values and norms in such realms as human rights and democratisation (Wang, 1999). Yang (杨1999) argues that this form of hegemony represents a new type of warfare. This warfare is not just constrained to bringing other countries under the US security umbrella, and providing military capabilities to allies, but also contains a strong economic dimension. Through bilateral pressures such as restricting access to the US market, and through US power in the international financial institution, US power and hegemony can be imposed on the world and developing states in particular without the use of brute military power.

We should note here that this conception of US as the global hegemon is not simply limited to academic and policy circles. Popular perceptions of the US in China can be contradictory. On one level, there is an aspirational element – many young urban Chinese like the trappings of American culture, and the US remains the number one choice if people can emigrate or be educated abroad. But at the same time, there is deep popular hostility to the US which is seen as trying to enforce unfair change on China in an attempt to block China's economic development, and to prevent China from attaining its 'rightful' place as a world power.

This anti-Americanism has been most vocally aired when the US has militarily come into contact with China – once with the bombing of the Chinese embassy in Belgrade, and again when a US spy plane collided with a PLAAF plane over Hainan. But this hostility, or at least suspicion, lies not too far below the surface during less turbulent times. There is considerable popular support for nationalist and even xenophobic stances – to the extent that the CCP often finds it difficult to keep the lid on the ant-Americanism that the leadership itself often espouses. 'Sino-American Rivalry 中美较量大写真' argued that US policy to contain China was doomed to fail in the face of a newly powerful and resurgent China (Chen陈et al, 1996). This was followed by the publication of two highly popular texts by Song Qiang 宋 强et al (1996a, 1996b). The first, 'China Can say No 中国可以说不' railed against the US as the self-imposed imposer of international norms, and the self-imposed adjudicator of right and wrong. China was a great civilisation which should resist American hegemony and strive to exert itself over the global hegemon[8]. In 1997, Liu Kang刘康et al (1997) produced 'Behind the Demonisation of China 妖魔化中国的背后' which similarly argued that Western powers (essentially short-hand for the US), were trying to force western cultures and values on developing countries like China, through the expansion of western media into the developing world.

Hughes (1997) has argued, there is an inherent tension or contradiction within China between nationalism and globalisation. Chinese Marxism was always as much about

China as it was about Marxism. National salvation and reconstruction were an important part of the Chinese Communist Party's (CCP) popular appeal, and in many respects Marxism and the CCP were seen as a means of restoring China to its rightful place in the World rather than a vehicle for creating a classless society. With the Marxist elements of ideology now all but redundant, the CCP has promoted itself as the defenders of China's national interests (interests that it itself largely defines) in the face of a hostile and hegemonic West, with the West most often identified with the United States.

There was and is a recognition that China needs to engage with the global economy in order to attain economic growth objectives. But at the same time, there is a concern that increased economic integration would increase China's vulnerability to economic pressures – not just over economic issues, but also in terms of major actors (particularly the US) using economic levers to pressure China on political and security issues. Thus, divisions emerged within the leadership between those emphasising the logic of economic transformation, and those who argued that traditionally conceived national security issues should take predominance.

For Harris (2001) the Chinese 1998 White Paper on Defence marks a key turning point. The White Paper reinterpreted conceptions of national security to place a much greater emphasis on the need for 'economic security'. Crucially, economic security for China, given the importance of exogenous demand for domestic growth, entailed securing permanent access to the US market once and for all – one of the key considerations in inspiring Chinese efforts to join the WTO.

Level One Heading - Globalisation and External Pressure to Change

The rapid growth of China as a global exporter – and in particular, the size of the Chinese trade surplus with the US and other developed states - has perhaps inevitably brought external pressure for China to reform its dualistic structure and to behave by 'fairer' international rules. Critics pointed to the high level of Chinese tariffs; the limitation of trading rights through quotas and regulated access to 'closed' sectors of the Chinese economy; the high level of subsidies provided to support domestic Chinese exporters, agricultural producers, and loss making enterprises; the lack of price reform, which allowed favoured domestic producers to purchase inputs below the real market cost, while foreign companies in China which pay the market price for the same inputs; incomplete currency convertibility; the lack of transparency in China's policy making; intellectual and property right infringement; and the differential application of fiscal system where local companies typically negotiated tax free deals with the local government.

As Lardy has demonstrated, the Chinese authorities did much to reduce formal barriers to trade well before WTO entry, bringing average tariff rates down from around 50 per cent in the early 1980s to 17 per cent in 1998:

> There also has been an impressive reduction in the use of nontariff barriers to restrict imports. Today [2000] the number of tariff lines subject to licenses and quotas has been reduced by 80 percent in comparison with 1992. These restrictions now apply to less than 4 percent of all import tariff lines. (Lardy, 2000)

Nevertheless, China's entry into the WTO in 2001 entailed the provision of ever more concessions to the global economy, and marked a key watershed in the relationship between the Chinese state and globalisation.

Level Two Heading - WTO Entry

In joining the WTO in 2001, Chinese authorities agreed to give up give up many of the mechanisms that had been used to protect domestic actors in previous years. I have discussed the process of negotiating entry and the specifics of the Chinese conditions elsewhere (Breslin 2003). Here I simply repeat my assertion that the accession protocol formalising Chinese entry entailed significant concessions far exceeding the obligations of previous new developing nations – and many of the concessions even exceeded those required of developed nations.

This is partly because of the isolation of Chinese negotiators from their own colleagues in Beijing and the rest of China. Any researcher who interviews Chinese officials and academics will be told that Long Yongtu and other negotiators were isolated from other political elites within China. They didn't discuss their negotiations with other interested parties in China, but instead became embroiled in the process of finding agreement with their foreign counterparts. The suggestion is that the process became a 'one-level game', with the need to come to an agreement with negotiating partners – the international game - overriding the need to ensure that the domestic Chinese constituents were happy with any concessions – the domestic game.

It is also true that the importance of exogenous demand for Chinese growth placed a premium on ensuring access to the major markets in the developed world. Prior to WTO entry, access to the US market had only been guaranteed on an annual basis to approve MFN status to China in the US House of Congress. While this vote had always gone in China's favour, there were at times quite bitter debates in Congress (perhaps most notably in 1997). Of course it might be mere coincidence that the Chinese leadership pushed for US acceptance for Chinese entry in the year that George W Bush was elected US President, but it perhaps should be noted that the Bush team were heavily critical of Clinton's 'appeasement' of China during the election campaign.

But perhaps to really understand why China entered the WTO on the terms that it did, we need to return to the debate over the wisdom of protecting domestic interests noted above. In considering the relationship between the state and globalisation, many Chinese leaders perceived protecting domestic actors as the solution. For Zhu Rongji it was the problem. Protecting domestic sectors was preventing the full and final transition away from socialism, and allowed local state actors in particular to reinvent elements of the plan through their control over local financial resources. Unable to successfully push reform through domestic channels, the task of promoting domestic reform was instead placed in the hands of the WTO.

And the major players within the WTO were more than happy to use the occasion to influence reform on China. Clearly, they would not allow Chinese entry on any terms – Washington's rejection of Zhu Rongji's initial concessions in the Spring of 1999, and the long time it took to negotiate the specifics of Chinese entry after 1999 bear testimony to the fact that entry could not just be on China's terms. But considerations of the impact of Chinese entry were also based on liberal understandings of international relations. US and European actors were keen to lock China into the world system and to lock it into a liberalisation agenda – partly as this directly benefits the developed world in the short term, and partly because they believed it would generate domestic change in China. This change would first manifest itself in increased economic freedom, but would ultimately lead to change in other arenas, promoting political and social change and leading to China's conformity with global rules and norms.

Level Two Heading - Implementing WTO Criteria

Signing the WTO agreement was one thing. Implementing the resulting concessions is en entirely different matter. It is still too early to make any definitive statements about Chinese compliance – though this has not prevented many from making such statements and assessments. For those who suggest that compliance will be far from easy, four re-occurring themes tend to crop up. First, we return to the idea of WTO entry negotiations as a one-level game. Due to the lack of consultation between the negotiators and stakeholders within China, there was and still remains a huge amount of ignorance within Chinese elites over what the entry requirements actually mean for them. In February 2002, a leading trade official in what was then the State Economic and Trade Commission told said that none of the staff understood what the implications would be for them[9]. The second related theme is that there remains considerable opposition from within China – and even at high levels – to the terms of the agreement: 'the accession process was guided by a small number of top government leaders and that implementation relies on lower-level officials, many of whom oppose changes affecting their bureaucratic power base.' (Wall Street Journal, 2003)

Kynge (2002) argues that 'the regulatory agencies who often regard themselves as the protector of domestic companies rather than the regulator' have played a particularly important role in 'interpreting' WTO agreements in ways that allow more protection for domestic producers that was originally intended. This has resulted in 'a dense web of Chinese regulations' (Dougherty, 2002) which in some cases has undermined the liberalising logic of the WTO agreement:

> China has started to release regulations to open up industries according to its obligations under the WTO. But often those regulations are accompanied by whole sets of new limitations that virtually reverse the promise of opening up. It is one page of opening up and fifteen pages of trying to reverse it' (China Biz, 2002)

According to Stratford (2002) , this process of overturning original intentions takes three forms – 'legitimate (though unwelcome) exploitations of 'loopholes'', 'China's aggressive interpretations of ambiguous language', and 'blatant disregard for clear-cut obligations'.

Third, many external observers express surprise that the Chinese negotiators agreed to forgo so many means of protecting vulnerable sectors, and point to the fact that policy reversals are inevitable if social stability is to be secured. For example, a survey of US companies operating in China found that most expected that the social costs of implementing the requirements would be so great that the Chinese would find it extremely difficult to implement all obligations. This was not so much a complaint by the respondents as a simple statement of fact (USGAO, 2002). In many ways, the whole point of joining the WTO was to ensure that leadership changes could not alter the general orientation of policy. But the evidence of the post-Zhu Rongji leadership suggests some changes in policy, if not a reversal of overall trends. Wen and Hu appear to be placing a greater emphasis on helping those who have lost out during the transition from socialism than their predecessors, and this might have to include protecting those who stand to lose in the wake of WTO entry (Lieberthal, 2003).

The fourth and final theme returns us to the issue local power holders, and an understanding of the location of power within the Chinese state system. WTO entry might have been in part intended to use external pressure to enforce change on resistant local power holders, but this does not necessarily mean that they will comply. In a congressional briefing paper, Morrison (2002) argues that ‘Corruption and local protectionism are rampant in China, and gaining the cooperation of local officials and government bureaucrats that oversee various affected industries could prove difficult in the short run’. It might not be impossible for the central government to ensure compliance in the provinces, but it is a far from easy task.

So we should be wary of assuming that WTO entry has massively reduced the capacity of the Chinese leadership to control its own economic destiny in the face of WTO inspired liberalisation agendas. We should also be wary of asserting that WTO entry has depoliticised Sino-US trade relations through the granting of PNTR, and reduced external pressure for further reform. Initial external observations of China’s compliance record were relatively positive. To be sure, there were calls for China to do more, but while the glass was not full, most portrayed it as being half full rather than half empty (USCBC, 2002; USGAO, 2002; Dong 2002).

However, criticisms of China’s compliance became louder and more fierce in 2003, a Presidential election year in the USA. In July 2003, US Secretary of Commerce Donald Evans issued a stinging attack on China’s compliance record, complaining about the slow pace of reduction trade barriers and government subsidies to domestic producers, and lack of action over copyright infringement. And what was particularly striking in this attack was the language used - ‘We're going to be taking aggressive action. They need to be doing more. They need to be doing much more.’ (Bloomberg, 2003: 12). Evans’ assistant, William Lash graded China at only a ‘gentleman's C to a D+’ grade on WTO implementation in 2003, while in the annual report to congress, the USTRO noted that implementation ‘lost a significant amount of momentum’ in 2003, and this could no longer just be put down to ‘start up problems’ (McGarvey, 2004).

In calling for the introduction of restrictions on textile imports from China, Lindsey Graham, Republican Senator for South Carolina justified his calls by saying that, ‘I have long maintained that China cheats on trade agreements. The practices of Chinese companies and the policies of the Chinese government are illegal and give them an unfair advantage’ (Barboza, 2003). Through foreign investment in China, often via intermediaries in East Asia, US companies themselves are actually the source of some of the textiles that Graham was complaining about. But the complexities of global production networks are probably not that relevant for the 270,000 textile and apparel workers, about a quarter of the US workforce in these sectors, that lost their jobs in the space of two years (Barboza, 2003). While the issue is imports for the textile industry, lack of access to the Chinese market is the issue for the US semiconductor industry as Chinese producers receive rebates to the value of 80% of value-added tax on semiconductors (LA Times, 2004).

These complaints have been given impetus by the way that the value of the Renminbi is pegged to a fixed price with an otherwise depreciating dollar. Thus, those critical of the influx of imports from China argue that there has been a quasi devaluation of the RMB, making imports from China ever cheaper in real terms. The Renminbi-dollar peg was not negotiated away when China joined the WTO. So unlike the issue of tax rebates in the semiconductor industry, the US cannot prepare a case for judication in the WTO. But Section 301 of the US 1974 Trade Act, trade barriers can be introduced if an exporting country is ‘unreasonably’ harming the US economy[10]. And it is this domestic legislation that the Fair Currency Alliance targeted as a means of enforcing China to remove the Renminbi-dollar peg.

Level One Heading - Globalisation and the Chinese State:

What does this tell us? On one level, the above section discussing WTO implementation suggests that the Chinese state has been less influenced by the liberalisation agenda than we might have expected in 2001, not least because WTO reforms have been slow and/or partial in implementation. On another, it suggests that Chinese hopes that WTO entry would bring an end to trade disputes with the US and guarantee market access have not been realised. Indeed, if anything, the fact that hoped for gains have not always materialised for has actually heightened demands in the US for the government to become more aggressive in its dealings with China.

Though realists might point to the negotiations as an exercise in the promotion of national interests in a game of mercantilist competition, perhaps more than anything the negotiations draw out the complexities of identifying the 'national' interest. The negotiations instead seem to point to state actors on all sides acting on behalf of specific groups and interests, and highlight the interplay between the domestic and the international. In this respect, liberal and gramscian approaches share much in common, as they both conceive of the state acting on behalf of a sub-set of national actors in international relations. Where thy differ, of course, is in their considerations of what constitutes this subset of actors, and in their assessments of the consequences of such processes. For liberals the virtuous promotion of political change resulting in the intellectual, moral and social improvement and world 'democratic' peace. For critical theorists, the imposition of the hegemony of the neo-liberal hegemonic project benefiting 'the most powerful corporate economic forces' (Cox, 1999: 12).

Although many of the actors involved have invoked the liberal approach, there is also much to gain from deploying gramscian approaches to understanding the dynamics of change in China. On one level, the internal process of change has been promoted by what

Leslie Sklair (1995: 135-6) terms ‘globalising state bureaucrats’, who might also be considered as constituting a party-state comprador class. This group, epitomised by the policies of Zhu Rongji, is engaged in a process of making the investment regime within China more and more liberalised and ‘attractive’ to international capital, and reforming the domestic economic structure to reduce domestic protectionism, and institute a more neoliberal economic paradigm. On another level, Gill (1995: 415) argues that ‘the US government is using access to its vast market as a lever of power, linked to a reshaping of the international business climate, by subjecting other nations to the disciplines of the new constitutionalism, whilst largely refusing to submit to them itself.’. Although writing in 1995, and not considering China here at all, Gill could have been describing a key element of China’s WTO accession.

But if Cox (1999: 12) is right in arguing that ‘States now by and large play the role of agencies of the global political economy, with the task of adjusting national economic policies and practices to the perceived exigencies of global economic liberalism’ then we should also focus on China’s dependence on exports as the main source of growth in recent years. The desire to attract investment to massive policy changes in some areas as Chinese state actors have become facilitators for globalisation. Economic zones do not create themselves, they are created by administrative fiat; tariffs do not get lowered or disappear on their own; ports and railways do not build themselves; and tax breaks do not occur without government intervention. As the German Budestag (2001) report on globalization forcefully argued, ‘The growing worldwide integration of economies came not by any law of nature – it has been the result of active and deliberate policies’.

And once more, we are drawn back to the role of local state actors. The overarching changes that have facilitated China's insertion into the global economy have come from central government decisions. But the specific incentives offered to adjust policies and practices to the exigencies of global capitalism are largely in the hands of local actors. Indeed, there is considerable internal competition within China to attract investment to promote export growth (not to mention competition from other regional states deploying export oriented growth strategies) (Head and Ries, 1996). This quote Braunstein and Epstein (2002: 27) based on an interview with an official in Dalian aptly sums up the level of competition:

> 'We asked him, 'Who is your greatest competitor when it comes to trying to attract foreign investment?' expecting the answer to be Vietnam, or Malaysia or, perhaps, Beijing. But his answer startled us: 'Our biggest competitor is the export processing zone down the street.' Not only does one province or one town compete with another; but in China, there are numerous zones – export processing zones, high tech zones, industrial zones – all of which compete for foreign investment. The result is cut throat competition.'

The initial decisions may have been internally generated based on conceptions of the best way of attaining growth. But once taken, the external dynamic becomes ever more important, as the logic of competition in the global political economy begins to take hold.

Conclusions

In many respects, China's insertion into the global economy has achieved what it was meant to achieve. Jobs and growth have been created by encouraging a foreign funded export drive, while key domestic sectors have been largely protected from the pressures of global competition, allowing the government to deal with the huge task of domestic reform without simultaneously dealing with the added complexity of external pressure.

To be sure not everything has played out as the leadership might have wanted it to. The extent to which exports are reliant on imported components means that the hoped or upgrading of domestic industries in the supply chain has largely not occurred. This has resulted in an increasing separation of the export oriented internationalised economy from the rest of the domestic Chinese economy.

As an overwhelming majority of exports are produced in China’s coastal provinces, rapid export growth combined with problems related to domestic restructuring have exacerbated existing problems of uneven regional patterns of growth. And even those who predict a very rosy economy future for China in the wake of WTO entry accept that inequality might increase in the short to medium term with possible greater poverty for some in rural areas (Kawai and Bhattasali, 2001: 11).

The Chinese state is far from an impotent bystander as the tides of global neo-liberal capitalism wash over the Chinese economy. Strong elements of state control remain in place. The unashamedly pro-neoliberal Heritage Foundation ranks China out 127th out of 157 countries in a league table of economic freedom – and ranks China as less free in 2003 than before China joined the WTO in 2000[11]. And even when the central government attempts to reduce some of this state power, local power holders can and do step in to find new means of imposing control.

But this does not mean that insertion into the global economy has had no impact on the functioning of state power in China. As this paper has shown, important changes have occurred as a consequence of three major factors; the perceived necessity of attracting foreign investment to spur export growth, the specific concessions agreed in order to join the WTO, and the changed conception amongst some Chinese leaders over the long term benefits of embracing neo-liberalism and promoting domestic reform.

Crucially, many of the changes that have occurred have impacted on the domestic balance of power and relationships within China itself. As Sassen (1999: 167) has argued, one the key impacts of globalisation is the reorganisation of domestic state institutions to manage or at least respond to new challenges. This paper has placed an emphasis on the relationship between national and local state actors in China, and the extent to which global processes play a part in reconfiguring these relationships. But even just at the national level, considerable changes are taking place. In March 2003, 'amid intensified global market competition brought about by economic integration around the world' (China Daily, 2003) the National People's Congress scrapped the State Economic and Trade Commission, which primarily had responsibility for the domestic economy, and merged it with Ministry of Foreign Trade and Economic Cooperation to form a new Ministry of Commerce. There have also been proposals to scrap the constitutional definition of China as a 'people's democratic dictatorship' as this 'contradicts the spirit of the World Trade Organization and the requirements of globalization' (Lam, 2003). Of course, it would be entirely wrong to place the origin of all of these changes on external impacts and insertion into the global economy. But even within the CCP constitution there is a recognition of the importance of the global for domestic change:

> Reform and opening up are the only way to make our country strong. We must carry out fundamental reform of the economic structure that hampers the

> development of the productive forces, and keep and improve a socialist market economy; we must also carry out corresponding political restructuring and reform in other fields. The opening up means all-dimensional opening up, both externally and internally. We must expand economic and technological exchanges and cooperation with other countries, make more and better use of foreign capital, resources and technologies, and assimilate and exploit the achievements of all other cultures, including all the advanced modes of operation and methods of management of developed countries in the West

In November 2002, the CCP amended its constitution. As a consequence, the CCP is no longer just the vanguard of the proletariat, but of ‘Chinese People and the Chinese nation’ Party rule is no longer just based on Marxism Leninism Mao Zedong Thought, but now also on Jiang Zemin’s theory of the ‘Three Represents’ 三个袋便 - the Party must always represents China's advanced productive forces, China's advanced culture, and ‘the fundamental interests of the overwhelming majority of the Chinese people’. In truth, few people in China are really concerned about how the party theoretically justifies its oversight of economic reform as long as that economic reform is bringing tangible economic results. It is not so much what the party says as what it delivers that conditions popular attitude to its continued grip on power. However the Three Represents is significant as it marks the official recognition that the fundamental basis of CCP rule, and thus the fundamental basis of the Chinese political regime, has changed. The authoritarian modernising elite that now rules China has largely emerged as a response to internal change. But the structure of power, and crucially, the freedom to pursue national developments strategies, has been significantly influenced by China’s insertion into the global economy. Using Laswell’s definition of politics, “who gets what” and who is able to control “who gets what” are very different in contemporary China than they were before 1993.

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[1] Coates (2000), for example, concentrates on a comparison between the US, Sweden, Germany and the UK, while Crouch and Streeck (1997) similarly consider Italy, Sweden, the UK, France, the US and Japan. A similar tripartite analysis of Europe-the US-Japan is also evident in Berger and Dore (1996).

[2] The increase in the total revenue base can only be explained by either previous lax tax collection, or the deliberate underreporting of local fiscal revenues to avoid making remittances to the central authorities

[3] Zhuhai, Shantou, Xiamen and Shenzhen. Hainan Island was later added as the fifth.

[4] The Chinese currency is officially the Renminbi Yuan. Renminbi is the name of the currency – the equivalent of saying sterling - while Yuan is the denomination - the equivalent of saying Pound. Just to confuse matters, virtually nobody in China uses the official term ‘Yuan’ preferring instead the colloquial ‘kuai’.

[5] Unless indicated to the contrary, the data used in this paper has been provided from the Institutue of World Economics and Politics at the Chinese Academy of Social Sciences, and I thank Yu Yongding and Wang Yizhou for providing access to this information.

[6] The domestic economy grew slightly in 2003 for the first time in three years.

[7] There are two terms for hegemony in Chinese. 盟主权 meng zhu quan literally means the power to lead an alliance. The more commonly used term is 霸权 baquan. 霸 ba was used to refer to the feudal princes who ruled by force, and carries connotations of despotism and tyranny.

[8] The second volume, 'China Still Can Say No中国还能可以说不' was an altogether more vitriolic diatribe against Japan (apparently in response to readers comments that the earlier volume had not been sufficiently harsh on Japan) which more or less treated the Japanese as sub-humans or at least uncivilised.

[9] She said that they all obviously knew what the WTO was using the term 知道*zhidao* but didn't了解*liaojie* the WTO which implies a deep understanding.

[10] See also section 201, which allows for barriers to be introduced where 'serious injury' occurs even if there is nothing unfair about the trade policies of the state causing this 'serious injury'.

[11] On individual criteria, with 5 represented the lowest levels of freedom, China scores a 5 for trade policy, 4 for government intervention, 4 for restrictions on foreign investment, 3 for wages and prices, 4 for regulation, 2 for fiscal burden, 1 for monetary policy due to the very low levels of inflation, 4 for Banking and Finance, 4 for property rights, and 3.5 for black market activities. See http://cf.heritage.org/index/country.cfm?ID=30.0