Chapter II

CHINA IN THE WTO: THEORY AND PRAXIS

I Introduction

China’s entry into the WTO in 2001 marked a turning point in its drive for modernization. Its desire for modernization was apparent in the late 1970s. Economic reforms and open door policies initiated during this period aimed at addressing this major issue. The concept of ‘Four Modernizations’ which was designed to transform China into an economic power in the 21st century by introducing reforms in four major areas of agriculture, industry, national defense, and science and technology had thus emerged as the key strategy. While initiating modernization drive, the central leadership began to realize that modernization cannot be achieved with the domestic help alone. To make China economically strong, it needed to look to the West as a key source of support. As China was still ideologically not compatible with the ideology of the industrialized West, the central leadership had confronted with the dilemma of how to achieve the goal of modernization and economic development in a world economy that is dominated by the capitalist and industrialized countries. The cardinal question that remained was how to modernize without sacrificing its sovereignty.

For a developing country like China, whose economy was feeble and technologically backward in the early 1980s, the road to modernization without external assistance looked difficult as the Western powers, which were at the helm of providing external assistance, were not keen at the first sight to extend their support without visualizing a long-term interest in China. Therefore, in the post-Mao period China had to make efforts to adapt itself to this context by pursuing pragmatic policies of peace, development, and cooperation. During this period, it showed considerable skill and flexibility in terms of bringing in new adjustments to align itself to the new global trading regime. One of the striking features of its foreign policies has been its approach to join the global trading regime. It became the fundamental requirement for China to introduce reforms in economic, administrative and legal fields.
The period between 1986 and 2001 till the time China joined the WTO remained one of the most critical periods in its history. First, China actively participated in different international fora like the GATT, the UN, etc., and came closer to international norms and practices. Since end of the Cold War, China played a key role in global economy. It is the growing economic strength that catapulted it to the centre stage of world economy. The current degree of engagement and cooperation with a global regime, where various industrial and other countries are significantly involved, marked a point of departure from Maoist China of limited interaction with international community during 1949–1976.

With this brief backdrop, this chapter aims to analyze how China embraced the notion of interdependence and sectoral approach as the new principles of modernization and integration with the world economy. While conceptualizing theory of interdependence and sectoral approach, it simultaneously takes into account how such strategies were applied at the practical level to integrate China with the global economy.

II Conceptualizing Interdependence and Sectoral Approach

Interdependence can be defined as the factor of reliance between units, nation states, or the governments. Though some forms of interdependence existed among countries for centuries, it became critical in the 19th and 20th centuries when nation states were striving for development. Some of these countries lacked all the resources like natural endowments, labour, capital, and technology that were required for making a country stable, independent and modern. Therefore, they had to depend on others. This core principle of reliance between nations to become self-sufficient and developed gave birth to the concept of interdependence. It became a dynamic concept of being mutually responsible to and sharing a common set of principles with others. It recognized the need of one nation state with other states at regular intervals and shared the productive activities to benefit each other. It supposedly implied that all nation states or governments are emotionally, economically, ecologically, and morally interdependent (Keohane and Nye 1977: 16). The principle of cooperation between countries was regarded as an important strand of this theory. It came to be visualized as the interconnectedness and the reliance on one another where social, economic, environmental, and political considerations played an important role. The concept of interdependence has received more recognition with the current phase of
globalization. Global interdependence has intensified and accelerated through the growing use of information and communication technologies (Martinelli 2005: 242).

Likewise, sectoral approach came to be defined as a strategy to increase the voluntary engagement of a particular sector around the globe. This approach gathered momentum in the 1960s. After the devastation of World War II, when countries were contemplating on rebuilding their economies, some countries adhered to this approach as a viable mechanism to develop their economies. It gained prominence initially among the small economies, which popularly came to be known as 'microstates' by Dommen and Hein (1985:1). Countries like South Korea and Singapore were the successful examples of this approach.

However, looking at the success of countries like South Korea and Singapore as the major financial centres in the world, developing countries were inspired to pursue this approach. Sectoral approach is now actively pursued by many developing countries who find a number of advantages in undertaking it. First, it reduces administrative measures when implemented sectorally. Administration becomes easier when it is applied to a particular sector than to an economy-wide set up. In a sectoral set up, the number of concerned actors are few. Second, sectoral approach provides a well-informed database which is substantially developed even in developing countries to facilitate any major endeavour that the state intends to. Thus greater data availability builds confidence and provides accuracy to the entire conduct of business in that particular sector. Third, it develops a focused approach towards global technology transfer as most of the sectors in developing countries require technology to progress. Fourth, sectoral approach allows countries to locate their complementary strengths in a focused manner.

II.1 Theoretical Understanding of Interdependence and Sectoral Approach

The theory of interdependence gained prominence in international studies in the last few decades. In pursuit of peace, wealth, security, and development, various countries sought each other’s assistance and cooperation. These interactions and engagements helped many nations to achieve their ultimate goals while others witnessed conflicts. Countries which embraced the notion of interdependence to integrate with the global system experienced several dimensions as far as their behaviour and requirements are
concerned. Difference in specific needs of countries such as economic development, modernization, sustainability, strengthening security, achieving military might, peace and development resulted in various conflicts like war, external aggression, trade embargoes, etc. Such wide divergence of requirements among countries led them to confront various challenges when they operate in a globally sensitive and dynamic environment. This approach of interdependence led many scholars to analyze the kind of relations ultimately countries evolve.

The theory of interdependence generated several debates in international studies, especially in the second half of 20th century. Various scholars who worked on this area have arrived at a number of hypotheses. These can be broadly categorized as: i) trade reduces conflict; ii) higher trade interactions result in higher cooperation among states; and iii) higher levels of trade dependence will result in greater probability of conflict between states. Two schools of thought, namely liberal and realist focus on this debate. The liberals were far more optimistic compared to the realists. Some of the debates that grew out of this theory are analyzed here.

II.1.1 Liberal Perspective

A substantial part of the literature on interdependence theory emerged during the 1970s and early 1980s. Most of these studies came from the liberals who suggested that trade correlated with peace. A rigorous analysis of 30 pairs of states during 1958–1967 by a group of experts such as Polachek, Gasiorowski, Mansfield and Pollins concluded that greater levels of trade reduce the chances of outbreak of hostilities. For example, heightened trading activities between the US and the former Soviet Union from 1965 to 1975 significantly contributed to the lessening of tensions between these two super powers and led to the onset of détente (Pevehouse 2004: 252). Another study pointed out that heightened interdependence fosters cooperative political relations (Mansfield and Pollins 2001: 1). This arrangement gained greater currency with the formation of the European Economic Community, the proposal by the US during Richard Nixon’s presidency for a constructive engagement with China, Willy Brandt’s Ostpolitik, and Henry Kissinger’s conception of détente with the Soviet Union.

__5__ A policy aimed at improving relations with East Germany, Poland and the Soviet Union.
Albert O. Hirschman expressed a similar viewpoint. In his seminal work titled *The Passions and Interests: Political Arrangements for Capitalism before its Triumph* he suggested that increasing levels of trade leads to more interactions, which in turn create more potential for positive interactions between countries. This strand of theory was also advocated by Stein (1993: 249–250) who posited that interactions in trade result in the promotion of cooperation. This explanation highlights the hypothesis that increasing levels of trade dependence between states will result in higher political cooperation.

Consequently some other liberal theorists have argued that trade cooperation has reduced international conflict in a number of ways. First, economic trade replaces conquest as a means of exchange lowering the levels of conflict. What would have been achieved through war can now be accomplished through trade. Richard Rosecrance’s concept of the “trading state” (1986: 31) is an example of this theory, which illustrates how trade and exchange can reduce the incentives to remain engaged in conflict. This process of trade and exchange encourages the states to develop specialization in the category of goods and services that would foster cooperation between states as both consumers and traders would like to be in constant interaction to avail the facilities of goods and services in the foreign market. These consumers and traders have an interest to avoid war because any interruption in commercial activity will prove too costly for them (Stein 1993: 279; Viner 1951: 261; Viner 1985: 12 –14). Therefore the states are compelled to balance their interests vis-à-vis the interests of other states. In another significant work it is argued that as higher levels of trade have the capacity to reduce the war, it is practical to enter into a trading arrangement between the states than looking for a war (Morrow 1999: 89). It is also theorized that trade influences political relations among countries. It acts as a key factor in bringing countries together to resolve their political differences. Trade and political relations, therefore, have a direct correlation (Irwin 1996: 3). This kind of liberalism significantly focused on the aspect that higher levels of trade can minimize the economic based incentives for conflict leading to a better peaceful environment.6

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6 Several scholars of the seventeenth-century held the view that, the disruptions in trade relations were a possible justification for entering into a conflict with a neighbouring country. See Irwin 1996, PP: 22–23.
Johan Galtung, a leading liberalist, argues that interdependence is "a style of cooperation that does not endanger new patterns of dependence." He further explained that this cooperation connotes the absence of total autonomy of the units involved (1979: 2). Similarly, Edward L. Morse has argued (1976: 118) "interdependence is the opposite of state autonomy, if autonomy is defined as the ability of a government to achieve its goal by itself." What he argues is that interdependence has gained currency and this is being pursued by the states to achieve modernization. According to him, modernization of a country has become important and it has elevated rising economic concerns to the level of high politics, which has been expressed in his writings; "the politics of wealth and welfare have overshadowed the politics of power and position" (1976: 86). Increase in interdependence among countries has taken place to satisfy their need for modernization. While analyzing the theory of interdependence between states, he has laid adequate emphasis on dependence aspect of the concept, explaining that it leads to loss of autonomy, incapability to control events, and vulnerability to pressures from outside. In addition, this dependence gives rise to dominance, to have an impact upon each other depending on the specific situation they are in. Morse points out that in an era of interdependence, one state may effectively intervene in another society by merely altering its own domestic policy.

Similarly, Christopher F. Gelpi and Joseph M. Greico (2001: 8–9) assess the behaviour of democratic and non-democratic states in relation to promoting economic growth through trade. The study highlighted that the standard model of trade has recognized the capacity of international trade integration needed to improve the aggregate growth rate of a country during the period in which integration is occurring. For example, a country that opens itself to global markets, according to the standard model, causes it to specialize in a narrower range of goods, the exact choice of which depends on the country’s endowment of productive factors, local and world preference for and prices of goods, and the state of world technology. This selective product range of a country may in turn create opportunities for the enjoyment of increasing returns over some range of new productions, which in turn boosts the country’s aggregate growth rate. However, declining economies of scale would eventually curtail the capacity of this specialization in product ranges through trade to raise the rate of economic growth for the country as a whole.
It is further elicited in the study that trade is a powerful mechanism for the expansion and deepening of markets, and thereby may by itself, encourage new investments in technology. It also gives rise to additional opportunities for small and medium enterprises (SME) sectors in a country to gain access to new technologies through these and other mechanisms. Trade can directly and indirectly enhance the productivity of the factors of production and contribute to national growth.

Another form of liberal approach was articulated by John R. Oneal and Lee Ray, (1997: 769–770) relating to the theory of interdependence where they have argued that two democratic countries were unlikely to be involved in a militarized dispute in the post-World War II era when they have deeper trade interdependence. Oneal is of the view that trade interdependence grew better when the dyads are democracies. The analysis put forth by these authors suggests that democracies are more peaceful while autocracies on most occasions tend to be involved in conflict. The chances of establishing peace between states are influenced by the level of democracy practiced under their regimes. Democratic pairs are less conflict prone but a high level of democratic framework in one state does not neutralize the dangers associated with an autocratic functioning of a strategic partner.

II.1.2 Realist Perspective

In contrast, realists do not hold interdependence as a direct source of conflict or a deterrent to conflict. However, they insist that rise in trade can become an important source for conflict between states. Albert O. Hirschman, who, earlier remarked that more trade interactions reduce conflict reiterating the liberal point of view, has provided another dimension. He pointed out that the rise in trade could also lead to conflict under circumstances, where the gains emanating from trade may not be proportional among the states. This disparity in gains can be a cause for asymmetrical advantages that the states may experience out of this exercise and which will lead to conflict among states. Any engagement between two countries will lead to problems as to who receives what in a given context. Opportunities of benefiting each other are limited in nature. More exchanges and interactions between the states according to the realist perspective will lead to more conflicts. They emphasize the view that interdependence leads to asymmetrical relations between states. As illustrated by Kenneth Waltz, “States that feel insecure must ask how the gain will be divided. They
are compelled to ask, 'will both of us gain?' but who will gain more?'(Waltz 1979: 105). If one partner depends on a trading relationship much more heavily than the other partner, then the latter partner ends up in a state of dependence. Under such circumstances, trade may not act as a deterrent to conflict but becomes a source of tension. As the trading activities between states take place at a rapid pace, probability of dispute emerging over such economic issues becomes higher.

Interdependence indicates a pattern of interacting relationship between two or more units, where the interactions, exchanges, and transactions between and among these units are mutually beneficial. Many international theorists have defined this relationship to have reciprocal effects upon all the interacting entities. This would mean interdependence creates more dependence of some nation states on the others. It is argued that dependence acts as a variant of interdependence that is characterized by a highly asymmetric form of transactions between two or more units (Caporaso 1978:18–19).

However, interdependence as a viable mechanism for economic engagement received significant attention among scholars immediately after the Cold War. Close contact between important powers was characterized by economic interdependence rather than by dependence. This is amply demonstrated in Hirschman’s work mentioned earlier. According to him, economic engagement is a long-term transformative strategy. As one state gradually expands economic interaction with another targeted state, the resulting (asymmetrical) interdependence creates vested interests within the target society and government. The beneficiaries of interdependence favour such an arrangement and they protect their interests by pressurizing the target government to accommodate the source of interdependence. Economic engagement is a form of structural linkage. The structural changes needed for the state to remain engaged in economic interdependence are domestic political change and foreign policy accommodation. It is a means to know other states’ needs and suggest changes to achieve objectives of the state that is initiating the interaction. In a way, the initiating country is imposing pressure on the target country. This kind of engagement will lead to asymmetrical relationship between the two countries.

Economic interdependence is a process built over a period. According to Hirschman, it is injected in a careful manner to the target economy leading to a gradual, almost
imperceptible transformation in domestic politics. The problem is that it is difficult to control the flow and effects of economic interdependence once a target economy begins to open to international economic exchange. Sometimes, the effects of interdependence are more likely to be shocking and disruptive than incremental and stabilizing. The experience of the "Asian tigers" during the 1990s illustrates this point amply. These countries opened their financial markets to find portfolio investment first flood in and then abruptly flood out, leaving collapsing currencies, plummeting growth rates, and beleaguered populations in their wake.

The overall arguments put forth by liberal theorists on interdependence are flexible in nature and provide a comfortable atmosphere for the countries to negotiate. An enhanced accommodative behaviour and a more open environment for outside interference on a country's sovereignty are the key dimensions of liberal tradition. These forms of liberal tradition are in sharp contrast to the realists who believe every action must be justified, and if they are in the interests of the state then they should be firmly pursued. Realists propagate the idea that interests should justify state's decisions. For example, interactions between the states must be less, because states are not at the same level of development.

This prolonged debate between liberals and realists on theory of interdependence has been sharply focused upon in a study (Copeland 1996: 5). Trade theories in new classical tradition or in multilateral trade liberalization, however, lack a way to fuse the benefits of trade and the costs of severed trade into one theoretical framework. Copeland has further suggested that the role of international institutions is important for a smooth conduct of trade. Such transparent trading activity through the WTO can invigorate the dependent state to look for theory of interdependence as a viable alternative for economic development.

**II.1.3 Dependency Theory and State-Led Development**

Among poorer and less industrialized nations, the notion of interdependence has been interpreted in a different way. The causal connection between modernization and interdependence seems reversed. Interdependence, instead of being an effect of modernization, is construed as a developmental strategy to accomplish national goal of modernization. An industrially backward country is keen to modernize but suffers
from a weak economy, backward technology, scarce natural resources and inadequate capital. Hence it remains backward till the time it finds outside help on a sustainable basis to launch its modernization drive. The logical conclusion, therefore, is to look for external assistance or foreign aid from international financial organizations and foreign governments. Edward L. Morse has explained this as a developmental strategy that opts for “the fostering of domestic goals through international behaviour” (1976: 93) while exposing a poor country’s fragile domestic economy to the vagaries of foreign economic penetration. This view coincides with the theory of dependency. This argument often took the form of state intervention, and a policy of industrialization was followed through import substitution which emerged in the 1950s. This view was advocated by Raul Prebisch (1959: 256), whose research had enunciated that the wealth of poor nations tended to decrease when the wealth of rich nations increased.

Andre Gunder Frank, an influential exponent of dependency theory, propounds a worldview which suggests that the wealthy nations of the world need a peripheral group of poorer states in order to remain wealthy. The poverty of the countries in the periphery persists not because they are not integrated into the world system, or not fully integrated as is often argued by right wing development economics but because of how they are integrated into the system. The poverty-stricken countries provide natural resources, cheap labour, a destination for obsolete technology and markets to the wealthy nations, without which they could not have prospered or have the standard of living that they enjoy.

First World nations tend to perpetuate a state of dependency through various policies and initiatives. This state of dependency is multifaceted involving economics, politics, education, banking and finance, sports, and all aspects of human resource development. Any attempt initiated by the dependent nations to resist or curb the influences of dependency will result in economic sanctions and/or military invasion and control. Such incidents may be rare. However, dependency syndrome is enforced actively by the wealthy nations by designing and controlling the rules of international trade and commerce. This kind of underdevelopment for dependent nations, according to Andre Gunder Frank, is a historical development and perpetrated with the rise of capitalism. For him: “contemporary underdevelopment is, in large part, the historical
product of past and continuing economic and other relations between the satellite
underdeveloped and the now developed metropolitan countries. Furthermore, these
relations are an essential part of the capitalist system on a world scale as a whole”
(Frank 1972: 3).

Dependency theory began to lose its influence around the 1980s leading to the
prominence of another model. The State-led Development Model became popular
around this time as a result of impressive economic growth achieved by countries like
Japan and Newly Industrialized Economies (NIEs). Flying Geese Model which
symbolized this State-led Development Model became an important paradigm shift in
the approach that many countries followed. Japan was the first to adopt this strategy
followed by first tier NIEs like Taiwan, South Korea, Hong Kong and Singapore. The
overall significant of this model was that it followed a typical pattern of industrial
restructuring and development of the countries where growth sequence was
maintained as imports, then domestic production and finally exports. This was first
highlighted by the Japanese economist Kaname Akamatsu in early 1940s, but gained
popularity in the 1960s.

These countries soon followed a different agenda like more market friendly policies
and more open to international trade and investment. These countries remained in the
good books of the core nations and were not treated anti-Western. Drawing
inspiration from the State-led Development Model of East Asian countries, many
developing countries followed a policy of economic liberalization and sought greater
integration into world markets. Onset of globalization around this period provided
much needed impetus to these countries as it brought capital technology, skills, etc. to
different parts of the world by creating a level playing field for all aspirant countries
to benefit optimally from the globalization and policies of liberalization.

This argument further gained significance through the writings of liberal theorists like
Robert Keohane and Joseph S. Nye (1977) who held the view that exposure to foreign
shores may not result in the negative consequences for the country rather it infuses the
countries to the global economic participation to spur their own development. Such
participation does not reduce the country to a dependent status of international
hierarchy. On the contrary, this interdependent developmental strategy through active
participation leads to positive gains for the country as they participate in or take
advantage of highly developed industrialized structure of international division of labour, free flow of capital and technology. Current world economy is experiencing such abundance of trade and investment taking place across countries and geographic regions and immensely reaffirming this aspect. Eckstein and Gourevitch have summarized such positive gains theoretically in a concise manner:

Significant potential gains accrue to an economy that takes advantage of the international division of labour and specialization across national boundaries. These gains are rooted in the fact that certain types of goods (e.g., advanced technology) can be bought more cheaply abroad than they can be produced at home, and vice versa. These cost differences arise from specialization on the one hand and differences in resource endowments and in the accumulation of man-made skills and machinery on the other.

Countries, like individuals, are quite differently endowed with supplies of product factors. Some areas have relatively more of one set of factors and less of another... Therefore, each area is best equipped to produce those goods that require large proportions of the factors relatively abundant there. It will tend to export such goods and import those in which other countries have a comparative advantage and which are therefore relatively cheaper abroad (Eckstein, 1977: 233–234).

The relatively free play of world market forces, promotes growth and wealth for the investors and recipients alike. As a country is drawn into the world economy, the laws of supply and demand and comparative advantage initially give it the “supplier-buyer” role... but the country does not remain there. Foreign capital touches off a series of reactions leading to ever higher levels of industrialization. There are no inherent obstacles to the realization of parity or “maturity.” The interaction of two unequal bodies leads to eventually their homogenization, to the elimination of inequality (Gourevitch 1978: 891).

II.1.4 Complex Interdependence

With the deepening of bilateral relations between countries and their opening up, relations among the countries became much more complex. During the eighties and nineties countries tried to forge better relations among themselves for mutual stability and prosperity. Keohane and Nye (1989) have developed the concept of complex interdependence to provide an understanding to this nature of relationship. According
to them, "complex interdependence has three main characteristics: (1) state policy
goals are not arranged in stable hierarchies, but are subject to trade-offs; (2) the
existence of multiple channels of contact among societies expands the range of policy
instruments, thus limiting governments' control over foreign relations; and (3)
military force is largely irrelevant" (Keohane and Nye 1989: 255). Interdependence
does not only increase cooperation but may also lead to conflict. In a systematic study
of cooperation among industrialized nations, Keohane (1984) pointed out that
interdependence in the world political economy generates conflict. People, who are
hurt by unexpected changes emanating from external factors such as increases in the
prices that producers charge for oil or that banks charge for the use of money, turn to
their governments for aid. Similarly, workers remain unemployed because of
competition from more efficient or lower-wage foreign production. Governments, in
turn, seek to shift the costs of these adjustments onto others, or at least to avoid
having them shifted onto themselves. This strategy leads them to pursue incompatible
policies and creates discord (Keohane, 1984). Although Keohane's analysis was based
on a study of the discord and cooperation among industrialized nations before the
mid-1980s, his perspective is quite relevant for examining current bilateral complex
relationship evolving between many countries (Zhao and Liu 2010: 2).

Interactions among nations sometimes create unexpected relationship. Their
interdependence often becomes complex in nature and largely leads to conflict. Nye
and Keohane suggest that to avert conflict and develop reciprocal relations, various
institutions have to play a positive role. This positive role leads to greater interstate
reliance as a result it changes the nature of the relationships between states and the
possible strategies that they then choose to pursue. Therefore, creation of such
institutions is necessary to engage in development oriented and non-military exercise.
As these institutions develop, states become increasingly reluctant to contravene
institutional norms, and sacrifice the benefits institutions may create. However, Nye

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7 Regarding the military force, Keohane and Nye have explained that military force is not used by
governments toward other governments within the region or on the issues when complex
interdependence prevails. It may, however, be important in these governments' relations with
governments outside that region, or on other issues. Military force could, for instance, be irrelevant to
resolving disagreements on economic issues among members of an alliance, yet at the same time be
very important for that alliance's political and military relations with a rival bloc. (Keohane &
and Keohane have also stressed that states may still go against institutional rules if they perceive that they are not benefiting them.

In another important work Walter Carlsnaes, Thomas Risse and Beth Simmons have explained that the complex interdependence implies that the growing interconnectedness may lead to political processes that are different from those typically described by realism. Instead of international politics dominated by states that focus on security as their goal and armed forces as their security, in a situation of complex interdependence actors also include international organizations. In such a situation security and armed forces lose their relevance. As the world is becoming more integrated, notion of complex interdependence is getting more thickened. Today it can be reasonably stated that in the regions of the world that are very closely interconnected, complex interdependence seems to comprehend processes and outcomes of the world politics much better than realism. In the last three decades the roles of the most of the international organizations and institutions have increased in the era of complex interdependence (2002:241). With the increasing prevalence of complex interdependence, the number of international agreements between the countries has also increased.

Similarly, another significant dimension to the understanding of the theory of interdependence came from Harold K Jacobson, a prominent international theorist of modern era. In his famous work titled "Networks of Interdependence: International Organizations and Global Political System" (1979) he has analyzed the role of international organizations in a holistic manner where he has detailed their achievements in the fields of security, world economy, social welfare and human rights. He has shown how international organizations have become an integral part of world governance system and have carved out a perspective for the international organizations to play a crucial role in the economic field through interdependence to arrive at the final goal of ‘individual development.’ Economic growth is a key component of this development process is adequately emphasized by Jacobson (1979: 220). Continual introduction of technological innovation, capital and their application though have resulted in the growth of individual countries yet with the advent of globalization, world economy experienced trade transaction of new forms of products
and services. To keep pace with such production and value addition, countries have increased their level of interdependence among states.

Jacobson found out that the effects of such interdependence have never been uniform and have varied with size and natural resource-endowment of states. However, such interactions continue to grow over the years. For the vast majority of states, economic growth has meant increasing interactions with other states. Most states that are now termed developed have had to import capital, raw material and technology from other states for their economic growth and this dependence on external sources of supply continue to exist in the present era reiterating the importance of interdependence.

With the recent growth and expansion of industrialization, trade with other states became an essential condition for achieving the advantages of specialization and economies of scale. Small states have been able to register better economic growth by relying heavily on foreign trade. Many countries including even the largest ones have also significantly depended on the external sources to increase their level of economic development (Jacobson 1979: 222). All these countries used transnational pool of scientific and technological resources and advancement. This dimension, as Jacobson suggests, is positive in nature, whereas interdependence has also provided less benign aspects. It has exposed countries to the harmful side effects of technology such as atmospheric and water pollution.

Interdependence adopted by the states has led to different forms of relations. Sometimes they are mutually supportive and symmetrical and more frequently they are asymmetrical and affect some states considerably more than others. That is because most of them are different in size and shape and having varied endowments. For instance, some countries are particularly dependent on import of particular raw materials such as petroleum, whereas others could be relying on export of certain commodities to one or a few countries for a substantial portion of their gross national products. This dependence is particularly vulnerable to shifts in external demand which under certain circumstances may not yield positive results. As a result exporting country might develop an asymmetrical relationship with the importing country. There are still some countries those rely more on trade with larger countries in order to increase their GDP bypassing their traditional trading partners (China and Hong Kong) to foster trade relations with the US. In this case the country seeking
more reliance with the bigger country may enter into an unequal relation with the latter. Though interdependence means dependence, this dependence differs in degree and with respect to issues (Jacobson 1979: 222).

Interdependence, according to Jacobson, has been expedited among the states through interactions of various international governmental organizations (IGOs). The growth of activity, relevance and influence of IGOs continue to dominate channels of interdependence in modern sovereign states. He has explained how the modern sovereign state is entangled in a web of international organizations in a world system to pursue its goals of achieving economic growth, security and human welfare. The most important role of IGOs is their function of communication networks. In performing this role they have “become effective instruments in narrowing the differences among the countries concerning basic values and for working towards the development of a significant consensus (1979: 419).” This significant consensus developed among all the IGOs has been helpful in making the modern sovereign state powerful by achieving economic growth and social welfare. Thus, interdependence has been a powerful medium of global integration.

Speedy process of globalization has also resulted in the evolution of complex interdependence. This turbulent\(^8\) globalization has given rise to an array of multiple trans-boundary forces and processes that reduce the government’s control over what happens within national boundaries and enable a set of new political actors to project social, economic, and political influence over a long distance. The main drivers of globalization are technological innovation, economic interdependence, demographic transition, political diversification, environmental degradation/concerns, and ideational convergence. Globalization behaves as a double-edged weapon. It can promote cooperation but also may result in new conflict (Zhao and Liu 2010: 2).

The concept of interdependence has gained more momentum with many states firmly believing that the benefits from participating in a competitive world economy far outweigh the compromises they make in terms of political autonomy and independence. In an international trading regime characterized by interdependence, it

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\(^8\) This turbulent globalisation is explained by Rosenau in his book *Turbulence in World Politics*. According to him “the turbulent model” has created the boundaries between domestic and foreign affairs nontransparent and porous.
is the ability and capacity of a nation to cooperate and accommodate than the ability to do it alone that merits emphasis. Gains that would accrue from this interdependent world would facilitate the process of economic development and would allow the poor to catch up with the rich. In the end all would benefit and prosper.

II.2 Sectoral Approach

Similarly, the theoretical basis of sectoral approach that evolved with the progress of trade liberalization provided a sound understanding on the economies that were interested in capitalizing trade gains from liberal world economy. Literature suggests that various countries have adopted the sectoral approach in many sectors of their economies. These essentially include agriculture, industry, and services. More recently several some countries have adopted sectoral approach even in sub-sectors such as IT. Such a specific sectoral approach on important sub-sectors like IT was initiated because with the increasing pace of global business activity, significance of IT as an important tool was recognized.

In addition, two types of sectoral approach can be noticed (Panagariya 2003: 3). First, one or more sectors may be identified and all members may liberalize imports within those sectors. This is sometimes called a ‘zero-for-zero’ approach. Second, each member may seek liberalization from its major trading partners in sectors of its comparative advantage in return for its own liberalization of sectors of comparative disadvantage. The sectoral approach to trade liberalization has witnessed major emphasis in world economy after the Uruguay Round of trade negotiations and establishment of the WTO. The first type of sectoral or ‘zero-for-zero’ approach has directed much of the liberalization taking place in the area of trade in services during and since the Uruguay Round. The member countries have identified broad sectors such as financial services or telecommunications and bargained market access within these sectors. This approach was later on applied to trade in goods during the first WTO Ministerial held in 1996 at Singapore. During this Ministerial, a group of countries signed the Information Technology Agreement (ITA) whereby they committed themselves to significantly liberalize and promote free trade in a set of technology products.
Under the second type of sectoral approach based on the theory of comparative advantage, all industrial products come under the negotiation but members negotiate with their partners sector by sector. In principle, this approach can be expected to yield an efficient outcome. Each member will seek liberalization in sectors and countries where its exports face the highest barriers. In turn, its trading partners will seek access to its most protected sectors. Thus, the bargain is biased in favor of lowering the highest tariffs. This approach may invite complex administrative procedure if trade patterns happen to be such that each country exports its goods to one set of countries but imports them from an entirely different set of countries. For instance, if India’s exports go mainly to the US while its imports come from the European Union (EU), bilateral negotiations between India and its two trading partners become difficult. While it remains to be empirically verified, one suspects that under the current structure of trade and tariffs, this is not a significant problem. Goods subject to high tariffs in developing countries are largely imported from developed countries and evenly distributed over the latter. Conversely, major exports of developing countries face high barriers in all developed countries — examples include agricultural products and apparel (Panagariya 2003: 4-6).

Policy makers, economists and trade and industry leaders have passionately argued in favour of this liberalization approach (Rae et al. 2001: 294). It is pointed out that sectoral approach gained currency in recent years because movement of MNCs has significantly increased across the borders. Countries are opening up certain specific sectors to benefit from the entry of MNCs. As a result, countries are witnessing selective international product or services specializations with their technological capabilities and skills. Typically, a manufacturing process combining with high or medium or even low technology operations would find it appropriate to develop an integrated production structure wherein each unit specializes in the operations suited to its own level of technology and human skills.

Regional integration occurring in many parts of the world especially in East Asia and South East Asia after China has joined the WTO symbolizes such an approach. Regional integration would facilitate such venture even without formal integration. Individual countries may seek to enter into such sectoral initiative liberalization with other countries to ease production network and movement of goods. The Asia Pacific
Economic Cooperation’s (APEC) sectoral liberalization efforts are example of this approach (Rae et al. 2001: 295–296).

More recently, sectoral approach has also been initiated into handling the issue of global climate change. Sectoral approach is now on the international climate policy agenda, and has been discussed at the two recent United Nations Framework Convention on Climate Change (UNFCCC) and COP\(^9\) meetings in Bali (2007) and Poznan (2008). They formed an important part of the negotiations that took place at the Global Climate Change conference in Copenhagen in December 2009. Sectoral approach involves organized action by key product producers in a specific industry sector and their host governments to address the greenhouse gas emissions from their products and processes within the UNFCCC framework. Specific actions taken would differ from sector to sector, dictated by the characteristics of each sector’s structure and technologies. Actions would also differ from country to country, following the principle of common but differentiated responsibilities laid out by the UNFCCC. Thus a sectoral approach is not a one-size fits-all recipe, but a blend of policies and actions organized around each sector’s unique characteristics and the location of production facilities. While focusing on the characteristics of each sector, a sectoral approach would not exclude actions across different sectors.

In advanced industrial countries, the service sector plays a crucial role in creating a robust economy. It accounts for a large portion of each nation’s gross domestic product. Despite the increasing importance of services trade, the multilateral trading system began establishing rules to open markets in those sectors only in 1995, with the creation of the General Agreement on Trade in Services (GATS) at the conclusion of the Uruguay Round of trade negotiations. Decisions at the end of the round did provide for continuing negotiations in the services. Only with the renewed commitment to a new round of trade negotiations, undertaken in November 2001 at Doha, Qatar, serious individual sectoral negotiations have come into prominence. The urgency with which services sector needs sectoral liberalization is well founded by Peter Evans (2002: vii). It is analyzed that though services liberalization has come

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\(^9\) Conference of the Parties, an annual UNFCCC meeting held to discuss and negotiate further progress under the Kyoto Protocol
into effect late, yet there is an imperative need to expedite the liberalization process at sectoral level to integrate countries with the world economy.

Both at the national and at the international level, government policies often lagged far behind the changes in industry structure and competition forced by technological imperatives. Despite the solid and accumulating evidence of the benefits of both domestic and international liberalization of energy services markets, formal negotiations in the GATS have almost ignored energy as a service sector until quite recently. This is because the initial negotiations in the Uruguay Round did not count energy services as a separate sector and only a few countries made commitments regarding trade liberalization (primarily in oil field services). Since 2000, however, a core group of countries, led by the United States, Venezuela, and to some degree the European Union, has made a determined effort to clarify and expand the GATS classification system regarding energy services as a prelude to an effort to secure substantial liberalization commitments in the sector by the end of the Doha Round (Evans 2002: ix-x).

One of the most striking developments affecting the globalization of services during the past two decades or so has been the revision of government policies towards the services sector [United Nations Conference on Trade and Development (UNCTAD) and The World Bank 1994]. Two or three decades ago, governments of both developed and developing economies strictly controlled the extent and form of foreign (and often, domestic private) involvement in major services such as telecommunications, transport, banking and advertising, considered to be strategically, politically, or culturally sensitive industries, as well as in community services such as education, health and public utilities. The qualitative changes in service industries mentioned earlier, coupled, in some cases, with financial constraints affecting state-owned service enterprises have forced governments to review their protectionist policies and set in motion a process of liberalization of policies with respect to domestic as well as international production and provision of services. Sectoral liberalization of services has been given adequate priority by the individual governments. Domestic as well as foreign competition are increasingly viewed as tools for increasing the efficiency and productivity of service industries, which in turn
are recognized as being critical for economic performance generally (Mallampally and Zimny 2000: 44).

Currently, many countries have laid down emphasis on strengthening knowledge economy as they found growth of this sector of economy is critically attached to the world economy. The knowledge economy is often considered to mean only high-technology industries or information and communication technologies (ICTs). It would be more appropriate to use the concept more broadly to cover how any economy harnesses and uses new and existing knowledge to improve the productivity and increase overall welfare. Sectoral approach to developing knowledge economy is a priority in several countries. In an era of globalization countries like China and India have steered their economies by identifying the sectoral strength in their economies. China with its manufacturing and industrial strength in computer hardware and India with business process outsourcing and IT services have excelled in world economy. This priority in sectoral approach has helped them to integrate globally into the knowledge economy (Dahlman and UTZ 2005: 32).

In another important study it is highlighted that how a country like Finland which was in the late seventies stood at the lower rank of OECD countries could significantly improve its economic growth in the late nineties. Its sectoral emphasis on strengthening the R&D sector has equipped it to compete with the economically powerful nations of OECD. It has made large R&D investment in the economy accounting for approximately 3.5 percent of GDP, which is the second highest in OECD and the third highest in the world, just after Sweden and Israel. Increasing R&D has helped the economy coupled with national industrial and innovation strategies. These national strategies were important for consensus building, for example, by organizing economic policy programmes. Specialization in high-tech and R&D intensive production needs to be preceded by major structural change in economic and social structures. Recent research seems to indicate that poor countries get richer with this sectoral specialization (Dahlman, Routti and Antilla 2005: 5-6).

One of the important sectors that saw considerable emphasis in trade was textiles and clothing (T&C). Since 1974 the T&C sector was governed by Multi-Fibre Agreement (MFA), which put import restrictions on T&C trade and functioned as an important barrier for developing countries like China which had established their global
competitiveness in this sector. In January 2005 MFA was phased out and the quota restrictions were lifted. This allowed a country like China to accelerate its exports in the world.

11.2.1 Intra Industry Trade

The sectoral approach to trade before the Uruguay Round of negotiations was largely addressing issues relating to Intra-Industry Trade (IIT) and continues to do so. IIT refers to exchange of trade within same products over a period of time. The concept is generally applied to international trade as same kind of goods and services are exported and imported. Products such as agri-food, textiles, automobiles, and IT services form part of the IIT. The traditional model of trade was set out by the models of David Ricardo and the Heckscher-Ohlin (Findlay 1995: 46) which tried to explain the occurrence of international trade between countries. Both models used the idea of comparative advantage and an explanation of why countries trade. However, many economists have argued claiming that these models provide no explanation towards intra-industry trade, as under their assumptions countries with identical factor endowments would not trade and produce goods domestically. Hence, over the last two decades as intra-industry trade has developed, many economists like Paul Krugman and Maurice Obstfeld have looked at other explanations.

11.2.2 Horizontal and Vertical IIT

There are two kinds of IIT. One is horizontal and the other one is vertical. Horizontal IIT refers to trade in similar products but with different characteristics or attributes, while Vertical IIT involves trade in similar products of different qualities.

Recent studies on IIT have brought to light rapid increases in vertical IIT and horizontal IIT. Krugman (1979: 469) has demonstrated that horizontal IIT is influenced by scale economies and preference diversity, while Falvey (1981: 497) has shown that factor endowment determines vertical IIT. Moreover, Jones and Kierzkowski (1990) and Deardorff (2001a) showed that locational advantage with cost of service links determines either inter-industry trade or vertical IIT. Thus, IIT must be decomposed into horizontally and vertically differentiated products and analyzed separately.
In the past twenty years, a number of theoretical studies have analyzed country and industry specific influences on intra-industry trade. Two of the most common assumptions made in the theoretical models of horizontal IIT are that trade is associated with imperfectly competitive product markets and that the output of relevant industries consists of sufficiently differentiated products. Both assumptions have important implications for the analysis of the gains from trade and trade policy. Spence (1976), Dixit and Stiglitz (1977: 297–298) and Krugman (1979: 470) and Lancaster (1980: 152) present a number of models of horizontal IIT based on monopolistic competition markets (Fung 1991: 391-392). Empirical studies argued that horizontal IIT plays a particularly large role in trade in manufactured goods among advanced industrial nations.

Over time, industrial countries have become increasingly similar in their levels of technology and in the availability of capital and skilled labour. Since major trading nations have become similar in technology and resources, there is often no clear comparative advantage within an industry, and much of international trade therefore takes the form of intra-industry specialization, that is probably driven in large part by economies of scale and other reasons rather than inter-industry specialization driven by comparative advantage. Shaked and Sutton (1984) show the mechanism of vertical differentiation based on quality under imperfect competition (natural oligopoly). They point out that international trade takes the form of intra-industry specialization that is driven by economies of scale, which is likely to be of practical relevance to high technology industries where the main burden of quality improvement falls on fixed research and development (R&D) costs, so that unit variable costs rise only slowly with quality (Chang 2008: 5–6).

In another study it is observed that, IIT arises because consumers who have different incomes look for different quality products, and because in a given country, the range of produced qualities does not correspond precisely to the demanded range of qualities. The pattern of IIT trade reflects differences in technology and in income distribution. This is observed more when the developing countries export low-quality, low cost varieties, while the developed countries export high quality, high cost varieties. This pattern is observed in many industries for example in textiles, toys, etc., (Flam and Helpman 1987: 821). Elaboration of this concept is also highlighted
by many experts like Balassa, Grubel and Lloyd, where they observe product differentiation was seen as an important ingredient in its explanation (1975: 42). Following the contributions of Dixit and Stiglitz (1977: 298) and Lancaster (1980: 153), product differentiation has become explicitly modelled in formal analyses of IIT (Greenway et al. 1995: 1506).

Global competitiveness of a particular industry became the driving force behind adopting this sectoral approach. The key inputs for an industry based sectoral approach are broadly the price, technology, capital, complementary trade policies, and global demand and supply. Theoretically, current sectoral approach draws a lot from the global value chain. With this specific emphasis of developing product specialization and global competitiveness of sectors, many counties are adhering to sectoral approach to trade liberalization. Post-entry phase has witnessed a focused sectoral approach where more and more member countries are joining through formal regional integration or through specific bilateral relations. China has also embraced this approach for its regional as well as global integration.

III Praxis of Interdependence and Sectoral Approach by China

China adopted interdependence and sectoral approach as two viable strategies to fully integrate with the world economy. As it underwent a major shift in its approach from a socialistic pattern of economy to a market based economy through policy of economic reforms and open door, it gave a signal to the world that it wanted to be a part of the global economic community. With this objective in mind, it began its efforts in 1978, pursued them through 1980s and 1990s by embracing these strategies.

III.1 Praxis of Interdependence

As the influence of Maoism began to erode by mid-1978, the significance of self-reliance declined rapidly. A new kind of approach emerged on the horizon whose thrust looked closer to the Western theory of development. Since 1978, China has actively pursued the policy of interdependence with the outside world. The new approach reduced the significance of self-reliance. Concepts like “international cooperation,” “mutual benefit,” “equal exchanges”, and “supplying to each other’s needs” (Friedrich W.Y.Wu 1981: 468) began to shape the thought process of the Chinese leaders in their pursuit of modernization. Post-Mao leadership and the
Western theorists of interdependence began to realize that the practice of interdependence will not only help China to modernize itself domestically but also will create more benefits such as securing peace, prosperity and dignity for the world.

Emphasis was laid on pursuing active integration with the global community. Deng Xiaoping was convinced that stability and economic development could only be achieved if China actively participated in global economy. To further this objective, during the 1980s, China entered into agreements with various counties in the field of economic exchanges and cultural relations. He emphasized that, “China should concentrate on economic development” by adhering to the policy of opening up to the outside world for its modernization and economic prosperity. He propounded the idea that “the policy of reforms and opening up will not be waived for hundred years” (Deng 1993: 350–351). According to him, “both planning and market are ways of developing productivity” (Deng 1993: 351). This needs to be harnessed by fostering need-based economic and overall cordial relations with developed and developing countries. These ideas led to a positive approach towards interdependence in China.

Initial support to this doctrine of interdependence as a part of the dominant strategy for China’s modernization is also amply demonstrated in Hua Guofeng’s *Report on the Work of the Government* (June 18 1979 p: 11), which he addressed to the Second Session of the Fifth National People’s Congress:

> Economic exchange between countries and the import of technology are indispensable, major means by which countries develop their economy and technology. It is all the more necessary for developing countries to import advanced technology...in order to catch up with those economically developed... We hold that the development of economic, technological, scientific and cultural exchanges and cooperation among various countries on the basis of equality and mutual benefit will help to promote their friendly relations and preserve peace.

Such remarks created deep impression in the minds of the ruling elites of the Chinese state. A close examination of China’s economic policies such as inviting foreign direct investment (FDI), acquiring foreign technology and adopting Western ideas in early 1980s adequately signified that the PRC was slowly inching towards the strategy of interdependent development. Such a strategy provided the necessary ideological justification for a policy change.
For its own development China required foreign capital for which it had to depend on developed countries. Developed countries and financial institutions needed a big market like China to expand their business and engagement. So, both benefited mutually from the system, which established interdependence as a viable option for mutual modernization and development.

Foreign trade soon gained prominence. Instead of relegating foreign trade to a secondary operation in the national economy, the new leadership under the stewardship of Deng regarded foreign trade as a key element of China's modernization. Earlier sensitive policy of depending on the import of capital equipment, up-to-date scientific and managerial know-how and skilled manpower was no longer remained a hindrance. Since late 1970s, China's participation in the world economy shot into prominence. More than 85 percent of its foreign trade took place with non-communist countries in 1979 and 1980, out of which, 65 percent was with developed countries. Its trade with socialist countries accounted for less than 15 percent of its total foreign trade.

Unleashing of economic reforms and opening up to the outside world that started in 1978 brought several gains by which China attained modernization and fostered its economic development. Unprecedented economic growth and its emergence as a key economic power further deepened its cause of interdependence in the world. Such rapid economic and social changes fructified because China followed a more flexible and accommodative approach to world economy. Moreover, China's consistent efforts to integrate itself with the world economic order were noticeable when it made efforts in 1979 and 1980 to join multilateral institutions like the World Bank, IMF, and others. These institutions were keen to provide financial and other support to China. In return, China made structural adjustments to suit their requirements.

One of the major turning points in China's interdependent approach came when China negotiated to join the WTO in 1986. 15 long years of negotiations provided enough justification to follow a tradition that would reflect a more open, legal, predictable atmosphere to interact and exchange. China engaged in a variety of tough negotiations finally conceding to significant concessions demanded by developed countries to get an entry into the WTO. All these significant changes and developments provided justification in revisiting the theoretical understanding of China's relation with the
outside world. Its engagements with international community in political, economic, and social spheres do highlight some liberal tenets of interdependence theory.

While the Chinese leaders might have resisted such high pressures regarding reforming and bringing in more transparency to the Chinese economy, yet they were also interested in access to foreign markets to gain foreign exchange and buy foreign technology (Sutter 1996: 18). At the time of opening up to foreign investment, some sections of the Chinese society were opposed to the idea of receiving foreign capital from Western countries because they felt that these powers would intervene in the internal affairs of the policy making and ultimately promote their own interests at the cost of country’s economic development. They held a long debate over the issue i.e., whether external dependence for China in some ways could not be much helpful. However, the dominant view in the state was in favour of receiving foreign capital. The liberals in the Chinese society argue that foreign investment is regarded as the catalyst and may be the best and quickest way to develop the Chinese economy and strengthen the country as a whole whereas the conservatives expressed that such a step would end up in more social disparity and domestic apathy (Yong 2000: 2).

According to Prof. Andong Zhu: “Interdependence was a big strategy for China to connect to the outside world. It could get market access to the EU and the US by adopting a strategy of interdependence. Industrialized countries could boost their exports to China. It was mutually advantageous to both the trading partners” (Zhu 2009: Personal Interview).

Praxis of interdependence continues to be a central element in China’s post-entry phase. This approach has been intensified especially after China had joined the WTO in 2001. There is unanimity in the leadership that interdependence is an appropriate strategy to engage with the world. According to Prof. Yin Xiangshuo: “Interdependence will be a mode of strategy for China as growth of China will squarely depend upon its mutual relations with the world.” In the post-entry era, China continues to improve its performance in many fields. It has emerged as the second largest exporter and third largest importer in the world. Its trade to GDP ratio has increased to 69 percent during 2006–08 from 22 percent in 1986 at the time of its application to the GATT membership (WTO Statistics Database). Its merchandise world trade has reached US $ 1.28 trillion in 2008–09. It has received FDI to the tune

III.1.1 Through Joint Ventures

Very early on, China realized joint venture (JV) to be a viable option for investment. Soon the government promulgated the law: "The Law of the PRC on joint ventures using Chinese and Foreign Investment" in July 1979 which was immediately adopted by the Second Session of the Fifth National People's Congress and came to be regarded as a path breaking step as it would propel foreign investors to come in big numbers to China (Beijing Review July 20 1979: 24). The advantage in the formulation of such a law was that it had no upper limit in the share of foreign equity in the joint ventures. Since the promulgation of the law there have been several contacts, consultations, and negotiations made between foreign investors on the one side and the Chinese government on the other (Beijing Review April 20 1981: 16).

Continuous influx of Western capital, technology along with technical know-how and managerial skills began to contribute to the modernization process in a significant manner. The Government's policy of attracting foreign investment provided impetus to setting up Special Economic Zones (SEZs). Guangdong became an attractive destination for such investment. Within a short span, about 600 contracts for "compensatory trade", "cooperative production" and "processing trade" with foreign businessmen were signed (Beijing Review, March 3 1980: 8). This new initiative of joint ventures in the history of China and other forms of economic cooperation between China and capitalist countries consolidated China's approach to the world economy. The new trade practices introduced by the post-Mao China since 1979 which are now justified as "flexible methods commonly used in international trade" (Beijing Review July 27 1979: 14) are sometimes interpreted as sort of an open acknowledgement of China's willingness to join, in a limited sense, the capitalistic global market. However, the policy makers and economic planners took a different view of the entire development. They rather insisted that China should flexibly apply the laws of supply and demand and comparative advantage in international trade to accelerate its domestic modernization (Yuan et al. 1980: 43-44). It is further argued by many theorists that by participating in international trade, a country is able to benchmark its division of labour. An active participation in international division of
labour, would allow China to save its labour and at the same time speed up the contribution of China's productive forces.

In the post-entry phase joint venture activities grew significantly. Since China's entry and the government's relaxation of investment regulations, foreign investors have been choosing to establish more wholly foreign owned enterprises (WFOEs), which in the first three quarters of 2004 made up nearly 67 percent of the value of new foreign direct investment projects in China. Before the entry, most of the JVs were in the nature of equity based or contractual based JVs. During the same year the US had invested in several projects through JVs in China. There is continuity in the policies relating to JVs such as government approval process, approval authorities, format of agreements, tax breaks, legal standing, and the means, laws, and authorities for dispute resolution after the entry. The JVs continue to be a preferred medium of doing business in China.

III.1.2 Through FDI

The Chinese leaders had also recognized the significance of FDI in their drive towards modernization and economic prosperity. In the 1980s and 1990s when China opened out in major way to participate in world trade it visualized foreign capital as an effective instrument to secure its faster economic growth and successful transformation in relation to establishing 'social market economy with the Chinese characteristics'. The Chinese leaders felt that the foreign capital has the necessary wherewithal in terms of providing monetary value, the required technology and the management practices, production techniques and a sense of heightened competition essential for achieving higher economic growth. It is this necessity, which prompted China to consider that foreign capital is much needed and important for speedy modernization as well as for it to gain access and increase share in world trade.

With the establishment of SEZs, China could invite large amount of FDI for its economic development and secures access to international trade. This happened at a time when major shift in the trade flows to developing countries was taking place. During the 1980s developing countries received about US $15 billion, about one third of the total world trade flows. In the 1990s developing countries' share continued to rise, though developed countries were still receiving more (Li and Li 1999: 32).
The contribution of overseas Chinese played a significant role in inflows of FDI into China. Most of the foreign capital, which flowed into China, came from the overseas Chinese. In 1987, 70 percent of FDI came from Hong Kong, Macao, Taiwan, Malaysia, and Singapore. This share, however, declined over the years to 67 percent in 1996 and 54 percent in 1997. By 1995, it was also found that Hong Kong investors owned 96 percent of Shenzhen’s textile industry and 95 percent of its garments industry. This indicates that the foreign inflows to China from these countries were considerably controlled by the overseas Chinese (Kanungo 2007: 13).

Since 1993 China has been the biggest recipient of FDI in the developing world. To maximize FDI’s benefits in economic development, the Chinese government had employed a variety of favourable measures like providing tax benefits to foreign investors, creating an enabling environment, providing a legal based transparent regime, removing most of the restrictions on foreign investments, and finally allowing Foreign Invested Enterprises (FIEs) to increase their export volumes. These policies proved beneficial for these FIEs, which came in large numbers to invest in China. As a result, wholly foreign owned enterprises (WFOEs) replaced joint ventures as the most popular form of FDI in China. The FIEs have become major players in China’s industrial restructuring. Their relatively large contribution to domestic investment and to manufacturing output, their higher capital intensity and labour productivity compared to domestic firms, indicate potentially strong effects on China’s industrial structure and efficiency. While contributing decisively to China’s export performance, the FIE production is also geared towards more domestic consumption. China’s share in international trade has trebled, rising from less than 1 percent in 1980 to more than 3 percent in 1999. China has become the second largest recipient of FDI, after the US, with cumulated inflows amounting to more than US $ 300 billion at the end of 1999. By 2001 at the time of its entry into the WTO, China had accumulated about US $ 450 billion (China Statistical Yearbook 2003). It continued to register increasing amount of FDI surpassing most of the countries in the world. In 2008 it had accumulated FDI to the tune of US $ 899 billion.10

The post-entry phase changed the map of FDI in China. Most of the investors felt confident as China’s investment regime became rule-based, transparent, legally-binding, and predictable. China emerged as a favourable destination for FDI. Multinational enterprises (MNEs) across the world continued to pour in to organize their production activities in accordance with their corporate strategies and competitive advantages of the host country. Through this process, the MNEs secured market access to China and could multiply their exports by using China as a globally competitive base. For example, the MNEs from Japan are willing to move their production bases to China to remain competitive in the face of rising wages and an appreciating Japanese yen. They also supplemented their business activities by increasing their production for domestic consumption. Source countries that enjoyed this advantage are mostly drawn from East Asia such as Hong Kong, Taiwan, Japan, South Korea, and also include industrialized countries like the US, the EU and Canada. These activities flourished in China due to emphasis on the efficacy of interdependence.

In 2001, at the time of China’s entry into the WTO, Hong Kong was the biggest foreign investor totaling about US $205 billion followed by the US amounting to US $40 billion. Japan and Taiwan were at the third and fourth places respectively (Ministry of Commerce China 2003: 131). Asian investors continued to lead investment in 2004 and 2005 with the US coming in at fifth position (UNCTAD World Investment Report 2006). FDI continues to be a key input in China’s integration with the world economy. During the 1990s and till 2004 China continued to experience maximum inflows of FDI into its traditional manufacturing sectors like textiles, toys, leather products, etc. However, the trend has changed towards technologically intensive sectors like equipment manufacturing, electrical machinery, telecom, high-tech mobile industry, and entertainment. After joining the WTO in 2001, the government’s decision to permit China to be adequately used by multinational corporations as an export platform has made the country a major competitor for other Asian export-led economies such as South Korea, Singapore and Malaysia.
III.1.3 Through Exports and Imports

In the last two decades China has accomplished rapid economical growth based on trade expansion. The Chinese export sector has averaged over 35 percent of the total production output of every year since mid-1980s (Moore 2002: 2). The FDI has been instrumental in such significant export growth. Trade has enabled the inflow of foreign technology, know-how, and has, in addition, built up capital for development of production and infrastructure. In recent years China has increased not only its export of labour intensive goods like textiles, toys or leather products but also increased its production of technology-intensive products such as electrical machinery equipment, computer hardware, telecom products, etc. (Fukao et al 2003: 3).

According to OECD statistics, products categorized as electronic machinery equipment have experienced the highest export growth in China during 1992–2003. China’s exports to the world have witnessed a continuous rise, registering US $ 1.4 billion in 1995 while they touched the US $ 2.6 billion mark in 2001 at the time of its entry into the WTO (World Trade Atlas Online Database, 2009).

Since the opening up of the Chinese economy in 1978, China’s exports have gone up rapidly. From 1978 to 2005, exports have increased more than ten-fold (Swedish Institute of International Affairs, 2005) and since 1996 China has contributed one quarter of the global growth in international trade. It is currently one of the largest trading nations after the US, Germany, Japan, and France. Since the early 1980s the Chinese authorities have used a dualistic trading regime combining export promotion together with relatively strong import protective measures. Import protection normally hurts the export sector by raising cost of capital and imported intermediate inputs required for production. Thus in order to neutralize this effect, export-orientated industries have been subject to tariff exemptions on imports. Since the mid-1990s, however, the level of protection has been progressively lowered (Lemoine 2000: 9). China’s entry into the WTO has heralded a new beginning and also amply demonstrates its desire to continue the drive towards trade liberalization. However, with a much more open economy, foreign competition for the Chinese products has increased and will intensify more in the future. According to Lemoine (2000: 55), China follows the classical theory of comparative advantage. It is argued that 75 percent of China’s exports come from sectors where it has a comparative advantage.
like textiles, toys, minerals, etc. This ratio has, however, progressively diminished since the 1990s because of high demand in technology intensive products. Lemoine (2000: 55) found that China has a comparative weakness in sectors that are capital and technologically intensive (machinery, engines, etc). Trade patterns, however, show that it is in these sectors that exports are growing most rapidly lately, particularly since 2004–05 (World Trade Online Database, 2008).

Empirical findings also show that FDI plays an important role in China’s export sector. A survey by Organization for Economic Co-operation and Development (OECD 2005c) indicates that, foreign investors dominate the export sector accounting for over half of all overseas trade (Moules: 2005). International division of value added production chains is getting more and more common as international companies are searching for cost reduction and economy of scale in production. Intermediate goods account for an increasing part of international trade as countries specialize in segments of production in which they have a comparative advantage. This is especially true for China since it has been recognized as one of the cheapest locations for production and has developed a specialization in labour intensive stages of production. The share of processing products in the total volume of trade has increased faster than overall trade since 1980. Currently a large segment of China’s manufacturing industry is internationalized with respect to their capital, supplies, and outlets.

Similarly its imports had also significantly gone up during 1995–2005. China’s total imports from the world were to the tune of US $ 1.3 billion in 1995, which went up to US $ 2.4 billion in 2001 (World Trade Atlas Online Database 2008). Imports have played a key role in China’s domestic production, technology upgradation and export promotion drive. Raw material and intermediate products have been often necessary inputs into processes that yield finished goods, which can then be sold outside to promote China’s exports. Segmenting total imports in 2001, importation of primary goods amounted to the US $ 45.74 million, or 18.78 percent of total imports and importation of manufactured goods were to the tune of US $ 197.81 billion or 81.22 percent of total imports. By 2005, importation of primary goods had increased by 222.91 percent to register US $ 147.71 billion, representing 22.38 percent of 2005 total imports, whereas importation of manufactured goods had increased 158.96
percent to reach US $ 512.24 billion, representing 77.62 percent of 2005 total imports (National Bureau of Statistics of China, 2006). This trend continued till 2008. Since the beginning of 2009 the total value of foreign trade has declined. The customs statistics also show that the total value of foreign trade reaches US $ 124.95 billion in February, down 24.9 percent. Among them, the exports were to the tune of US $ 64.9 billion, down 25.7 percent, while the imports were US $ 60.05 billion, down 24.1 percent (General Administration of Customs, China: 2009).

Imports of primary goods in 2005 were more in demand than the manufactured goods, which suggests that production in China is becoming increasingly important relative to the Chinese consumption, though both are growing considerably, given the use of many primary goods as major inputs to produce finished products for exporting. China’s major importers are Japan, Taiwan, Hong Kong, Korea, Thailand, and the US. It’s a growing trend that China is importing more from its neighbouring countries. The WTO accession has encouraged China to import many of its “metals and petrochemicals from Korea; electronics from Singapore; light manufactures, petrochemicals, machinery, equipment, and electronics from Taiwan; and metals, petrochemicals and other manufactures from Japan” (Guoxing 2009: Personal Interview). Following the accession, newly-industrializing economies were well poised to provide China with its growing demand for services in transportation and communications, while the already-established Hong Kong was well prepared to provide a host of financial services.

The revised Foreign Trade Law, issued in April 2004, provides for trading rights to be granted automatically through a registration process for all domestic and foreign enterprises and individuals. After pressure from the US, tariff-rate quotas (TRQs) on protected agricultural products were expanded in line with the WTO obligations. To promote foreign trade China has undertaken a huge programme of aligning national technical standards with international standards. As a result in 2005 about 1,416 national standards had been abolished. The post-WTO phase continues to witness liberal foreign trade policy which has led its trade to GDP ratio to increase to 69 percent in 2006–08 from 22 percent in 1986, at the time of its application to the GATT (Statistics Database WTO). Its merchandise world trade reached US $ 1.28 trillion in 2008–09.
III.1.4 Through Multilateral Institutions

China has been an active participant in multilateral economic arrangements. It is establishing its trade cooperation at bilateral, regional, and multilateral levels. In the 1980s, it had taken the initiative to join the Pacific Economic Cooperation Council (PECC) and finally joined it in 1986. It remained committed to promoting economic cooperation and interaction, collaboration on various matters of common interest in a range of fields and jointly develop resources “so as to realize the economic potential of the Pacific Basin and make it a prosperous, progressive and peaceful region” (Klintworth 1995: 489). China’s commitment to multilateralism was further heightened when it became a participant in the Asia Pacific Economic Cooperation (APEC) process in 1989–1990. It was convinced that the APEC is a forum, which will provide opportunities to countries in the Asia-Pacific region and can challenge the hegemony of the US. The Chinese government remained committed to opposing protectionism and supporting free trade and investment. China believed that multilateralism is a medium that promotes spirit of interdependence (Wang 2000: 481).

China’s participation in multilateral fora and support for free trade and investment has come a long way from the time that China viewed multilateral organizations as instruments of perpetration of imperialism and out rightly rejected those ideas or be a party to them. It had even adopted interdependent approach to economic prosperity much before it initiated its process of accession to the WTO. For instance, its close economic and trade relationship with Hong Kong is a clear example of this strategy. “Hong Kong is a window for China. China benefited by fostering close alliance with Hong Kong and Hong Kong’s entrepreneurship and business and industrial houses invested in China for their business expansion and profit making,” says Prof. Lok Sang Ho (Ho 2009: Personal Interview). Prof. Hong Song said: “Hong Kong played a key role in China’s economic development. China would not have developed without the assistance of Hong Kong. So China had followed interdependent approach much before for its economic development.” (Song 2009: Personal Interview).

Countries from the Southeast Asia and other parts of the world identified China as a market of billion people with rising income. China experienced its market reforms producing favourable external results like raising its export growth. Such
interdependence suited both sides (Guoxing 2009: Personal Interview). The ASEAN, Australia and New Zealand had also taken deep interest in forging regional cooperation with China to benefit from the world economy (Song 2009: Personal Interview).

In the post-entry phase towards end of 2006, China had signed Comprehensive Economic Partnership Arrangement (CEPA) and, free trade agreements (FTAs) with Hong Kong, Macau and, the ASEAN, Chile, and Pakistan respectively. It signed FTA with New Zealand in 2008; negotiations with Australia, the Gulf Cooperation Council, and southern countries of Africa are still in progress. Prominent among the FTAs that China has signed with different countries is The China–ASEAN FTA. The Framework Agreement on Comprehensive Economic Cooperation, signed in November 2002, provided for the establishment of a China–ASEAN Free Trade Area (CAFTA) for goods trade by 2010 for the older ASEAN members, including Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand; and by 2015 for the newer ASEAN member states such as Vietnam, Laos, Cambodia, and Myanmar. The Early Harvest Program, implemented on 1 January 2004, specifies that China and all older member countries of the ASEAN should phase out and eliminate mutual import tariffs on almost all agricultural goods by 2010.

The enforcement of the Agreement on Trade in Goods of July 2005 signals the operational phase of the Free Trade Agreement. The China–ASEAN Free Trade Area is one of the largest free trade areas in terms of population, gross economic output and trade volume. By the end of 2005, the GDP of CAFTA reached US $ 2971.1 billion, and the total value of imports and exports reached US $ 1394.8 billion. The development and maturation of this free trade area will have significant impact on the Chinese and the ASEAN economies as well as far-reaching implications for the economy and trade structure of the whole world (Huanguang Qiu et al. 2007: 78). Countries are entering into regional agreements with China with the expectation that they would gain adequate market access to a large country to trade in a variety of products. These countries through regional agreements would exploit each other's strengths to maximize gains.
III.2 Praxis of Sectoral Approach

The sectoral approach became an integral process of China’s trade liberalization. The ambition has clearly been to catch up with advanced industrialized countries rapidly. China’s entry into the WTO was also crucially dependent on how fast China aligns its various sectors of the economy to multilateral conformity. The emphasis on a sectoral approach to the Chinese economy gained momentum in the 1980s. With the failure of planned economy and onset of globalization, the need to integrate with world economy through market mechanism became a primary concern. Accession to the WTO pushed China to consider sectoral approach as a strategy to align with the global economy. Policy prescriptions of Bretton Woods Institutions and acceleration of globalization gave more thrust to this approach.

It is a known factor that every country cannot produce all types of goods and provide all services in abundance, but can specialize in certain products and develop comparative advantage to benefit from world trade; China realized this in great measure. It accorded priority to this strategy. Sectors like electrical machinery, office equipment, hardware, textiles, toys, banking, telecom, etc., were given adequate boost by the Central and provincial governments in terms of liberalizing policies such as easy access to foreign capital, favourable taxation policies, a conducive legal regime and favourable labour laws, etc (Ho 2009: Personal Interview).

Sectoral trade has high potentiality in the current world trade as countries are following liberalization in a selective manner in specific sectors such as telecom, office equipment, finance, textiles, and electronics goods. Three key sectors of the Chinese economy namely agriculture, manufacturing, and services adopted this strategy.

III.2.1 Agriculture

Agriculture has traditionally been the mainstay of the Chinese economy, food security, and livelihood. Over the last twenty-five years, China’s agriculture has been transformed from a highly controlled, centralized system of commune-based farming into a household based system. This approach was driven and encouraged by markets rather than by government’s planning and targets. In response to this change, the 1980s witnessed surge in agricultural output, increase in rural incomes, and
substantial improvement in market integration. Production, distribution, and marketing of crops and livestock products remained free from significant government intervention. Agriculture was also seen as an important vehicle for foreign exchange earnings through exports. This role began to lose its importance when industrial exports supplanted agriculture as the key foreign exchange earner.

Towards the mid-1990s its contribution to GDP substantially declined. It largely remained as an employer for a vast rural population. From a share of 30 percent to its GDP at the beginning of reforms in 1980, its share came down to 16 percent at the time of its entry into the WTO. In 2007 its share got further reduced to 11 percent. Similarly its declining role in international trade was also striking. Its share in total exports was 50 percent in 1980, which fell to 10 percent during its accession to the WTO (China Statistical Yearbook, various issues). This declining importance of agriculture has been caused among other reasons due to explosion in population growth, unavailability of cheap loans to farmers, lack of modern technology to raise productivity, and limited land resources. Such drawbacks shifted China's comparative advantage from land intensive economic activities like agriculture to labour intensive manufacturing and industrial activities like textiles, toys, electrical equipments, leather products, etc.

However, accession to the WTO demanded further liberalization in agriculture. Sectoral accession commitments to agriculture began with the reduction in tariff rate. China reduced its tariff from 40 percent in 1995 to around 15.8 percent at the time of its entry into the WTO. Currently it is 9.8 percent. It promised to reduce it further by the end of 2010. While reducing its tariff for imports it took measures to protect its own agricultural products and domestic market by resorting to mechanism of tariff-rate quotas. It implemented tariff-rate quotas for the key commodities like wheat, rice, corn, vegetable oil, and wool. China's other commitments were also significant and far-reaching. It agreed to provide non-discriminatory treatment to all the WTO members on farm products. China eliminated dual pricing practices and pitched for early removal of price controls. Developed countries were keen to see China undertaking trade liberalization early so that primary sector is liberalized initially to provide them huge advantage to export their farm products to a big market like China. It succumbed to that pressure and undertook commitments to remove export subsidies
on agriculture. China made compromises with the privileged position of State-Owned Enterprises (SOEs) and increased the scope of private traders in the marketing of agricultural products. It removed a significant number of non-tariff barriers. It bound all tariffs to provide a predictable trade in agriculture.

However, its post-entry phase has witnessed a marked change to its approach to agriculture. It has taken up the issue on global front by demonstrating significant activism in agricultural negotiations in the Doha Round. It has fought for the issue of agriculture sectorally in many important fora demanding elimination in agricultural trade distortions. Distortions caused by domestic support and export subsidy provided by developed countries are making the Chinese agricultural products globally uncompetitive. As a result, China is unable to secure a fair share in global agricultural trade, which is contrary to the expectations of joining the WTO. It pursues with other developed countries to remove barriers for its growing labour-intensive agricultural exports. It has an interest in banning developed countries' export subsidies and significantly reducing their trade-distorting domestic subsidies. Hence, it joined the G-20, led by India and Brazil and continues to support the G-20 at the WTO negotiations. During the last eight years of Doha negotiations China has been able to influence the key negotiators like the US and the EU that the fulcrum of negotiations should be evenly balanced to benefit both the developed and developing countries.

III.2.2 Manufacturing

China’s manufacturing sector has undergone a rapid process of growth and transformation since the reform process and Open Door Policy started in 1978. Industry has remained at the core of its modernization programme. The government has taken keen interest in mobilizing resources to spur the industrial growth in the country. The industry has registered a high growth of 11.8 percent between 1979 and 2000 compared to an average GDP growth rate of 9.6 percent during the same period. Till 2007 China’s economy grew at 11.4 percent, but towards end of the 2008 it had declined to about 9 percent and continued to further decline in the context of global financial crisis (Statistical Yearbook of China: 2009).

China’s manufacturing sector has emerged as a major production hub for multinational corporations and became an attractive destination for FDI. Continuous
rise in industrial growth had strengthened China’s belief to join the WTO. Thus China’s WTO entry became a watershed for industrial reforms. The WTO accession demanded immediate need for certain adjustments such as removal of protection from inefficient industries, establishment of market discipline, better access to latest technology, and insistence on developing a legal and regulatory framework necessary to monitor foreign investment and establish a well functioning market economy.

To remain in conformity with the accession process, China implemented series of measures to liberalize the manufacturing sector. It brought down its tariff reductions on industrial products to below 10 percent level. It removed a number of non-tariff barriers (NTBs) like licensing, quotas, and tendering requirements. It phased out other restrictive policies like state control and bureaucratic procedures to speed up the acceleration process of industrialization. It created an enabling atmosphere for the foreign investors to feel confident and safe about their investment in the country. Industrial policies were also focused on shifting natural resources from agriculture towards manufacturing. With this change in policy during the 1980s, Township and Village Enterprises (TVEs) became the driving force behind industrialization and played a major role in the promotion of light industries. They became the backbone of labour intensive industries like textiles and apparels, toys, footwear, etc.

These reforms transformed the industrial sector from almost complete reliance on state-owned enterprises (SOEs) to one where non-state small and medium-sized enterprises played a crucial role. The rise in non-state enterprises has occurred due to removal of entry barriers to industries that have been long monopolized by the government protected SOEs. As competition got intensified in the market, numbers of TVEs were also increased. The composition of industrial sector has also slowly changed with the rise in income and growing demand towards other products like consumer durables, lifestyle products, fashionable apparel products, leather, beverages, etc. Domestic demand for electronics and telecommunication products has gone up, creating a market for highly technology intensive industry to flourish. As a result of this transformation, China has developed a highly diversified industrial structure encompassing a wide range of industries from light labour industries to technology intensive industries to capital-intensive industries like steel, petroleum processing and automobiles.
On the manufacturing front, China has been quite active after its entry into the WTO. In the on-going non-agricultural market access (NAMA) negotiations at the WTO (manufacturing sector), China's interests are manifestly aggressive. It wants greater access for its manufactured exports in both developed and developing countries. It has been able to attract large amount of FDI by providing a secured atmosphere to investors and has been able to innovate and upgrade its products for exports. It has introduced new management systems to help increase productivity and emphasised on raising personal income and consumption so that its manufacturing sector is also given a push for domestic growth.

III.2.3 Services

In the field of services, China followed a sectoral liberalization policy. Major service sectors like telecommunications, banking, and insurance were opened up to outside competition in a phased manner. In telecommunications at the time of accession, a number of operators were present in the Chinese market reflecting a regulatory structure inherited from prior reforms in 1999. The most significant entity in the sector was China Telecom (CT), originally part of the Ministry of Posts and Telecommunications and established as a separate entity in 2000. The CT controlled about 99 percent of China’s main fixed line phone capacity. China Unicom, the major mobile phone operator established in 1994 was ranked second in the competition. With reforms and liberalization of the sector, a series of enterprises with regulatory approval came to operate in various telecom markets. These include a satellite operator ChinaSat, a broadband IP network developer China Netcom, China Telecommunications Broadcast Satellite Corporation, Jitong, and China Railways Communications. Till 2004, the two large state-owned providers (China Telecom, and China Unicom,) dominated the market.

The main commitments stemming from China’s WTO accession involved partial removal of limits on market access (especially the right to establish) and the removal of limits on national treatment. Foreign investments were allowed in the sector, but initially with geographical restrictions, and with limits placed on the ownership level. China promised to remove geographical restrictions and raised the foreign ownership limit to 49 percent for most services in two years, i.e., by 2004, and for value added services like mobile telephones in five years, and for international services in six
years. China opened up its service sectors sector-wise. It lifted all restrictions in a time frame of 5 to 6 years after its entry into the WTO. Sectors like banking, insurance, legal and telecommunications were carefully monitored and followed a process of gradual liberalization.

Sectoral approach found a deeper meaning when China initiated its current services negotiations through a positive list approach in the WTO. It is currently following such an approach in various WTO negotiations. This positive list includes telecom, finance, real estate, tourism, etc. As part of the WTO accession, China has also signed the WTO Telecommunications Agreement, which provides free entry to foreign service providers in its market by 2007. This placed China on par with OECD economies where, in recent years, foreign providers frequently and freely access foreign markets and large rate reductions have occurred.

China's post-entry scenario in services is still protected. Services barriers have come down more slowly than goods barriers, and perhaps more slowly than expected, after the WTO accession. High and discriminatory capital requirements discourage entry for foreign services providers in sectors like telecommunications, insurance, and construction (though capital thresholds have been reduced in banking). Licensing procedures have become more transparent and regular, but problems persist, especially in telecommunications, financial services, and express-delivery services. Equity and operating restrictions are prevalent in insurance, securities and telecom. Telecommunications is dominated by three SOEs, all having close links to the Ministry of Information Industry. No joint venture involving a foreign-invested enterprise has been licensed since the WTO accession. The government promotes domestic services sectors through foreign-investment restrictions in telecommunications services. However, as part of the commitments, the Government will be compelled to remove protection in services in due course. In practice, China remains more protected in services than it is in goods trade.

IV. Summary

China's membership in the WTO marked a major step towards its integration with the world economy. It secured its rights over the economic and trade opportunities those were earlier enjoyed by other member countries. WTO members equally found access
to China's market with a sense of security as China had to operate in a rule-based multilateral trading system.

China’s adaptation to interdependence was visualized as a strategy to attain its immediate national goal of modernization and catch up with the rest of the world. Its integration with the world economy was done in a gradual manner. Foreign trade played a key role in opening up its economy to the world. Its comparative advantage in manufacturing sector helped it to occupy a unique position in world economy, where other countries were deeply attracted to maximize their trade gains by enjoying economy of scale, favourable environment for FDI and size of the market. China became the world’s manufacturing hub. Similarly, sectoral approach became an integral part of China’s overall strategy to join the international trading community. Three key sectors, viz., agriculture, manufacturing, and services experienced structural adjustments and institutional changes. As the role of agriculture witnessed a gradual decline towards mid-1990s, policy focus had shifted towards manufacturing. Comparative advantage in manufacturing was given a boost by diverting national resources, technology, skills, and management practices. Concerns shown by the government during this period were also noticed when they created an enabling environment for inflows of FDI, production, tax regime and treatment towards MNEs. The services sector slowly gathered momentum. China followed a cautious approach to liberalization of services sector. Barring agriculture, manufacturing and services have noticed upgradation in many respects. Technology, labour productivity, capital flow, and incomes have advanced much more rapidly in industry and to a lesser degree in services than in agriculture.

A significant aspect of China’s integration with the world economy has been its informal and formal integration between pre and post-entry phase. During pre-entry phase China followed policies which had some semblance of liberalization and opening up without any multilateral rule based system attached to them. It designed policies to attract FDI, invite MNCs and make China a manufacturing hub. During this period it lacked a well regulated legal regime, which had become a major constraint for the foreign investors to operate in China. The primary liberalization thrust, especially in the 1990s, was in the domestic economy and unilateral in nature which was well steered by the Chinese leadership. The Central leadership used the
WTO-accession negotiations as a strategic lever to consolidate and accelerate national reforms. In the post-entry phase, China became more rule-bound. With this discussion on China’s entry into the WTO focusing on interdependence and sectoral approach, the next chapter explains China’s process of accession to the WTO. It delineates the structural adjustments and institutional reforms that China undertook to accede to the WTO.