



# China Should Put Trade Multilateralism First

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During the ten years following its joining the WTO, China has made a huge and deep contribution to the weight, legitimacy and effectiveness of the institution. It has also benefitted a lot from it. The coming decade of its membership should see its role gaining in importance. Pushing for a multilateralisation of the PTAs and for genuine progress on the road to liberalisation and regulation, drawing on the formidable material amassed so far by the Doha Round negotiations whatever their final outcome, is an ambition which China could contribute to raising in Geneva. China is now indeed a cornerstone of the WTO and it deserves it.

*This speech was delivered by Pierre Defraigne at a conference organised by the International Trade Centre with the World Trade Organisation. The conference, "10 Years on: China's accession to WTO and lessons for the future", was held in Geneva on the 10 November 2011.*



## Introduction

**Director General Pascal Lamy,  
Ambassador Yi Xiaozhun, Permanent Representative of China to the WTO,  
Dear Mrs Patricia Francis, ITC Executive Director,  
Excellencies, Ladies and Gentlemen,  
Dear Minister Long Yongtu,**

**You deserve more than anybody else to be here today for this celebration because, as China's Chief negotiator, you belong to the common history of China and the WTO. Actually you made history here with my EU colleagues and friends Hans Beseleer, Roderick Abbott and Gerard Depayre. Today, as Pascal Lamy's former chief of staff at the time of China's accession, I am glad to see you back in Geneva for this occasion, fit and well and still engaged to the fullest of your energies, in the fight for the modernisation and opening up of your great country.**

Being Pascal Lamy's former aid suggests a lot about me but it says little about my vantage point in this debate. In order to dispel any misunderstanding about it, first bear with my making of two points about trade and development, and about China.

First, with regard to trade and development:

- As a former Director of North-South Relations, and throughout my career at the European Commission, I happen to have developed a deep empathy with ordinary people across the world and some impatience with elites when they do not care enough for their people, including in Europe and America today because of the crisis. I am passionate about human development, both materially and spiritually, for the benefit of ordinary people;
- I concur with the view that trade and FDI play a key role in development, but I remain highly suspicious about the real merits of finance. I see free trade and deregulated finance as two uneasy bedfellows, the second undermining the first and giving it a bad name;
- My faith in the market is high, but I am wary about the excesses of imperfect competition, which I deem as a necessary evil for ensuring innovation and growth, but which deserves to be kept under strict control through free trade and tough competition policies;
- I am pretty sure that flanking policies – both industrial and social policies –eventually make the difference beyond market play, but are exposed to failures as well, so no panacea;
- To conclude on this point, I would highlight the fact that I am agnostic about systems and models. I judge the tree by its fruit. My own creed is that the most successful countries in terms of development are those whose leadership has captured the very peculiar genius of their nation and turned it into a comparative advantage for competing efficiently in an open world economy. China definitely belongs to that list.

Another word, about China this time;

- As a European whose Sunday past-time often includes reading about China's history, I am perfectly aware of the harm done to China during the "century of humiliation" although I do not think we should ruminate too much about the past;

- I am all the more impressed by China's Renaissance since 1949 which starts with the return to independence, unity and peace achieved during Mao's years, and then which reached its momentum with Deng Xiaoping's economic reforms. Secretary Deng Xiaoping displayed, in a very Chinese way, both a long-term vision – a very bold and far reaching one indeed- and a gradual and experimental approach to the implementation of reforms;
- As a product of those reforms carried out by the CCP, China looks to me today as a double hybrid: on the one hand, a unique blend of market and state capitalism combined with a single party system, and on the other hand, an advanced country still engaged in the fight against underdevelopment at home;

China's fast rise is both a blessing and a challenge for the Chinese people and for the rest of the World. What better place than the WTO to assess China's performance from those standpoints which are the two sides of the same coin?

### China's Performance as a WTO Member

China's growth miracle did not start in December 2001. Actually its peak performance predates its entry into the WTO. But entry into the WTO was a condition for pursuing the miracle. Zhu Rongji and Jiang Zemin understood it, and Minister Long Yongtu made it happen.

China's accession to the WTO has indeed proved decisive in several aspects:

- It acted, already for one decade ahead of the accession and in view of this deadline, as a formidable lever for domestic reforms, according to "tying to the mast" tactics;

**"Since 2000, Chinese annual GDP growth was 9.2% on average."**

**"Since China's entry into the WTO, exports accounted for about 30% of GDP. Gross fixed investment accounts for 45.8% of GDP."**

- It provided the Chinese export/FDI-driven growth strategy with a strong insurance policy against protectionism, especially from the US Congress which had to vote each year on the renewal of the Most Favoured Nation clause to China;
- It generated more interest and trust from foreign investors who have been key actors in China's take-off through massive inbound FDI and technology transfers.

The price of the entry ticket has been very high for China, whose liberalisation went much farther than the other emerging economies, in terms of lowering tariffs and eliminating quotas, and adjusting its domestic legislation to WTO norms. But it was worth it, also because of the effectiveness of the accompanying policies put into place by the CCP in parallel with trade liberalisation.

The accession of China to the WTO twelve years after the Tiananmen Square incident, and after the subsequent CCP decision to move forward with reforms, was the implicit endorsement by the international community that trade-based development indeed paves the way to welfare advancement and political liberties.

For China and for the world at large, the entry of Taiwan, the Chinese Taipei, in the WTO at the same time indicated that the 'one China policy' would be implemented in a pragmatic way.

China's rise is the defining geopolitical change of this century, yet much more challenging for the world than the gradual emergence of the USA and of Germany in the course of the 19th century and of Japan in the 20th and yet the rise of the latter led to war. The USA had the privilege, due to their rich natural endowments, to start developing from behind huge tariff walls, exploiting first to the full its huge domestic market before

turning global. As a country constrained by strict natural resource shortages, China has opted for a reverse sequencing, closer to the German and Japan strategy with trade as the main driver. But the experience of those two large nations proved that coming late to the banquet table in a multilateral-free world caused major disasters for the world and eventually for themselves. On the one hand rivalry for access to resources among national market capitalisms in Europe kept newly born Germany at bay and this ostracism led to World War One. On the other hand, in the wake of the 1929 crash, the abominable Smoot-Hawley tariffs shut the US market to Japanese exports, a key factor in the breaking out of war in the Pacific region.

By contrast, China's current economic rise has so far proved relatively smooth despite its far bigger impact for the world. This stems from the very existence of the WTO which has provided an effective legal framework for accommodating the entry of such a big player into the existing system. The WTO has proved both robust and flexible enough to make fair room for that huge double hybrid country. In return, the entry of China has made the WTO truly universal.

Incidentally, it is now fully universal with Russia's entry today into the club, a major move for the WTO and a major move for Russia. What an extraordinary coincidence that Russia was admitted as the 154th member of the WTO the very day of the celebration of the tenth anniversary of China's entry! In both historical circumstances, Pascal Lamy was in the front seat. But is this a coincidence?

China's rise owes a lot to heterodox policies which are partly constrained by WTO rules, but only partially. China has indeed exploited to the full the dysfunctions of the International Monetary System and has dodged unwritten rules, especially with regard to the use of the nominal exchange rate policy, in order to catch up with the West, in a legal environment built up by and for mature and dominant economies. The only option left was to take advantage of globalisation by carving out a slot in the global output chain thanks to its huge reservoir of cheap labour, which was able to absorb quickly technology changes in such a way that for almost three decades productivity ran always ahead of wages, which is not true anymore though.

What's China record as a WTO member? I am not going to reset the TRM (transitional review mechanism). Let me tentatively sketch out a brief assessment along the following lines:

- there is a wide consensus to see China's record as "an unqualified and major success story" according to the words of an EU official, Denis Redonnet, speaking at a recent celebration of the same anniversary in Brussels. It is a success both:
    - in terms of the implementation of China's heavy commitments of market opening (tariff levels), legislative and administrative reforms as well as a Dispute Settlement Understanding (DSU) user although litigation tends to replace the initial diplomatic quest for compromises, yet too short on transparency;
    - and in terms of trade performance: China is now the second largest world economy and biggest exporter and second biggest importer. China is also the main holder of foreign exchange reserves in the world, and as a consequence a major investor in public bonds and more and more of
- **China accounts for 10.54% of world trade, with the EU accounting for 13.65% and the US for 11.69%;**
  - **China contributes 9.34% of world GDP, with the EU accounting for 25.8% and the US for 23.09%;**
  - **China accounts for 10.36% of global exports, with the EU ranking first (15.06%) and the US third (8.7%);**
  - **China accounts for 9.06% of global imports. The EU accounts for 16.54% and the US for 12.78%;**
  - **About 20% of the US national debt is held by China.**

strategic assets. China has paid an enormous cost for this achievement obtained through massive consumption sacrifices towards the exporting sector through the channelling of savings and through the Renminbi's exchange rate.

- China is deemed a bit too much of a cautious actor in the Doha Round. There might be three reasons for this: first, China had paid a lot at the start of the Doha Round as a newly acceded country<sup>1</sup>; second, its presence within the WTO is fuelling inhibition among its partners since the “fear of China factor” is now a practical issue of importance; third, China means to take advantage of the remaining holes in the WTO charter – on investment, competition and public procurements - for retaining as much discretionary power it needs for conducting its industrial policy aimed at climbing up the technology ladder and at transforming its national champions into global ones;
- China is today engaged in the competitive liberalisation race following the example of the US and the EU. Yet the PTAs concluded with its neighbours, along with currency swap deals through the Chiang Mai Initiative and the gradual regionalisation of the Yuan, remain shallow ones. They give precedence to high politics over trade content, and show China's reluctance to go for WTO-plus deals precisely because it wants to protect its policy space;
- China needs to go further down the road on GPA accession, services, reinforced rules (AD, ASCM, fish subsidies in SDT). But there are also good omens on topics like LDC treatment such as witnessed by Hu Jintao's dramatic announcement to the G20 earlier this month that his country would grant a 97% DFQF regime to LDCs, causing a bluff for the world leadership gathered in Cannes.

But there is today a perception that in Beijing the pendulum is swinging from liberalisation towards a sophisticated and effective industrial policy without further liberalisation. This takes various guises: administrative allocation of finance – key to the consistency between the macroeconomic priorities and their microeconomic translation at regional and firm level- preferential access to public procurements, specific technical standards and regulations, conditions attached to FDI particularly in the area of services, not to mention nominal exchange rate targeting. For agnostic economists, more interested in real outcomes and hard facts than in ideology, industrial policy is no dirty word. It might make sense and carries some legitimacy, especially for a country engaged in a strategy of real convergence with the advanced economies, and able to rely on a strong and effective government. The challenge for China is indeed to cross the technology glass ceiling which blocks most converging economies at a middle-income level. Of course, we all know that such policies do not go without risk of failures - including corruption - and of confrontation with China's trade partners with regard to national treatment and a level playing field. The fear of China opting for a levelling-off of its opening and trading in favour of State interventionism, should neither be ignored by Beijing, nor exaggerated by China's partners. It is one among the most serious challenges brought about by the surge of China, the other being moving towards continentalism, on which I will conclude my remarks.

### **China's rise as a systemic shock for world economic governance**

China's entry into the WTO amounts to a systemic shock for world multilateral governance because of its size, its speed and its heterodox policies. Let us consider three major changes which are of particular importance for the governance of the multilateral system and which might incidentally explain the Doha Round stalemate:

- the change of the governance focus from trade liberalisation towards:

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<sup>1</sup> It actually joined the same day the Doha Round was launched on 1 December 2001.

- A green agenda: China's massive rise and its pulling effect on BRICS exert an additional pressure on natural resources; demography and economic convergence which could constitute "the straw that breaks the camel's back";
  - A macroeconomic and monetary agenda: structural imbalances, exchange rate misalignments and the surreptitious shift towards a polycentric monetary system with the existence of the euro along with the dollar and the gradual internationalisation of the Yuan;
  - A financial regulation agenda: the financial crisis is not a self inflicted wound by accident by Wall Street and City bankers; it has deep roots in social inequalities, and growing private and public debt eased by lax monetary policy, mainly, but not exclusively, in the USA; yet the regulation of finance is a prerequisite for resuming stable growth; it is mainly a western affair, but monetary and financial instability discourages China from liberalising its capital account and opening-up further its financial services market.
- the change in the power balance within multilateral governance:
    - this is best epitomised by the switch from the G7/8 to the G20, which reflects the growing weight of the BRICS led by China and its neighbouring partners and the growing importance of the rise of 'commodity powers';
    - but the newcomers are still in a phase of coalescing to challenge some features of a multilateral governance system designed by the West, and not yet on the way to shaping up a more balanced system; rival interests and diverging values might not put this task within their reach;
    - the present result is that multilateral governance is on the standstill mode: Doha is on the shelves, climate in the fridge and, most importantly, macroeconomic coordination among the big three has not yet found its way to the drawing board.
- the compatibility of development models:
    - It goes without saying that development is always a unique experience for each country. Yet there must be some compatibility among models for allowing trade to expand on a level playing field. The trouble is that the systemic crisis of western capitalism, whose main cause lays in unguarded neo-liberalism, has discredited the Washington Consensus left us without an alternative: China's heterodox policies, despite their success, can hardly be replicated elsewhere and yet less provide a benchmark for most Developing Countries;
    - Yet, there is food for thought in one aspect of China's experience which carries a strong Confucian connotation reminiscent to the traditional supremacy of the Emperor over the Merchants in ancient China. China means to retain the ultimate power for the State over the market. It is a sound governance principle which should suit any democratic society. Yet this principle is right now lamentably flouted within the eurozone, although the cradle of modern democracy, with the financial markets dictating austerity plans to governments. But in a global world, the authority of the State can only been preserved through co-sovereignty at a multilateral level. Even global players such the US, China and the EU must admit that it is in their own interest, but that they owe it also to their trading partners who share the common destiny of the planet in a global age;
    - Therefore China will have sooner or later to revisit the respective merits of a hands-on versus a more market-based industrial policy as it is drawing near its objective of crossing the middle-

**“Over the last ten years, the BRIC’s share of global GDP grew from 13% to 24%”.**

income country threshold and of acceding to a more endogenous path of development, especially through developing a strong technological base.

## China nearing a crossroad between continentalism and multilateralism

The world at large has a genuine interest in seeing China pursue its high growth and effective development performance. It would be foolish to hinder and put at risk China's smooth rise through destabilising tactics out of fear for its foreseeable primacy over other global economies. China's becoming the number one world economy is indeed written on the wall for two perfectly logical and valid reasons: the size of its population and the legitimacy of reaching the level of advanced countries. We will have to learn to live with China's rising economic and geopolitical power.

**"China's population stood at 1,336,700,000 people in 2011."**

But the rest of the world is also entitled to expect from China that it subjects itself to a series of multilateral disciplines and norms with regard to macroeconomic, environmental and social sustainability as well as fair rules of access to natural resources both within and outside China. Moreover, considering the new relative economic weight of China and the speed of its achievements, it would not be unreasonable to see China taking a more proactive role in the shaping up of a more sustainable and fairer world economic order; despite the recent character of its emergence as a major global player and its concern about retaining a policy space for its convergence strategy.

It would be unfair to overlook the contributions already made by China: from the support it provided to its neighbouring partners during the 1997-1998 Asian financial crisis and the financial aid and trade preferences granted to LDCs, to the 2009 stimulus package and to the financial assistance secured at the last G20 to the consolidation of the eurozone, not to mention the gigantic strides towards renewable energies at home.

Yet China could, by the very inertia of the current economic trends, which point to Asia as the world growth region, and by the dynamics of intra-industrial regional integration as well as of the web of bi- and plurilateral PTAs concluded with its neighbours, find itself the hub of an East-Asian or even full Asian continental economy with its own arrangements. Such a "continentalism by default" would represent a backward slide from a multilateral governance system. We should never ignore the risks inherent to continental bloc formation because it goes against the logic of the unification of the world: the globalisation of the economy should be framed by multilateral governance. The drift into rivalry and confrontation is intrinsic to any form of mercantilism and PTAs fundamentally obey the mercantilist rationale.

I am always surprised by the benign neglect which is displayed by experts and trade negotiators, even within the WTO, about the flurry of PTA deals; most of them are rather trade light and often inspired by the activism of trade negotiators and the strength of specific lobbies. They are often presented as building blocks towards free trade whilst I see them more often as reflecting mere mercantilism, often combined with insidious forms of privatisation of trade policies because of the special interests behind those deals. In my opinion, they go against the spirit of the WTO because they are first and foremost discriminatory: more often than not they aim at carving out niches for the prime movers who can erect barriers to entry for their late coming competitors from third countries. More often than not these PTAs would not resist a rigorous interpretation of article XXIV of the Charter. China is no more a culprit than its main partners, the USA, the EU and Japan, engaged in the PTA race. Yet because of the gravitational dynamics of regional industrial integration combined with its institutionalisation in terms of currency, finance and trade, growth in Asia can result in the emergence of a form of Asian continentalism with China as the hard core.

The Asian Continent integration is certainly a welcome development because it eases growth and contributes to alleviate potential tensions around borders, access to natural resources and reminiscences about ancient

conflicts. Yet strengthening trade, currency and norms multilateralism is essential for containing tensions and solving disputes among Asian countries, and this for two reasons: on the one hand, it improves access to foreign markets, natural resources and technology, all indispensable for ensuring the real convergence process; on the other, the recourse to supranational authorities at multilateral level would facilitate the jurisdictional treatment of trade, currency or norms disputes among Asian partners by providing a neutral mode of resolution of potential conflicts.

From now on China's main comparative advantage is shifting from cheap labour to a large and buoyant domestic market. The 12<sup>th</sup> five-year plan is indeed changing the very growth dynamics of the country by moving from an export-driven to a domestic demand-driven growth and by factoring in social and regional convergence as well as environmental sustainability. Thereby the CCP is providing China with a new source and new mode of development which opens up new avenues for a large scale industrial policy based both on supply and demand. The strategic question that will sooner or later call for an answer from the Chinese leadership will be the effective balance between direct state intervention and market play. While the first integrates best the supply of public goods and the internalisation of externalities – positive and negative - the second puts into motion the powerful winds of innovation and competition whose benefits are undeniable. This choice will also determine the effective access on a level playing field of this huge rising market for all China's partners without, in the true spirit of multilateralism, discrimination. Here China's choice will have a direct impact on the ability of the West to recover from the financial crisis and to rebalance some of the effects of globalisation on the labour market.

China's formidable success has cost a lot of tremendous and unprecedented efforts from Chinese workers and households. True! But European and American workers have also borne a heavy cost through the off-shoring and outsourcing of local production capacities towards China. They have lost, in the process, hundreds of thousands of jobs which have contributed to the rise of structural unemployment in the West. This might have been a normal adjustment process according to international trade textbooks, but the speed and the size of change have left deep scars in our industrial fabric and labour force. A shift of the pendulum with regard to tradable goods production through a correction of the structural macro-economic imbalances would ease world economic growth and the containment of protectionism in Western markets.

During the ten years following its joining the WTO, China has made a huge and deep contribution to the weight, legitimacy and effectiveness of the institution. It has also benefitted a lot from it. The coming decade of its membership should see its role gaining in importance. Pushing for a multilateralisation of the PTAs and for genuine progress on the road to liberalisation and regulation, drawing on the formidable material amassed so far by the Doha Round negotiations whatever their final outcome, is an ambition which China could contribute to raising in Geneva. Being a global power, China should aim at multilateral solutions consistent with the geographical distribution of its economic interests.

China is now indeed a cornerstone of the WTO and it deserves it.

## Annex – Statistical appendix

	China	EU	US
Share of world GDP <sup>2</sup> in 2010	9.34%	25.8%	23.09%
Share of world trade <sup>3</sup> in 2010	10.54%	13.65%	11.69%
Share of world exports (merchandise) <sup>4</sup> in 2010	10.36%	15.06%	8.7%
Share of world imports (merchandise) <sup>5</sup> in 2010	9.06%	16.54%	12.78%

<sup>2</sup> Source: IMF,

<http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/weorept.aspx?pr.x=45&pr.y=3&sy=2010&ey=2011&scsm=1&ssd=1&sort=count&ds=.&br=1&c=512%2C941%2C914%2C446%2C612%2C666%2C614%2C668%2C311%2C672%2C213%2C946%2C911%2C137%2C193%2C962%2C122%2C674%2C912%2C676%2C313%2C548%2C419%2C556%2C513%2C678%2C316%2C181%2C913%2C682%2C124%2C684%2C339%2C273%2C638%2C921%2C514%2C948%2C218%2C943%2C963%2C686%2C616%2C688%2C223%2C518%2C516%2C728%2C918%2C558%2C748%2C138%2C618%2C196%2C522%2C278%2C622%2C692%2C156%2C694%2C624%2C142%2C626%2C449%2C628%2C564%2C228%2C283%2C924%2C853%2C233%2C288%2C632%2C293%2C636%2C566%2C634%2C964%2C238%2C182%2C662%2C453%2C960%2C968%2C423%2C922%2C935%2C714%2C128%2C862%2C611%2C716%2C321%2C456%2C243%2C722%2C248%2C942%2C469%2C718%2C253%2C724%2C642%2C576%2C643%2C936%2C939%2C961%2C644%2C813%2C819%2C199%2C172%2C184%2C132%2C524%2C646%2C361%2C648%2C362%2C915%2C364%2C134%2C732%2C652%2C366%2C174%2C734%2C328%2C144%2C258%2C146%2C656%2C463%2C654%2C528%2C336%2C923%2C263%2C738%2C268%2C578%2C532%2C537%2C944%2C742%2C176%2C866%2C534%2C369%2C536%2C744%2C429%2C186%2C433%2C925%2C178%2C869%2C436%2C746%2C136%2C926%2C343%2C466%2C158%2C112%2C439%2C111%2C916%2C298%2C664%2C927%2C826%2C846%2C542%2C299%2C967%2C582%2C443%2C474%2C917%2C754%2C544%2C698&s=NGDPD&grp=0&a=>

<sup>3</sup> Source: Own calculation on IMF data.

<sup>4</sup> Source: WTO trade profiles, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=E27,CN,US>.

<sup>5</sup> Source: WTO trade profiles, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=E27,CN,US>.

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