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# CHINA AND THE GATT: TWO THEORIES OF POLITICAL ECONOMY EXPLAINING CHINA'S DESIRE FOR MEMBERSHIP IN THE GATT<sup>1</sup>

Monica Hsiao†

## I. INTRODUCTION

In May 1993, shortly before the fourteenth session of the GATT Working Party on China, Li Zhongzhou, Deputy Director General of the International Relations Department of the Ministry of Foreign Trade and Economic Cooperation ("MOFTEC"), stated that China would pass a new law to "mesh with both GATT rules and China's special conditions."<sup>2</sup> He hinted that unification of the two-track foreign currency exchange rate was imminent and that this was one among a number of "concessions" designed to prepare China's market for GATT accession.<sup>3</sup> On January 1, 1994, Beijing officials promulgated a new tax system in China, unified the country's official exchange rate, and began a complete overhaul of the banking system, apparently signalling China's determination to accelerate its transition to a managed economy.<sup>4</sup>

These fast-paced reforms are part of China's on-going efforts to become a member of the GATT.<sup>5</sup> It has been seven years since China expressed its desire to join GATT, and China is

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1. The General Agreement on Tariffs and Trade ("GATT") is an international trade organization, supported by a set of agreements signed by 105 countries and trading territories and aimed at promoting free trade by reducing tariffs and eliminating non-tariff barriers. *Chinese Talks on GATT Stall over Basic Issue*, WALL ST. J., Mar. 3, 1993, at 1.

2. Yong Wang, *One Step Closer for China to Enter GATT*, CHINA DAILY, May 22, 1993, at 1.

3. *Id.*

4. Merrill Lynch & Co. Global Securities Research & Economics Group, MERRILL LYNCH ASIAN ECON. COMMENTARY, Feb. 1, 1994, at 1, 2 [hereinafter MERRILL LYNCH COMMENTARY].

5. *China's Devaluation Aimed at Investors*, CHI. TRIB., Jan. 2, 1994, at C17; *China's Overhaul of Tax System Creates Problems, Benefits for Foreign Investors*, 11 Int'l Trade Rep. (BNA), Feb. 2, 1994, at 173 [hereinafter *China's Overhaul*]; Robert Tyerman, *Beijing Takes Two Steps to the West*, SUNDAY TELEGRAPH (London), Jan.

becoming impatient.<sup>6</sup> It now appears that "China will go all out to reform its import system and open its domestic markets in an attempt to ensure that its foreign trade system meets the requirements of GATT."<sup>7</sup> It is not immediately apparent why China places such a high priority on GATT accession.

Richard Rosecrance, in his book *The Rise of the Trading State*, posits that a transition from a "military-political" world to a "trading" world is now occurring.<sup>8</sup> The "military-political" state is a homogeneous competing entity that seeks independence and self-sufficiency.<sup>9</sup> The "trading" state, on the other hand, accepts interdependence and equality of status on the basis of differentiation of functions.<sup>10</sup> Rosecrance argues that the trading alternative is increasingly being selected over territorial ex-

2, 1994, § City, at 1. The Beijing government floated its currency and said it would make key concessions on exports to clear the way to joining the GATT this year.

6. Qiping Chen, *Talks on China's Re-entry into GATT Make Progress*, BEIJING REV., Mar. 29, 1993, at 14. In March of last year, Minister of Foreign Economic Relations and Trade Li Lanqing called for the restoration of China's seat in the GATT "as soon as possible." See also Spencer Griffith (noting negotiations on China's GATT bid will likely stretch out over a matter of years, although China is anxious to become a full GATT member as soon as possible), *China's GATT Bid*, CHINA BUS. REV., July-Aug. 1987, at 36, 37.

7. Ming Li, *China Moves Closer to GATT*, BEIJING REV., June 29-July 5, 1992, at 13, 16; see also James V. Feinerman, *The Quest for GATT Membership*, CHINA BUS. REV., May-June 1992, at 24, 25.

[In early 1992] a new research institute opened in Beijing to 'study international trade rules and help the country rejoin the GATT'. . . . The new institute has been working to provide ammunition for China's application, assembling data to establish the admissibility to GATT of countries with non-market economies and citing the admission of socialist Poland, Hungary, Czechoslovakia, Romania, and Yugoslavia as precedents. Researchers are also working to document China's commitment to open-door foreign economic policies and the introduction of market mechanisms.

*Id.*

8. See RICHARD ROSECRANCE, *THE RISE OF THE TRADING STATE* 22-43 (1986). The end of the Cold War transformed international economic relations in two ways that support Rosecrance's theory: First, former communist states began to search for integration into the international system and second, the collapse of the Soviet Union took away the traditional *raison d'être* for the U.S.-Western Europe and U.S.-Japan alliances; see also Jim Mann, *Clinton Shifts Japan Focus from Security to Economy*, L.A. TIMES, Feb. 12, 1994, at A1, (reporting that for the first time the U.S. is concentrating more on the economic disagreements than on security ties between U.S. and Japan). If Deputy Treasury Secretary Robert Altman is any indication, then growth in the U.S.-Japan trade deficit will simply bolster President Clinton's insistence on fundamental economic change, even in the midst of security crises like North Korea's nuclear program. *Id.* at A1 ("For 45 or 50 years, the main item in U.S.-Japanese relations was security. Japan was the bulwark against Soviet expansion eastward. Well, the Cold War is over . . . . The traditional American approach of subordinating economic interests to security is over . . . the world has changed.") (quoting Robert Altman).

9. ROSECRANCE, *supra* note 8, at 22-23.

10. *Id.* at 24-26.

pansion as the way to further national interest, because the costs of trading are decreasing as a result of increased economic globalization while the costs of military upscaling and maintenance continue to rise.<sup>11</sup> This trend from independent sovereign states to a system of interdependent international states suggests an analysis of China's accession to the GATT in the context of political-economic theories which describe the relationship between the state and the market.<sup>12</sup> To this end, this Comment will consider China's motives for seeking GATT accession in light of traditional political-economic theories of realism and liberalism.<sup>13</sup> Part II will trace China's experience with the GATT to date; Part III will briefly explain main concepts and assumptions of Liberalism and Realism; Part IV predicts China's motives for seeking entry to the GATT based on each of the perspectives described in Part III; and Part V assesses the explanatory power of Liberalism and Realism and develops an explanation for China's desire for GATT membership using elements of each theory.

## II. HISTORICAL BACKGROUND OF CHINA'S RELATIONSHIP WITH THE GATT

China was one of the twenty-three founding members of GATT when the General Agreement was signed on October 30, 1947. In October 1949 the government changed in China as a result of the founding of the People's Republic of China ("PRC"). Political circumstances prevented the new government from assuming its seat in the United Nations ("UN") and led to China's suspension of its relations with GATT. The Republic of China ("ROC"), under the Kuo Min Tang ("KMT"), which fled to Taiwan after being defeated by the Communists in 1949, occupied China's seat in the GATT until 1950 when it notified the

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11. *Id.* at 33.

12. ROBERT GILPIN, *THE POLITICAL ECONOMY OF INTERNATIONAL RELATIONS* 3-5 (1987). Using political economic theories to study contemporary development is important in furthering our understanding of the integration between economics and politics. Over the past several centuries, the interdependence of national economies has increased due to greatly enhanced flows of trade, finance and technology. The increase of economic consciousness and of political democracy has led to the universal realization that the state can be used to effect economic outcomes and in particular to redistribute wealth in one's favor. This has meant the inevitable politicization of economic affairs. These changes suggest that the disciplines of political science and economics (disciplines that continue to keep the spheres of state and the market distinct) should be integrated into a larger theoretical framework of political economy in order to understand the totality of political and economic reality.

13. *Id.* at 31. Gilpin uses "nationalism" instead of realism, but the two theories are based on the same concepts.

UN Secretary General of its decision to withdraw from GATT.<sup>14</sup> The ROC's withdrawal from GATT coincided with its withdrawal from a number of other international organizations including the UN.<sup>15</sup> Mainland China has never recognized the legitimacy of the ROC government and therefore regards the ROC's withdrawal invalid.<sup>16</sup>

In 1971 the UN restored the right of the PRC to hold seat in the UN assembly and ousted Taiwan's representative. Additionally, the PRC won a permanent seat on the UN Security Council. Shortly thereafter the contracting parties of GATT revoked Taiwan's observer status in their meetings.<sup>17</sup> China contends that this decision reflects the contracting parties' acceptance of China's legal authority and the illegitimacy of the ROC government.<sup>18</sup>

Since the termination of Taiwan's observer status, China has taken a number of steps to resume its seat in GATT.<sup>19</sup> During the late 1980s both China and its trading partners were optimistic that China's GATT membership would be renewed. Hope di-

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14. The history of withdrawal is summarized in H. JACOBSON & M. OKSENBERG, *CHINA'S PARTICIPATION IN THE IMF, THE WORLD BANK AND GATT* 59-63 (1990) and in Robert E. Herzstein, *China and the GATT: Legal and Policy Issues Raised by China's Participation in the General Agreement on Tariffs and Trade*, 18 *LAW & POL'Y INT'L BUS.* 371, 402-04 (1986).

15. Lori F. Damrosch, *Forum: Taiwan and the GATT, Panel One: GATT Membership in a Changing World Order: Taiwan, China, and the Former Soviet Republics*, 1992 *COLUM. BUS. L. REV.* 19, 21.

16. There is no indication that the PRC contested the legality of the withdrawal at the valid time. Nor did it attempt to assume the "Chinese seats" in the GATT or to observe the legal obligations of the international agreements associated with the organization. *Id.* at 21-22.

17. Taiwan's seat as an observer ended in 1971 when the United Nations General Assembly adopted Res. 2758 (XXVI) on *Restoration of the Lawful Right of the People's Republic of China in the United Nations*, G.A. Res. 2758, 26th Sess., 1976th plen. mtg., Item 93, at 2 U.N. Doc. A/8429 (1971). Chung-chou Li, *Resumption of China's GATT Membership*, *J. WORLD TRADE L.*, Aug. 1987, at 25, 27.

18. Li, *supra* note 17, at 27; *cf. supra* note 15, at 21-22. Damrosch points out that, despite China's claims, the legal situation concerning the relationship of both the ROC and the PRC is clear: There simply has been no Chinese "seat" since 1950, and the eligibility of China or Taiwan for GATT membership must be examined *de novo*.

19. *See, e.g.,* Li, *supra* note 7, at 13. In the 1980s, the Chinese diplomats lobbied intensively to gain admission. In 1981, China's delegates attended the conference on the third Arrangement Regarding International Trade in Textiles (Multi-Fibre Arrangement) under the auspices of the Textile Committee of GATT. China then signed the arrangement in January, 1984, thus becoming a member of the Textile Committee of GATT. Since 1982, China has sent observers to attend the sessions of contracting parties to GATT. In 1984 it took part in various meetings and related activities of the Council of Representatives and of its subordinate organizations. On July 10, 1986, China submitted an application to GATT demanding that its signatory status be restored. In 1987 GATT established a China Work Group to deal with this issue and from 1988 to April 1989 this group convened frequently to discuss China's foreign trade system.

minated, however, when the Tiananmen incident in June 1989, coupled with China's reluctance to enact certain domestic economic reforms, set China's GATT membership application back several years.<sup>20</sup>

China managed to resume negotiations in late 1991 after successfully promulgating a series of reform measures that increased the role of market in the national economy.<sup>21</sup> However, Western GATT signatories felt that China still had a long way to go, and they called on China to improve market access for GATT members by further reducing tariffs, publishing trade rules, and removing non-tariff barriers to trade.<sup>22</sup> Even the optimism about China that comes from the most recent reform of the tax system and the unification of the dual exchange rates in January 1994 has to be qualified.<sup>23</sup> Full convertibility is not expected for several years and Chinese authorities still retain restrictions on access to foreign currency.<sup>24</sup> China will have to make crucial concessions to its trading partners, notably the United States,

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20. Feinerman, *supra* note 7, at 25.

21. *Id.* Reform measures included abolishment of subsidies for Chinese trading firms, reduction in the margin between the official and quasi-market foreign exchange rates, and adoption of a new harmonized tariff computation. *See also* Chen, *supra* note 6 (noting that prices on more than 80% of all commodities were deregulated).

22. Feinerman, *supra* note 7, at 25; Carl Goldstein, *Balancing Act-Peking's Export Drive May Strain Sino-U.S. Relations*, FAR E. ECON. REV., Aug. 12, 1993, at 67 ("Despite China's allure, its trade regime remains one of the most protective in the world. The combination of non-tariff barriers, prohibitively high tariffs and taxes, and the absence of a well-articulated legal system all make exporting to China a daunting, and sometimes dismal experience") (quoting Lee Sands and Deborah Lehr, director and deputy director for Chinese Affairs at the US Trade Representative's office); *see also* Carl Goldstein & Susumu Awanohara, *Warning Shot—US Publishes Hit List of Chinese Goods*, FAR E. ECON. REV., Sept. 3, 1992, at 61 (noting "[m]any of the reforms demanded by the US side, such as an end to the common Chinese practice of secret, or internal, regulations that restrict or prohibit imports would also be required if China is to join the GATT").

23. MERRILL LYNCH COMMENTARY, *supra* note 4, at 3.

On paper, these reforms, plus others on investment, planning, state enterprises, foreign trade and investment, look aggressive and encouraging. In practice, discrepancies are inevitable. For example, while the removal of dual exchange rates is encouraging, it remains to be seen whether the government will resort to other exchange controls to defend the currency at times of balance-of-payment pressures. Similarly, a simple value-added tax system sounds preferable to the old complicated industrial and commercial taxes, but its hasty introduction seems to have caught many tax officials by surprise and arbitrary assessments are not uncommon.

*Id.*

24. *China Axes Dual-Rate Currency*, DAILY TELEGRAPH (London), Jan. 3, 1994, at 21.

which fears that its market will be deluged with Chinese goods if China joins GATT.<sup>25</sup>

In pursuit of the privileges of full participation in GATT, China has had to conform more closely to international norms in its foreign trade and economic policies and endure scrutiny of its trade regime. Formerly *neibu* (internal) documents describing China's foreign trade regime have been made public to the GATT Secretariat, and China has had to release detailed statistics on production and trade.<sup>26</sup> In addition, China has had to turn more toward Western economic models as the Western signatories pressure it to quicken its pace of reform.<sup>27</sup> Joining the GATT will mean that China will have to be even more answerable to outside forces, and the wider exposure to other countries may increase the risk of social instability. McDonnell, a previous adviser to the Ministry of Foreign Economic Relations and Trade in the PRC, believes that membership of the GATT is seen by the Chinese as a major concession.<sup>28</sup> Yet the Chinese press frequently uses phrases like "cherished GATT membership," leading one to question the motivating factors behind China's push to gain GATT membership. The remainder of this Comment will be devoted to providing an explanation of these motives.

### III. THE ANALYTICAL APPROACH

In an era when states are using their economic power to gain political leverage in international trade negotiations, the question of the relationship between the state and the market is crucial to the understanding of the motivations behind the state's economic policy.<sup>29</sup> Political-economic theories of realism and liberalism provide useful frameworks in analyzing this relationship.<sup>30</sup> This Part will describe the key concepts and explanatory variables of each theory.

#### A. REALISM/NATIONALISM

The theory of realism (also referred to as economic nationalism) asserts: first, that states are the dominant actors within the international political economy and the proper unit of analysis; second, that the political goal of state building drives economic

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25. Tyerman, *supra* note 5, at 1 (noting that Beijing is likely to accept a clause proposed by the United States to safeguard its domestic industries).

26. Feinerman, *supra* note 7, at 25; Karen Green & Sharon E. Ruwart, *Joining the World Economy*, CHINA BUS. REV., May-June 1988, at 32.

27. Green & Ruwart, *supra* note 26, at 32.

28. J.E.D. McDonnell, *China's Move to Rejoin the GATT System: An Epic Transition*, WORLD ECON., Sept. 1987, at 331, 332.

29. See GILPIN, *supra* note 12, at 3-7.

30. *Id.* at chs. 2-3.

policy decisions; and, finally, that states are rational power maximizers.<sup>31</sup> This last point assumes that given a range of choices within their resources, states perform cost-benefit analyses and choose the option which has the greatest capacity to maximize wealth and power.<sup>32</sup> A realist state considers relative gain more important than mutual gain in the world of competing states. International cooperation is not regarded as a goal to improve global efficiency but as a tool to increase power.<sup>33</sup> In the realist model, nations continually try to change the rules or regimes governing international economic relations in order to create a disproportional advantage for themselves at the expense of other economic powers.<sup>34</sup>

Realists may generally be divided into two camps: those that are primarily concerned with safeguarding national economic interests as essential components of the security and survival of the state, and those that regard the international economy as an area for national aggrandizement, advocating a build-up of economic resources to increase national power.<sup>35</sup> Both approaches assume that national interests outweigh concerns for overall consumer welfare or economic efficiency.<sup>36</sup> They also assume that realist states act to maximize their power and wealth relative to other nations in order to achieve sovereign independence—to ultimately become economically self-sufficient and politically autonomous.<sup>37</sup> Each state acts for its own end and

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31. See INTERNATIONAL POLITICAL ECONOMY: PERSPECTIVES ON GLOBAL POWER AND WEALTH 9-10 (Jeffrey A. Frieden & David A. Lake eds., 2d ed. 1991) [hereinafter Frieden & Lake]; GILPIN, *supra* note 12, at 31 (noting the central idea of nationalism/realism is "that economic activities are and should be subordinate to the goal of state building and the interests of the state").

32. Frieden & Lake, *supra* note 31, at 10.

33. See Frieden & Lake, *supra* note 31, at 9-11; GILPIN, *supra* note 12, at 34; see also Stephen Krasner, *State Power and the Structure of International Trade*, WORLD POL., April 1976. Krasner identifies four basic state interests—aggregate national income, social stability, political power, and economic growth—and shows how each is related to the degree of openness for the movement of goods. He finds that a greater degree of openness in the international trading system results in a higher level of aggregate economic income but increased social instability. As for political power, the larger and more developed the state, the more it will find its power enhanced by an open system, because its opportunity costs of closure (what its relative gain would be if it were not open) would be less. The large state will also benefit politically from an open system because it can use the threat to alter the international system to secure economic or noneconomic objectives. For a state (like China) that needs technology and new industries, exposure to the international system will further economic growth and industrialization, as competition might make possible a more efficient allocation of resources.

34. GILPIN, *supra* note 12, at 33.

35. *Id.* at 31-32.

36. *Id.* at 31 (noting that economic activities are and should be subordinate to state building and the interests of the state).

37. See ROSECRANCE, *supra* note 8, at 45.



each tries to protect its economy against untoward external economic and political forces.<sup>38</sup> The foremost objective of realist states is industrialization, because industrial strength represents the basis of military power, leads to overall development of the state, and enables the state to eventually reach self-sufficiency within its own economy.<sup>39</sup>

## B. LIBERALISM

Liberalism suggests that international interests are harmonized when goods and services move freely across national borders in mutually rewarding exchanges.<sup>40</sup> The theory may be defined as a doctrine and set of principles for organizing and managing a market economy in order to achieve maximum efficiency, economic growth, and human welfare.<sup>41</sup> In defending their position, liberals point to the fact that the modern world has moved in the direction of the market economy and of increasing global economic interdependence because markets are the most efficient form of economic organization.<sup>42</sup>

Liberals espouse the view that economics is progressive and politics is regressive. They conceive of progress as divorced from politics and based on the evolution of the market.<sup>43</sup> Although liberals believe that economic activity also enhances power and security of the state, they argue that the primary objective of economic activity is to benefit individual consumers.<sup>44</sup> It follows that even if interdependence and openness means a loss of sovereignty, the state would remain committed to a market system.

While realists assume that society and the state form a single entity and that foreign policy is determined by an objective national interest, liberals stress that society is pluralistic and consists of groups of people with different domestic interests who try to capture the apparatus of the state and make it serve their own political and economic interests.<sup>45</sup> Liberals therefore advocate restricting government intervention in the market to situations where market failure occurs or for purposes of providing public

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38. GILPIN, *supra* note 12, at 33.

39. *Id.*

40. See Frieden & Lake, *supra* note 31, at 5-7.

41. GILPIN, *supra* note 12, at 27.

42. *Id.* at 31.

43. *Id.* at 30.

44. Liberalism's ultimate defense of free trade and open markets is that they increase the range of goods and services available to the consumer. *Id.* at 28.

45. *Id.* at 48.

or collective goods.<sup>46</sup> The proper role of the government, in other words, is to provide the necessary foundation for the market.<sup>47</sup>

#### IV. APPLICATION OF REALISM AND LIBERALISM TO THE CASE STUDY

The following section explores China's motives for acceding to the GATT by using Liberalism and Realism as explanatory models. The section proceeds by assuming alternatively that China ascribes to the liberal and realist model and then describes the motives for GATT accession that arise out of the theoretical positions.

##### A. CHINA'S DESIRE TO RE-ENTER GATT AS EXPLAINED BY REALISM

The western capitalist powers appear to be holding out GATT membership as a way to induce China to make further changes in its domestic policies, "to foster China's march to capitalism."<sup>48</sup> China continues to covet GATT accession in spite of having to relinquish unilateral control over its domestic policies and thereby compromise its sovereignty. Although realism postulates that nation-states value autonomy and sovereignty, it also postulates that states are rational actors.<sup>49</sup> It follows, then, that under a realist framework China would have to have contemplated its own cost-benefit analysis and concluded that the power it gains by joining GATT outweighs the costs of adjusting its mar-

46. See Frieden & Lake, *supra* note 31, at 7.

47. *Id.*

48. *China Belongs to Me*, *ECONOMIST*, May 29, 1993, at 13, 14; see also Damrosch, *supra* note 16, at 35; Steven Greenhouse, *Clinton to Grant China Renewal of Favored-Nation Trade Status*, *N.Y. TIMES*, May 28, 1993, at A1, A6. Lori Damrosch comments:

[E]ven if one were to continue in the belief that GATT as an organization should not press countries toward dramatic changes in their governing ideology or political economy, the considerations for U.S. policy are not similarly constrained. For decades U.S. policy has sought to encourage China in pluralization, liberalization, and privatization, and the justifications for continuing that encouragement are even stronger in the post-Cold War era than before. Thus the question is not whether to abandon longstanding strategic objectives, but whether GATT relationships should be used as one tactic for the United States to pursue in furtherance of those objectives.

Damrosch, *supra* note 15, at 35.

In considering the renewal of China's Most Favored-Nation Trade status (MFN), some of President Clinton's advisors expressed the sentiment that extending China's MFN status was an important way to improve its economic conditions and to promote its transition from Communism to a market economy. Greenhouse, *supra*, at A6.

49. See Frieden & Lake, *supra* note 31, at 10; ROSECRANCE, *supra* note 8, at 45.

ket to conform with GATT rules.<sup>50</sup> China would regard the international economy as an arena for national aggrandizement. Accordingly, it would consider the following benefits important in maximizing its relative wealth and power: (1) enhancement of political status in the international arena; (2) increases in national economic wealth and further industrialization; and (3) greater leverage in future trade negotiations.

### 1. *Enhancement of China's Political Status*

Having already resumed membership in the International Monetary Fund ("IMF") and the World Bank, China believes that membership in GATT will offer prestige by solidifying China's status as a growing force in the international economy.<sup>51</sup> In particular, GATT membership can be expected to strengthen China's political claim as the legitimate government of all China, including Taiwan.<sup>52</sup> China, as a founding member of the GATT, has maintained that it only needs to resume its seat, which it claims was illegally occupied and then abandoned by the KMT regime.<sup>53</sup> This position has had little practical impact as the U.S. and European member nations of the GATT have conducted China's membership application as though it were a new accession.<sup>54</sup> However, if China is successful in expediting its accession to the GATT through its continued insistence that it is "resuming" and not "reapplying" for membership, then its accession may be regarded as a political victory over Taiwan.<sup>55</sup>

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50. See Wang, *supra* note 2 (quoting Li Zhongzhou, a senior trade official who was a member of China's mission in the May 1993 international conference on China's re-entry into the GATT, "They will all extract excess concessions from China during [the GATT Working Party] negotiations . . . . But we have to weigh carefully the benefits and costs of such fees").

51. Carl Goldstein, *Rethinking GATT*, FAR E. ECON. REV., Sept. 2, 1993, at 45 (noting "GATT membership . . . offers both real and symbolic advantages to Peking. . . . Admission—or readmission, as Peking would have it—to GATT would affirm international recognition of China's economic reforms and, thereby, the legitimacy of its current leadership"); Kate Yu Juan, *China's Currency Reform Vital but Some Tough Problems Remain*, STRAITS TIMES (Singapore), Jan. 6, 1994, at 26 (noting that Madam Wu Yi, the Chinese Minister for Foreign Trade and Economic Co-Operation, said that China does not wish to be barred from the international trade circle any more, as she pointed out that the unification of the dual-rate system should satisfy the requirement for China's entry to GATT).

52. Green & Ruwart, *supra* note 26, at 32.

53. Feinerman, *supra* note 7, at 26.

54. *Id.*

55. Minister of Foreign Economic Relations and Trade Li Lanqing has commented that China's contracting party status in GATT should be restored as soon as possible, but that even if there is a delay, China must resume its GATT seat before Taiwan joins. He added, "A Chinese idiom says, 'If there is no skin, there can be no hair' . . . and if China, as a sovereign country, has not resumed its status as a GATT contracting party, there can be no separate Chinese customs region (referring to Taiwan's application)." Chen, *supra* note 6, at 14 (quoting Li Lanqing). Even

## 2. *Wealth and Industrialization*

Given China's dependence on imports and its cautious borrowing policy, continued expansion of trade in China will largely depend on its export earnings.<sup>56</sup> China's import dependence will have to be matched by commensurate access to the world market, which China expects to gain through GATT privileges.<sup>57</sup> GATT accession, therefore, may be seen as China's effort to increase integration with the world economy in order to accelerate domestic economic growth.<sup>58</sup> Membership in GATT would enhance international confidence in the soundness of China's domestic reforms and would enhance China's attractiveness to foreign investors, allowing China to amass the foreign capital needed to build its infrastructure and further industrialize.<sup>59</sup> The legitimacy that comes from meeting GATT commitments may also persuade the GATT contracting parties that China has a dynamic, adaptable trade system. It may also persuade developed countries to remove the protectionist measures against China that frustrate China's efforts to maintain the momentum of its export drive.<sup>60</sup>

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though Taiwan has applied as the autonomous customs territory of "Taiwan, Pescadores, Kinmen, and Matsu," not as the "Republic of China," China has insisted that the matter of restoring China's position as a signatory state to GATT must be resolved first before Taiwan can be considered. Furthermore, China insists that only after China regains its signatory state position can Taiwan negotiate with the PRC Government and ask for approval to join GATT as a separate customs territory. Li, *supra* note 7, at 16.

56. Li, *supra* note 17, at 30.

57. *Id.*; GATT rules can protect China's exports, particularly as those exports increase and produce protectionist pressures overseas. See Feinerman, *supra* note 7, at 24 (noting that the markets of Contracting Parties are especially important to China: in 1992, the value of trade between China and the 104 GATT members accounted for over 85% of China's total trade); Spencer Griffith, *China's GATT Bid: A Long but Welcome Road*, CHINA BUS. REV., July-Aug. 1987, at 36.

58. Li, *supra* note 17, at 30.

59. See Herzstein, *supra* note 14, at 372. See generally Goldstein, *supra* note 51 (noting that foreign investors would be hurt if sanctions are imposed).

60. Qing-Jiang Guo, *Restrictive Business Practices Bar Technology Flow to Developing Countries*, 1987 COLUM. BUS. L. REV. 117, 130. Qingjiang Guo, who served in the Department of Technology Import & Export of the Ministry of Foreign Economic Relations and Trade of the PRC and was the Commercial Secretary to the Chinese Embassy in Washington, D.C., lamented in his article that developed countries were using various restrictive laws to limit transfer of technology into developing countries who do not have the economic strength to conduct extensive research and development so necessary for economic growth. In line with a realist's desire to maintain security through aggrandizement of the state, he believes that China has been drawn into cooperation with the international system in its effort to facilitate technology transfer from abroad:

After painful experience with foreign intervention between the mid-19th and mid-20th centuries, China has for the past thirty years pursued a policy of self-reliance in technology development . . . . However, no less emphasis is put on *ultimate independence* from technology

Through GATT, China would gain improved and more reliable access to the world market in several ways. China's export trade should expand as GATT participation strengthens China's bid to secure Most Favored Nation ("MFN") treatment for its exports.<sup>61</sup> Currently China's MFN treatment by the U.S. requires annual presidential certification that China is not violating human rights by placing restrictions on emigration.<sup>62</sup> China finds this requirement degrading and dislikes the uncertainty that it introduced concerning China's access to the U.S. market.<sup>63</sup> GATT membership, however, does not automatically ensure China's unconditional and irrevocable MFN status from the United States.<sup>64</sup> Still, there is a good possibility that human rights will have less impact on Sino-American trade relations once China accedes to GATT.<sup>65</sup>

Besides MFN, joining GATT will also make China eligible to receive a wide range of special tariff rates for classes of goods from countries recognized as "developing," under the United States' General System of Preferences ("GSP").<sup>66</sup> By 1980, China had gained GSP treatment from all developed countries that had such schemes (including most European Community

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suppliers. To avoid foreign domination and the effects of restrictive business practices, licensing agreements are preferred. Chinese concern about restrictive business practices dates from the very beginning of its new open policy.

*Id.* at 130.

61. Herzstein, *supra* note 14, at 378. MFN treatment provides that each GATT member would enjoy the lowest tariff for its imports in any member country.

62. Title IV of the Trade Act of 1974 allows the United States to extend MFN rights to nonmarket economy countries only for limited periods, renewable annually upon a determination that the country maintains emigration policies that meet the standards set forth in the Act. 19 U.S.C. § 2432 (1982).

63. See Greenhouse, *supra* note 48, at A6. China's government has eagerly sought review of its MFN status year after year, because without it tariffs on Chinese goods sold in the United States would soar to about 40% from an average of 8%.

64. Herzstein, *supra* note 14, at 383 (noting that Poland and Romania, both GATT members, had their MFN status revoked in the 1980 under the Amendment in response to the repressive behavior of the governments). Current United States law, Title IV of the Trade Act of 1974, still places limits on the extension of MFN rights to China, and the United States can request a reservation in China's Protocol of Accession. 19 U.S.C. § 2432 (1982). The United States can additionally invoke GATT Article XXXV, which allows any member country to refrain from extending full membership rights with a new member. See The General Agreement on Tariffs and Trade, art. XXXV, para. 1, *opened for signature* Oct. 30, 1947, 61 Stat. A11, T.I.A.S. No. 1700, 55 U.N.T.S. 187.

65. See Feinerman, *supra* note 7, at 24. Feinerman finds that "[a]s a contracting party to the GATT, China would be less susceptible to the now-annual U.S. threats to condition or revoke China's MFN status."

66. "GSP is a program maintained by twenty industrial nations designed to assist designated developing countries by preferential reduction of tariffs and other restrictions on imports of specified products from those countries." Herzstein, *supra* note 14, at 378 n.24.

countries) except the United States.<sup>67</sup> Like MFN, GSP treatment is not guaranteed, as "final approval remains at the discretion of the President, and the economic and political pressures might create an obstacle to extension of U.S. GSP benefits in some significant industries."<sup>68</sup> However, joining GATT would at least make China eligible for GSP.<sup>69</sup>

China's dependence on an integrated economy should not be underestimated. In 1992 China was the world's 11th largest trader, with exports and imports totalling \$165 billion.<sup>70</sup> If GATT benefits do sustain China's economic growth by opening further markets, that figure could easily double in the next five years, and again in the next five, putting China into the top rank of the world's traders and helping to maintain the growth rates of its Asian neighbors.<sup>71</sup> Even if China's per capita income remains small compared with its developed Asian neighbors, the size of its economy could guarantee that China's emergence will affect global trade, investment, and raw material flows.<sup>72</sup> GATT membership thus serves as a good tool to increase its economic autonomy.

### 3. *Leverage in Future Negotiations of Trade Issues*

Immediate GATT accession will increase China's leverage in international negotiations in at least two ways: first, by giving China the opportunity to influence trade rules; and second, by allowing China to strengthen its leadership role among the developing Third World and the Asian newly industrialized countries ("NICs").

For its members, GATT provides a forum for the coordination of international economic policy and the resolution of trade disputes.<sup>73</sup> China would like to use this forum to shape trading conditions and bolster its position in politically sensitive negotia-

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67. Griffith, *supra* note 57, at 36.

68. *Id.*

69. United States law requires that communist countries adhere to GATT principles and be members of IMF to receive GSP treatment. Since China is already a member of IMF, GATT membership is what is needed to make China eligible to receive GSP benefits from the United States. Herzstein, *supra* note 14, at 377-78 n.24.

70. *China Belongs to Me*, *supra* note 48, at 13-14.

71. *Id.*

72. See Joyce Banathan, et al., *China: The Emerging Economic Powerhouse of the 21st Century*, BUS. WK., May 17, 1993, at 54, 56; Penelope Hartland-Thunberg, *China's Modernization: A Challenge for the GATT*, WASH. Q., Spring 1987, at 82 (noting that "[e]ven if China grows at only a fraction of the rates experienced by the Asian newly industrialized countries (NICs) in the 1960s and 1970s, the degree of its disruption of world markets still could be seismic").

73. See GILPIN, *supra* note 12, at 190-91 (noting that "[t]he General Agreement on Tariffs and Trade, established in 1948, has provided the institutional basis for

tions on issues such as dumping and subsidies.<sup>74</sup> Access to such a forum would be favorable to the Chinese position in dealing with such issues because China could use its potential economic importance in GATT as weight in the debates.<sup>75</sup> China's admittance into the Multi-Fibre Arrangement ("MFA"), a multilateral textile agreement, in 1983, for instance, allowed China to play a major role in the renegotiations of MFA, which is critical to its booming textile exports.<sup>76</sup> Similarly, GATT membership would give China a role in developing trade policies in areas such as dispute resolution, unfair trade laws, and government procurement.<sup>77</sup>

China's membership in GATT would additionally put China in a position to form a political fraternity with the most powerful members of the Third World, specifically the Asian NICs.<sup>78</sup> The more strident of the Third World countries are presently the main challenge to the industrial nations' attempt to extend GATT rules to cover services and intellectual property rights in

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trade negotiations in the post-war era . . . GATT's goal was to establish a world trade regime or universal rules for the conduct of commercial policy").

74. Herzstein notes:

GATT membership would allow China to help develop and refine the GATT rules so pivotal to international trade. It would give China the right to participate in GATT meetings and working parties where new projects are planned and problems explored, and in negotiations where new rules are formulated. This right to participate in the future rule-forming process would probably be more important than the specific legal rights gained immediately upon membership. If China expects to play a major role in the world trade, it should also have an interest in helping to shape the rule under which other nations will expect it to operate.

Herzstein, *supra* note 14, at 379.

75. Hartland-Thunberg, *supra* note 72, at 82. With the size of China's market (third or fourth largest economy in the world) and its current growth rate (real GDP growth rate is 13.1% this year and the projected rate in 1994 is well in the range of 10%), China has the potential to cause market disruption. MERRILL LYNCH ASIAN ECON. COMMENTARY, *supra* note 4, at 2.

China's interest to accelerate negotiations on GATT accession has peaked because ministers are currently approving institutional arrangements for transforming the GATT into a new institution, the World Trade Organization ("WTO"). WTO, which is set to come into effect by July 1995, will police fair trade rules and implement the results of the Uruguay round. China wishes to become an original member in WTO so that it may have more influence on new trade rules through this new forum, and becoming a GATT member soon will enable China to be grandfathered in as an original member of WTO. Frances Williams, *Trade Negotiators Face Hectic Three Months: Structure of the World Trade Organization Must Be Agreed*, FIN. TIMES, Jan. 10, 1994, at 3.

76. Griffith, *supra* note 57, at 36.

77. *Id.*

78. Hartland-Thunberg, *supra* note 72, at 82 (noting that "China . . . has long aspired to be the leader of the Third World").

high-technology sectors.<sup>79</sup> The United States and other developed countries believe that the developing countries cannot demand greater access to Northern markets for their increasing output of manufactured goods unless the developing countries are willing to reciprocate by opening their own markets to the service and high-technology industries of the advanced countries.<sup>80</sup> However, for the NICs and other Lesser Developed Countries ("LDCs"), free trade in services and high technology would mean unrestricted access for the multinational banks and corporations of the United States to the economies of the developing countries.<sup>81</sup> This would deny them the opportunity to protect and develop their own similar industries, and the LDCs argue that they would then be forever behind and dependent upon the more advanced economies in the expanding high-technology industries.<sup>82</sup>

As a GATT member, China will also be able to take on a leadership role in bolstering LDC resistance to GATT pressure to reduce domestic non-tariff barriers.<sup>83</sup> Vice Premier Zhu Rongji expressed China's interest in solidarity with developing countries in May of 1993: "In whatever way the international situation may change, China will, as always, support the legitimate rights and interests of Third World countries in safeguarding national independence and state sovereignty and seeking economic development."<sup>84</sup> By exerting influence in these and other spheres of dissension, China will create a feeling of alliance with the NICs while challenging the U.S. leadership in the world economy.<sup>85</sup> China's leadership of the NICs may form a formidable block in the GATT. This development would be consistent with GATT's transition away from being the American-West Eu-

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79. GILPIN, *supra* note 12, at 201. The position of the Third World countries regarding the issues of services and protection of intellectual property is discussed in detail in chapters 5 and 6 of *THE THIRD WORLD NETWORK, RECOLONIZATION: GATT, THE URUGUAY ROUND & THE THIRD WORLD* (1990).

80. GILPIN, *supra* note 12, at 201.

81. *Id.*

82. *Id.*

83. *See id.* at 202; Hartland-Thunberg, *supra* note 72, at 82. Both authors recite LDC arguments that pressure to reduce non-tariff barriers violates national sovereignty.

84. *Diplomacy Is Founded on Peace and Progress*, CHINA DAILY, May 15, 1993, at 4; *see also* Cynthia Mitchell, *A Bitter Power Struggle Could Close the 'Open Door' on Trade*, ATLANTA J. & CONST., Jan. 16, 1994, at H7. Treasury Secretary Lloyd Bentsen visited China in January to press for trade and human rights reforms, but China maintained that its internal politics are no business of the United States.

85. Mitchell, *supra* note 84. The above discussion does not purport to provide an exhaustive analysis of the trade tensions between NICs and developed countries. Additional areas of tension include, for example, developing countries' attempts to control the flow of technology by forcing developing countries to reduce licensing barriers. *See* Guo, *supra* note 60, at 119-20.



ropean club that it represented in the 1960s when even Japan was a minor party.<sup>86</sup>

## B. CHINA'S DESIRE TO RE-ENTER GATT AS EXPLAINED BY LIBERALISM

Within a liberal framework, China's economic goal of developing its internal market represents more than a tool to advance its political goals. Liberalism posits market reform as a vehicle for facilitating increases in economic efficiency, maximization of economic growth, and, ultimately, improvements in social welfare. China has already seen the advantages of a greater degree of integration in the world economy. Real Gross National Product ("GNP") grew at an annual rate of 14% and industrial output was up by over 20% in the first eight months of 1992.<sup>87</sup> The economic boom which has followed the market reforms has increased individual opportunity to choose not just fancy clothes and fast cars, but how and where to live.<sup>88</sup> As liberalization moves China's economy from one that is state controlled to one that is market oriented, liberals would argue that China covets GATT accession so that it can work in concert with the contracting parties to accelerate China's transformation to a market economy.

In explaining the liberal hypothesis this section will consider the following interrelated assertions: (1) that Chinese leaders have undergone a shift in thinking and are placing economic development as a priority over political concerns; (2) that consequently, China views the undertaking of GATT commitments as useful in helping it develop a market economy; and (3) that China desires to bring its trade under a more comprehensive multilateral trade regime to increase efficiency and stability in international trade negotiations.

### 1. *Shift in Fundamental Thinking of Current Leadership*

In 1992, market reforms in China caused the proportion of individual businesses to rise 8% and privately owned enterprises 10.8%.<sup>89</sup> Material incentives promote China's economic development from below, and these incentives consist of increased revenue-sharing, profit-sharing, and bonuses.<sup>90</sup> China's institu-

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86. GILPIN, *supra* note 12, at 203 (noting that "[GATT] has over ninety players and it is easier than in the past for a coalition to block all actions").

87. *Deng's Last Show*, *ECONOMIST*, Oct. 10, 1992, at 13.

88. *China Belongs to Me*, *supra* note 48, at 13.

89. *Private Firms Play Public Role*, *CHINA DAILY*, May 24, 1993, at 1.

90. Robert Dernberger, *Economic Policy and Performance, in 1 CHINA'S ECONOMY LOOKS TOWARD THE YEAR 2000, THE FOUR MODERNIZATIONS*, S. PRT. NO. 149, 99th Cong., 2d Sess. 17 (1986).

tion of an open door policy beginning in the early 1980s shifts away from the strong centrally planned, autocratic approach, that characterized the People's Republic in the 1950s, 1960s, and 1970s, and towards a more mixed, market-oriented, and internationalist economy.<sup>91</sup>

One possible interpretation of China's movement from a command economy to a market economy is that it coincides with a liberal shift in leadership ideology, through which China's leadership is giving clear priority to economic development over political objectives.<sup>92</sup> China's leadership appears to have recognized that, to achieve sustainable economic growth, there must be basic reforms of the economic system, and that economic reform must be part of a broadly based modernization program encompassing the society as a whole.<sup>93</sup> If indeed the Chinese leadership has adopted a more liberal ideology, then full participation in GATT could be explained as a manifestation of China's commitment to achieving integration into the world economy.<sup>94</sup> Some evidence may be marshalled in support of the theory that China has adopted a liberal perspective.

The steady pace of economic reforms in China, despite the resulting diffusion of authority from the central government to localities, appears to be evidence of the Communist Party's decision to prioritize their country's economic development over any

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91. McDonnell, *supra* note 28, at 332-50.

92. While the realist will acknowledge that China appears to be giving priority to economic reforms for the moment, he would argue that China does not view foreign trade participation and domestic economic development as goals in themselves, but rather as means to increase technical and economic strength so that China can achieve the underlying political goals of increased regional authority and enlarged capacity for self reliance. See LIU CHAOJIN & WANG LINSHENG, CHINA'S FOREIGN TRADE: ITS POLICY AND PRACTICE 3 (1980) (noting that while importing technology and learning from the experience of other countries, China adheres to the principle of 'making foreign things serve China' and that foreign trade is a tool for China to become more independent and self-reliant, with the strength to resist encroachment on its sovereignty).

93. A. Doak Barnett, *China's Modernization: Development and Reform in the 1980s*, in 1 CHINA'S ECONOMY LOOKS TOWARD THE YEAR 2000, THE FOUR MODERNIZATIONS, *supra* note 90, at 6; see also Li, *supra* note 17, at 29. Li emphasizes China's shift in economic thinking:

Much progress has been made toward that end [of achieving integration] and the recently adopted Seventh 5-year Plan has envisaged a model transfer in development strategy and economic management, involving a more favorable attitude towards the international division of labor, and shifting emphasis on self-sufficient, internal growth towards a more outward-looking growth approach. This change of attitude is based on the assumption that greater integration with the world economy would accelerate domestic economic growth by allowing China to build upon its comparative advantage.

*Id.* at 29-30.

94. See McDonnell, *supra* note 28, at 332 (noting that full membership in the GATT represents a commitment to a Western-oriented multilateral trading system).

political desire to maintain an autocracy.<sup>95</sup> This apparent top-down shift in ideology is even reflected in China's official propaganda apparatus.<sup>96</sup> The *Beijing Daily*, for instance, was a hard-line publication that once denounced capitalism.<sup>97</sup> Now it demonstrates its enthusiasm for the market economy by selling its entire front page to a foreign company as advertisement for \$300,000.<sup>98</sup> Marxist-Leninist-Maoist ideology plays a much less salient role in Chinese society, and intrudes much less into individual lives than at any time since the Communist takeover in 1949.<sup>99</sup>

Consistent with capitalist state strategy of nurturing values which protect trade and profits and promoting the accumulation of private capital, the current Chinese government has made it legitimate for ordinary Chinese to pursue personal goals, not just collective ones. Furthermore, the opportunities to pursue personal goals have been steadily expanded through reform.<sup>100</sup> Open consumerism is not only approved, but encouraged.<sup>101</sup> Before the 1980s the Chinese government officials blocked access to the Chinese market, requiring most foreign investors to sell the goods produced from their joint ventures abroad.<sup>102</sup> In the mid-1980s the state allowed the joint ventures to market their products domestically, and in the last five years, the state began to allow imports from overseas.<sup>103</sup> Vice Premier Zhu Rongji has himself endorsed the apparent shift in leadership ideology, claiming the Chinese government remains determined to ensure pros-

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95. See Donald C. Clarke, *What's Law Got to Do With It? Legal Institutions and Economic Reform in China*, 10 UCLA PAC. BASIN L.J. 1, 14-15 (1991); see also Dernberger, *supra* note 90, at 17. Dernberger predicts that China will successfully achieve a more market-oriented economic system because the reforms since 1978 have already involved considerable decentralization of authority to the extent that the leadership at top has lost control over the program of economic reform carried out at the local level. *But see* Clarke, *supra*, at 15 (quoting one observer who noted, "[u]ltimately the central government will inevitably reassert control over much of the economic realm, but whether it does so in a manner compatible with further economic reforms must remain, at this point, an open question'").

96. Nicholas D. Kristof, *4 Years After Tiananmen, The Hard Line Is Cracking*, N.Y. TIMES, June 1, 1993, at A4.

97. *Id.*

98. *Id.*

99. Barnett, *supra* note 93, at 5.

100. SUSAN MANN, *LOCAL MERCHANTS AND THE CHINESE BUREAUCRACY, 1750-1950* 211 (1987); Barnett, *supra* note 89, at 5; see Mitchell, *supra* note 84, at H7 (noting that Chinese workers' salaries are going up and China now has a middle class with higher expectations of material benefits).

101. Dernberger, *supra* note 90, at 17.

102. Mitchell, *supra* note 84.

103. *Id.*

perity, economic growth, and an affluent life for the Chinese people.<sup>104</sup>

## 2. *Increase in Market Efficiency*

Assuming that China's recent market reforms in fact reflect a liberal shift towards prioritizing economic over political objectives, then this shift would supply a motive for China's GATT accession insofar as GATT membership would accelerate the implementation of reforms within the country.<sup>105</sup> Rejoining GATT serves as a useful means for the more liberal communist faction to mobilize China's bureaucracy to go along with far-reaching reforms.<sup>106</sup> The GATT rationale would make it easier for the bureaucracy to yield because an agreement to make systemic changes could be sold domestically as a move towards standard international practices rather than a concession to foreign pressure.<sup>107</sup> At the same time, participation in GATT carries obligations that will render China answerable to outside forces and bring its foreign economic policies more into line with international standards.<sup>108</sup> Meeting GATT requirements should improve the general business climate while pushing China toward a more decentralized, market-driven economy.<sup>109</sup>

One way that GATT membership facilitates the liberalization of China's domestic economic regime at a greater speed is by forcing industries to respond to competition from markets

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104. *Prosperity Given Top Priority by Leadership*, CHINA DAILY, May 14, 1993, at 1.

105. McDonnell, *supra* note 28, at 346. Because the development and maintenance of the market is the liberal state's primary goal, liberals view the acceleration of reforms as a result of joining GATT as complementary to their agenda of moving toward a market economy. Realists, on the other hand, perceive the market as merely a tool with which the nation can increase its wealth and power, not necessarily as a goal in itself. Indeed, while desiring the economic gains from GATT privileges, realists might regard reductions in control over the acceleration of economic reforms as the result of GATT accession as a threat to their political objectives.

106. "The Chinese Government may need admission to the GATT at some point in the process of economic reform in order to pull itself further along the path towards deregulation." *Id.* at 349.

107. Lincoln Kaye & Susumu Awanochara, *Punches Pulled*, FAR E. ECON. REV., Oct. 22, 1992, at 56.

108. Green & Ruwart, *supra* note 26, at 34; *see also* Herzstein, *supra* note 14, at 411, where Herzstein points out that before China's accession to GATT, its reforms have to extend beyond sectoral limitations. He identifies the milestones that China's reform should achieve in order to join GATT, including decentralizing economic decisionmaking so that there would be a plurality of Chinese enterprises competing with each other to purchase foreign products; making available information concerning potential Chinese purchasers, their needs, and procedures for doing business with them; and providing an adequate legal framework to ensure that foreign suppliers and purchasers can enter into valid contracts, with full protection for proprietary information, patents, and technology transfer.

109. Green & Ruwart, *supra* note 26, at 34.

abroad. For example, China's promise to drastically cut its overall tariffs in its pursuit of GATT membership has a great impact on uncompetitive fledgling industries such as the automotive, heavy-machinery, chemicals and electronics industries and others dependent on high and new technologies.<sup>110</sup> Lower tariffs will mean lower prices of imported products; and this means that Chinese enterprises will be in direct competition with those of more developed countries. China's enterprises will be forced to catch up within a short buffer period and increase their competitiveness on international markets.<sup>111</sup>

The path to re-entering GATT has also led China to make significant reforms in China's currency system which have resulted in increased efficiency.<sup>112</sup> In January 1994, China eliminated its dual currency system and allowed the yuan to float against a basket of currencies to bring the country's foreign trade more in line with international practice.<sup>113</sup> The move ends four decades of rate-setting by central planners.<sup>114</sup> The currency reform is a step to fulfilling China's promise to GATT that it will achieve a fully convertible exchange rate within five years.<sup>115</sup> As one newspaper reports, "These currency reforms in China are aimed at bringing its economy closer to the capitalist model. They can be likened to strong medicine—bitter but necessary."<sup>116</sup> GATT aside, China obviously reaps benefits from currency reforms in the form of greater efficiency and increased foreign direct investment, but while the promise of extensive structural reforms has been in the air for some time now, it is clear that the promise of GATT accession accelerated actual unification of currency rates.<sup>117</sup>

Aside from granting China eligibility to enjoy U.S. General System of Preferences status, offering China a chance to attain permanent or at least consistent renewals of MFN status, and accelerating structural reforms that will increase efficiency of their domestic market, GATT membership will enable China to

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110. Geng Yuxin, *China Prepares to Re-Enter GATT*, BEIJING REV., Nov. 30, 1992, at 7.

111. *Id.*

112. See *China Axes Dual-Rate Currency*, *supra* note 24, at 21.

113. Kevin Lim, *Coping with China's Currency Changes*, STRAITS TIMES (Singapore), Jan. 30, 1994, at 1.

114. *China Axes Dual-Rate Currency*, *supra* note 24, at 21.

115. Hubert Herring, *Business Diary*, N.Y. TIMES, Jan. 2, 1994, § 3, at 2.

116. Lim, *supra* note 113, at 1.

117. The Beijing government floated its currency to clear the way to joining the GATT and said it would make other trade concessions as well to gain membership. Tyerman, *supra* note 5, at 1.

achieve more stable and efficient negotiations in lieu of the current system of numerous bilateral arrangements.<sup>118</sup>

Since the suspension of relations with the GATT, China's trade relations have been conducted through bilateral trade agreements.<sup>119</sup> Although these bilateral treaties provide benefits similar to those promised by the GATT, such arrangements must be periodically re-negotiated and may be unilaterally terminated.<sup>120</sup> While the bilateral approach was a matter of necessity when China found itself shut out of major world markets, trade facilitated only through bilateral negotiations is no longer sufficient to meet increasing needs of modernizing the economy and improving the living standards of the people.<sup>121</sup>

Participation in the GATT will allow China to negotiate a broad range of trade issues more efficiently.<sup>122</sup> As a contracting party to the GATT, China would be able to eliminate the more than ninety bilateral arrangements it now has with its trading partners and bring its global trade arrangements under a comprehensive set of multilateral trade rules.<sup>123</sup> Under the multilateral GATT rules, GATT members would be less likely to violate China's trade rights than they would under bilateral commitments.<sup>124</sup> Furthermore, by undertaking GATT commitments, China would send the major trading nations the message that it is prepared to move beyond its present fragile set of ad hoc bilateral trading relationships and to cooperate in the ongoing effort to shape an efficient and fair multilateral trading system.<sup>125</sup>

## V. CONCLUSION

Without question, China's economy has undergone major changes as a result of the program of economic reforms since 1978.<sup>126</sup> China's foreign trade participation rate has increased significantly, and direct foreign investment is not only allowed, it

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118. See Feinerman, *supra* note 7, at 24; Griffith, *supra* note 57, at 36; Herzstein, *supra* note 14, at 380. GSP and MFN privileges are discussed in the previous section.

119. Li, *supra* note 17, at 31.

120. Feinerman, *supra* note 7, at 24.

121. Aside from being inefficient, bilateral agreements with the major industrialized countries have not provided China with full benefits of most-favored nation treatment in its true sense. Li, *supra* note 17, at 30.

122. Green & Ruwart, *supra* note 26, at 33.

123. Feinerman, *supra* note 7, at 24.

124. Herzstein, *supra* note 14, at 380. Herzstein points out that whereas violation of a bilateral agreement would be a matter contained between the country involved and China, violation of GATT rules would create an adverse precedent which could be used against the violating party by other GATT member nations. *Id.* at 380.

125. *Id.* at 372.

126. Dernberger, *supra* note 90, at 16.

is encouraged.<sup>127</sup> In October 1992, China and the United States signed a "memorandum of understanding" to lower or eliminate a long list of barriers to the Chinese market.<sup>128</sup> United States Trade Representative Carla Hills said the agreement "will provide unprecedented market access for exports to China."<sup>129</sup> Most recently, China made the long-awaited move to abolish its dual currency system and set rates at market-determined levels. The Chinese government has aimed these and other changes at making China's economic structure more efficient, more integrated with the world system, and more profitable.<sup>130</sup>

China's transition to a market economy can be explained in both liberal and realist terms.<sup>131</sup> Similarly, China's motives for acceding to the GATT, insofar as such accession accelerates the implementation of market reforms, can be explained by both liberal and realist frameworks. Yet, an explanation of China's motives for entering GATT in terms of liberal and realist theories goes beyond being a theoretical exercise, as it provides valuable insight into what kind of GATT member China will be—in other words, how China will take advantage of its membership and whether it will ultimately uphold its GATT responsibilities.

Realists predict that China's application to GATT is primarily motivated by the immediate prestige associated with achieving GATT status, the expected increase in national wealth through access to greater markets, and the hope of greater leverage in trade negotiations. The realist analysis assumes that each state aims to maximize its national interests relative to other

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127. *Id.*

128. Dan Cordtz & Richard Meyer, *Inside China Today*, FIN. WORLD, Dec. 8, 1992, at 36, 40.

129. *Id.*

130. See *Prosperity Given Top Priority by Leaders*, *supra* note 104, at 1.

131. Neither realism nor liberalism may be entirely satisfactory on a theoretical stand-alone basis. The two frameworks, however, do not have to be mutually exclusive; where one framework lacks in explanatory power, the other may fill in.

The foremost strength of realism is its focus on the state as the predominant actor in international relations and as an instrument of economic development and political power. However, realism lacks a satisfactory theory of domestic society, the state, and foreign policy. It tends to assume that society and state form a unitary entity and that foreign policy is determined by an objective national interest. In some cases, this assumption is overly simplistic, because society is pluralistic, and foreign economic policy is often determined by the dominant interests of the group in power.

Liberalism embodies policy prescriptions that enable a society to maximize its return from scarce resources; its commitment to efficiency and the maximization of total wealth provides much of its strength. Liberal economics says to a society, whether domestic or international, "if you wish to be wealthy, this is what you must do." While the framework of liberalism is a good tool to analyze the economic interests of the society, liberal economics lacks a true "political economy," because it neglects crucial social and political factors affecting economic policy decisions.

states, which, applied to China, would predict that China will try to manipulate trade rules to seek disproportionate advantages for itself at the expense of other GATT parties. This is not an unlikely scenario, given the tensions that have arisen between Japan and Western GATT members because of complaints by the Western GATT members that Japan has been an unfair trade partner who has refused to assume responsibility in trade, finance, and other areas commensurate with its new economic power.<sup>132</sup> Once it becomes a GATT member, China may very well resist further demands to open its economy by using arguments similar to those used by Japan.<sup>133</sup>

Rather than adapting the realist focus on *relative* power and wealth, a liberal state focuses on increasing its *absolute* power and wealth. The role of the government in a liberal state is to establish and maintain a market economy and protect the interests of the individual economic agents. In the liberal analysis, China perceives GATT membership as both a symbolic and practical step for a country that no longer desires to be an autocracy, but instead values interdependence and harmonization of interests as keys to national stability.

Liberals predict that adhering to the obligations of GATT membership will push China to deepen and reinforce its economic reforms. They posit that China welcomes GATT accession as a way to facilitate the transition from a centrally planned economy to one that is market oriented and that China will actively undertake GATT commitments to reinforce the government's liberalization efforts, as well as increase the accountability of local autonomies by bringing its trade under the guidance of a comprehensive trade regime. If China's GATT accession is motivated by liberal concerns, then we can expect it to be a GATT member in good standing as the multilateral objectives of the GATT will complement China's internal economic priorities

Determining whether China's GATT membership will be characterized by realist or liberal objectives is beyond the scope of this paper, but the implications of the tension between realism and liberalism are clear. Even with China's increased integration with the world economy, it remains to question whether China will use advances in economic and military strength to aggressively assert its will in the trade forum, even at a considerable cost to the parties involved.<sup>134</sup> This Comment has argued that

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132. See GILPIN, *supra* note 12, at 392.

133. *Id.* at 201. For example, China may similarly argue that such demands will threaten Chinese social values and national self-sufficiency in their strategic sectors.

134. In this context, China's past willingness, such as during the Cultural Revolution, to isolate itself from the world in order to pursue political or ideological objectives cannot be ignored.



the interstice defined by the tensions between realism and liberalism is the space on which the true nature of China's GATT membership will emerge. This suggests a framework for monitoring and evaluating China's early tenure as a GATT member as well as a framework for formulating international response to China's activity within the GATT.