

## China's Trade Opening: Implications for Regional Stability

by Howard M. Krawitz

### Key Points

**C**hina's entry into the World Trade Organization could have a decisive impact on that country's long-term development as well as on its relations with Asian neighbors and the United States.

**A best-case scenario posits a China confident of its role in the region, valuing stability and prosperity. A Chinese middle class could arise. Prospects would be good for mutually beneficial U.S.-China relations and for Chinese social and political reforms.**

**Although a strong China could become a regional aggressor, that prospect is unlikely. It is also unrealistic to expect that China will not modernize its military and use it to enhance its international influence. A strong, stable China is likely to cooperate with Asian neighbors to maintain regional peace and stability.**

**A worst-case scenario has Beijing failing at sustainable reform and finding itself hard-pressed to manage resulting economic and social ills and civil unrest. The leadership might encourage nationalism and military aggressiveness to ensure its survival. Internationally, China could become mired in a downward spiral of cheating, trade disputes, sanctions, and retaliation. U.S.-China relations overall would suffer, raising odds for conflict over sensitive issues such as Taiwan.**

**China will show little change in the short run. Encouraging domestic reforms ultimately serves U.S. interests, but strong doses of realism, clarity, consistency, and patience will be required.**

In late 2001, China entered the World Trade Organization (WTO), a dramatic step that marks not only the end of a 15-year odyssey for Beijing but also the beginning of a new phase in the country's internal development and its relations with the outside world. It may sound odd to suggest that joining the WTO—an organization focused on rules of conduct for trade and commerce—will influence not only China's economy but also its political, military, and social development, as well as its interaction with the United States. Yet China's efforts to play by WTO rules could affect its internal development far more extensively than has been the case with many new member nations.

Most WTO entrants must grapple with difficult economic and social issues at accession. But China will have to come to grips with such issues on a massive scale. Geographic size, infrastructure, and population will make adjustments more difficult, as will the unbalanced nature of the Chinese economy. China will have to reconcile conflicting economic systems (socialist versus market-based) and varying levels of domestic development (technologically advanced and internationally competitive versus Third-World) as it seeks to develop a new hybrid economy that can live by the rules of the global trading system.

Predicting how China will respond to domestic conditions created by WTO requirements is difficult. Beijing clearly will face numerous pressures from WTO benchmarks and timetables for achieving compliance; from the shocks that such compliance may create for

the country's economic, financial, and social welfare systems; and from the near-certainty of rising domestic political opposition to WTO-mandated reforms, particularly at the regional and local levels.

Beijing's management of domestic politics during this turbulent phase will decisively influence its ultimate ability to transform China into a major economic power. Pockets of opposition to joining the WTO existed throughout the accession process, even among the leadership. Some opposition stemmed from political and ideological differences. But much was due to the regional grassroots economic and social issues dividing the "several Chinas" that exist in the People's Republic of China (PRC) today—eastern/western China, urban/rural China, rapidly developing/stagnating China—and the fears that WTO membership will make things even worse for those trapped in these several Chinas.

As an aid to anticipating the future course of events, we should examine two possible lines of development—one a positive scenario, the other negative—and their implications for the United States. This exercise may help to bracket the range of possible, mixed positive-negative scenarios existing between these extremes.

### Positive Scenario

In the best-case scenario, inflows of foreign management and legal expertise, foreign goods, foreign capital, and advanced technology will improve China's domestic economic and social infrastructure, improve the quality of life, and better prepare the nation's industries to face foreign competition at home and abroad.

WTO membership could graft an increasingly Western face onto China's economy and

society. As China becomes more firmly integrated into the global trading community, foreign management practices, production expertise, and labor philosophies could be expected to diffuse gradually throughout the country, offering China tools for improving domestic infrastructure, restructuring its economy, and developing domestic investment and capital formation markets (now little more than sanctioned gambling). Ideally, wealth accrual would advance the reform of worker rights, improve social welfare systems, and generally bring about material improvements in the average person's quality of life.

China's neighbors and trade partners could benefit significantly. A prosperous China should be more receptive to opening its market to needed inputs as it renovates old and installs new infrastructure. Moreover, integration into a global system that relies on law and legal precedent for conducting business should encourage China to adopt the rule of law as its own standard for governing business transactions and dispute resolution, at home as well as abroad. As the rule of law concept gains ground, it should promote development of a better-educated, more professional Chinese legal community (that is, law schools, judges, and lawyers). This, in turn, should stimulate application of the rule of law across a broader range of domestic civil and criminal matters, ultimately improving the general human rights situation within China.

A wealthier, technologically secure China should be more confident of its role in the region, more likely to weigh tradeoffs associated with specific courses of action or behavior. Odds are that a more prosperous China should come to believe that it stands to lose rather than gain from excessive nationalism and military adventurism and to evolve into a regional power that sees maintaining regional peace and stability as the best means of promoting development and prosperity.

## Negative Scenario

On the other hand, there is no guarantee China will hew to a line of stable, sustainable reforms. In a worst-case scenario, implementing WTO-mandated changes could heighten

political, social, and economic differences at home. China is already troubled by problems arising from perceived inequities between new classes of "haves" and "have-nots." These problems exist at macro (regional) and micro (neighborhood) levels. Efforts to meet WTO requirements could worsen geographic and urban/rural frictions, widen an already growing gulf between rich and poor, and generally make China more ungovernable. WTO-mandated reforms will almost certainly worsen existing problems with massive unemployment, increases in uncontrolled migrant populations, major public safety and public health issues, and rapid degradation of social welfare infrastructure.

There could be a significant potential downside for the global marketplace as well.

## **a wealthier, technologically secure China should be more confident of its role in the region**

China could try to twist WTO procedures to its own advantage—hiding behind time-consuming dispute resolution mechanisms and enjoying member benefits while protecting domestic markets by delaying implementation of required reforms. Such behavior by new entrants is not unknown. Indeed, some current members (for example, India) continue to exhibit problematic compliance with WTO rules. But in the case of China, the problem and its consequences could be greatly magnified, given China's sheer size and its already looming presence in the global marketplace.

Perceptions among Chinese that they are not benefiting from sacrifices made to enter the WTO could offer powerful arguments to conservative elements in China's leadership for opposing the country's current, more reform-minded government. Rising conservatism could feed nationalism. Perceptions that economic superpowers such as the United States, Japan, and the European Union are using complicated WTO rules and procedures either to exploit China or to contain it could cause a rethinking

of China's current military philosophy (military development as subordinate to economic development) and could encourage Chinese military aggressiveness, as China turns to other means to establish its dominance in the region.

## U.S.-China Relations

Arguably, the U.S.-China relationship is one of the most important bilateral relationships in existence today, with economics being very much part of the picture. The United States is China's second largest trade partner; China is America's fourth largest trade partner. Both countries are continental economies with plentiful human and natural resources. Both seek to maintain spheres of influence in the Asia-Pacific region and play key roles in regional affairs (America is already there; China aspires). America dominates through economic strength, technological superiority, and its ability to project military power. China relies on size, proximity, and personal relationships to exert influence; it seeks to expand its influence by developing economic and military strengths.

Without question, Chinese efforts to achieve regional strategic and political goals will create conditions that bring both nations into frequent and more intense contact. Avoidance is not an option; the question is whether the relationship will be one of conflict, competition, cooperation, or some mix.

## If Things Go Well

Assuming China's development follows the best-case scenario, prospects seem fairly good for a cooperative, productive, and mutually beneficial U.S.-China relationship that is based on shared interests. Prospects would probably be even better if China were to develop a solid middle class.

Economic benefits of WTO membership and WTO-related investment, intellectual property, and telecommunications agreements could create in China the proper environment for developing a broad services sector—one ranging from high-end telecommunications and financial and legal services to retail, entertainment, and personal services—and the starting point for creating a true middle class, often the source of a nation's social stability.

More importantly, while a true middle class is unlikely to arise in China's countryside, it is plausible that a new class of prosperous, non-farming peasants could emerge in areas that

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surround wealthy urban centers, to support these centers' needs. As "suburban peasants" grow wealthy in their own right, they will require goods and services, much of which will likely be supplied by rural residents even further from urban spheres of influence.

The concept is not new: the Pearl River Delta and Beijing's suburbs already evidence this process in action. The difference is that economic and trade benefits of WTO membership might help China more fully realize rural, as well as urban, development and, in doing so, more rapidly raise rural standards of living and education, improve the caliber of the workforce, and minimize migration, unemployment, and underemployment problems—in short, optimize prospects for rural, as well as urban, social stability.

A strong services sector, and the millions of jobs it will create, would not only support a real middle class but also slow growth in China's chronically unemployed underclass, a worrisome source of destabilizing social pressure. China must place over 10 million new workers into the economy every year. It must also find jobs for an estimated 150 million unemployed migrants, a number expected to swell by at least 5 to 6 million a year. Again, domestic stability is the issue.

Domestic stability in China benefits America. Comfortable, prosperous Chinese citizens are more likely to share concerns similar to those Americans have and be more willing to cooperate on the range of issues relating to such concerns. For example, China already shows increased interest in working with U.S. officials and private experts on environmental problems (for example, pollution, hazardous waste, and transportation), drug trafficking, medicine, and public health. These are now issues of real concern for Chinese citizens in more prosperous areas of the country. They are also issues that transcend borders and have the potential to draw China into the international arena as a nation with a stake in making cooperation work. Dialogue on matters of mutual interest promotes communication, increased cooperation, and, ultimately, trust.

A wealthy, stable China can serve U.S. regional security interests. A China that risks tangible loss from aggressive and confrontational behavior should be less likely to favor precipitous action and conflict. It should be more likely to be interested in preserving regional peace and stability, more open to consulting with Pacific Rim neighbors, and more

willing to cooperate on regional security issues, strategies, and disputes. Speaking from a vantage point of growing economic strength and military capability would give Beijing the respect, prestige, and diplomatic stature it craves, making it easier for China to see itself as a player whose opinion is given serious weight by peers. This could calm Chinese fears of being marginalized or contained, making it easier for China to find common cause with the United States, Japan, and others in the region in maintaining calm and promoting dialogue on Korean Peninsula security issues, combating international terrorism and piracy, and perhaps even becoming more involved in curbing the proliferation of weapons of mass destruction.

## A More Dangerous China?

Ongoing debate holds that as economic power gives China the means to build military might, it will encourage military adventurism and feed the new nationalism already on the rise in China. Recent boosts in Chinese military spending hint this may already be happening.<sup>1</sup>

This danger cannot be ignored. China's leaders are walking a tightrope. WTO-mandated changes and reform policy failures could

### **the new breed of Chinese capitalist could become the new breed of Chinese ultranationalist**

engender widespread domestic discontent, nationwide strikes, riots, and other serious social disorder. Leaders, believing themselves in danger of losing control or of being marginalized by economic forces and social changes, might try to redirect domestic anger by rekindling Chinese xenophobic sentiments and turning to foreign adventurism as a means of recapturing power and reestablishing primacy. The new breed of Chinese capitalist could become the new breed of Chinese ultranationalist, equating wealth and power with the right to erase past national shame by establishing and enforcing a "Beijing Doctrine" in Asia. Or China might just interpret its own rise in terms of its neighbors' declines and simply push to see what it could get away with.

On balance, however, there is no compelling reason to believe the conditions favoring such a shift exist in strength in China today. China's government is neither weak nor easily exploited by splinter groups or radical elements. Its present leaders, and likely the next generation as well, are technocrats focused on economics and development. They are not overly close to the armed forces and are not particularly disposed to military adventurism. Indeed, China's armed services seek a greater role in political decisions and bigger budgets, but they do not seem to be pursuing their goals at the expense of the current order or by trying to undermine the civilian government. The People's Liberation Army, even while seeking a greater policymaking voice, has essentially adhered to its stated role of serving the party and its needs and putting China's economic development first.

There is little to support the argument that China seeks to modernize only to become an empire-builder or an armed bully in the region. Similarly, however, it is unrealistic to think that China would work to become a major economic power and regional policy player yet not take steps to modernize its armed forces, make them more professional, and turn them into a credible tool for enhancing international influence. China considers its military strength less developed and capable, especially given its physical and economic size, than the armed forces of important Asian neighbors. Even taking recent large military spending increases into consideration (China views these spending boosts as attempts to catch up with militarily strong neighbors), China's defense spending has been generally moderate compared to spending by other nations in the region, even as a percentage of its gross domestic product. Military spending increases can and should be expected, regardless of the path China takes. But the factor governing China's behavior is still the party, not the military.

In what may be a wonderfully ironic twist of history, under the optimistic scenario, the Chinese Communist Party (CCP) may become the main beneficiary of China's market-oriented changes, providing the United States and others with a stable, pragmatic counterpart with which to deal. Certainly, success with economic and social reforms and steady growth could give today's beleaguered reformers in the party the help that they need to hold China's military in check, keep neonationalist tendencies and latent anti-American sentiments under



control, and address issues such as official corruption, a tarnished party image, and a lack of confidence among average Chinese.

The party itself could evolve as part of this process. At least, it will face increasing pressures to do so. More technocrats should begin filling more important positions in the party and the government. These future leaders are today being exposed to and learning the languages of international science, the global marketplace, and international organizations. Many will likely have studied in the West, probably in the United States. They will be more likely to understand the concerns and be sympathetic with the needs of an emerging middle class. They will be more likely to focus on goals similar to those that interest the United States and other developed nations. Over time, they should become easier to work with in the international arena.

A similar evolution could be expected in China's military as a younger generation of better-educated, more technologically savvy, more professional officers with more international exposure and experience learn that true military strength, which itself relies on economic power, is only one of the tools needed to achieve international eminence.

To be sure, WTO benefits and economic advancement will not squelch Chinese nationalism, slow China's drive toward military modernization, or cause CCP downfall, but they might help redirect China's nationalistic tendencies toward more positive expressions of pride and accomplishment and guide China's social and military evolution toward more internationally accepted ends—all of which, ultimately, will be to America's advantage.

## If Things Go Poorly

The negative scenario, should it occur, promises its own very different consequences. Unable to move quickly enough to adapt to or enforce WTO rules and guidelines, China could become mired in a downward spiral of cheating, trade disputes, retaliatory behavior, and unilaterally imposed sanctions. The overall U.S.-China relationship, not just bilateral trade relations, would suffer.

Even if China can mollify foreign critics, Beijing is still certain to meet serious domestic resistance to implementing the WTO-required changes. Regional or class differences could stymie efforts to construct remedies for dealing with economic shocks and social dislocations

caused by new, externally imposed rules. China could face serious national unity strains if wealthier provinces and economic regions were to seek more autonomy from the center and try to distance themselves from poorer areas. Such problems could worsen already serious public disillusionment with the party and loss of confidence in China's leadership as a whole. There could be a rise in xenophobic patriotism and a new, more aggressive Chinese nationalism.

Under these conditions, China's central government would be hard pressed to keep promises made to the United States and other WTO members. More likely, Beijing would retain or revive protectionist trade and investment measures and stall commitments to

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phase out trade barriers. More dangerously, the party and the government might come to see cultivating patriotic nationalism as the best means for retaining power. Hardliners, in league with aggressively patriotic military elements and an emerging class of civilian neonationalists, could regain political advantage over the present generation of relatively liberal-minded reformers, forcing them to change course or change jobs. (The leadership's cool relationship with the military, an asset in the positive scenario, would be a liability here.) Pressed by an ascendant military and egged on by such sentiments as "the China that can say no" and "wiping out 100 years of shame," China's leaders might feel compelled to push the envelope in settling the Taiwan issue and in pursuing policies in the South China Sea and along the northern/northwestern borders with more vigor than has been the case to date.

This would set the United States and China on an increasingly tense and confrontational course. Deteriorating U.S.-China relations would further justify, in the minds of a populace already suspicious that America intends to hold China back from its rightful

place in Asia, China's need to build strong modern armed forces capable of defending sovereign interests and restoring national pride. Military spending could power an increasingly mercantilist economy. Areas for possible U.S.-China confrontation might be the presence of U.S. forces in Asia; possible Chinese efforts to extend Chinese influence over the Korean Peninsula; a more aggressive Chinese policy toward Japan; and Taiwan—the area most likely to lead to armed clashes.

## Managing Relations

Ultimately, whichever scenario prevails, there may be few noticeable changes in China for the first few years after WTO accession. Even so, it will be a crucial period for Beijing. China will have to reduce tariffs, eliminate subsidies, dismantle market barriers, modify regulations to conform to WTO rules, enact implementing legislation, and train officials in the way of the WTO. In effect, China will be redefining its economic, perhaps even its political and military, future.

Helping China with its economic reforms ultimately serves U.S. interests. The United States can influence China's development along desired paths without giving away the store or harming national security. Promoting American management philosophies and expertise in labor relations, environmental and safety issues, banking, quality control, and conservation, to name a few areas, could help make China a cleaner, safer, more accountable, and more dependable trade partner, all of which work to U.S. purposes.

Even so, the American ability to influence China will depend on its success in establishing a framework that consistently furthers the relationship—first in economics, trade, and the legal mechanisms that support these activities and later in the broader context of the social development that stems from increasing wealth and stability. A successful U.S. effort to construct a productive relationship with China must pay heed to several factors.

First, the U.S.-China relationship must be realistic. Shaped by vastly different national experiences and philosophical traditions, American and Chinese worldviews differ greatly. Even when using the same words (for example, democracy and freedom), American and Chinese speakers may not be talking about the same things. It is unrealistic to expect that Chinese leaders, thinkers, and strategists will

embrace American values merely because Americans say they are desirable. History may give good reason to think otherwise. It is equally unrealistic to expect that China will believe the United States means well when it takes actions that China interprets as designed to contain it.

But pragmatism is a strong trait in the Chinese character. China realistically can be expected to cooperate in relationships that bring tangible benefits to both nations and to expand this cooperation over time. Cooperation promotes better communication, which, in turn, builds trust.

Second, there must be clarity and consistency. Frequent U.S. policy shifts and ambiguously defined policy objectives have kept China's leadership off-balance and guessing for 2 decades. Definitional problems (saying what one means and meaning what one says) have added to bilateral tensions. Given the different nature of the two societies and cultures, clarity will always be a fundamental stumbling block in U.S.-China relations. This makes consistency an even more important element in managing the relationship.

Several types of inconsistent behavior have plagued U.S.-China relations. There is a history of inconsistency in the international arena in which the United States applies differing standards for certain issues (for example, human rights) to China than it does to other countries in which it has special interests. There is a history of inconsistency in the bilateral relationship itself; for example, one U.S. administration berating China for actions tacitly accepted by a different administration. Lastly, there is a Washington history of inconsistency in defining the very nature of the relationship itself—calling China everything from a strategic partner to a rival.

This is by no means a one-way problem. Beijing also has a history of abruptly changing course as well, generally when it finds itself too far out in front on domestically sensitive and controversial issues. More disturbing is the prospect that Chinese inconsistency not only will continue but also even worsen as the next generation of Chinese leaders try to find their footing, while the balance of domestic political power gradually passes from old-guard ideologues to the new technocrats.

Consistency in policy will be hard to achieve, given the ephemeral and ever-changing (by Chinese standards) nature of the American political landscape and Chinese unpredictability. Still, a relatively consistent approach should be feasible if a realistic policy is established at the outset: decide what is important and desirable; determine whether it is attainable; and stay the course.

Consistency and clarity in communication are both possible and the best way of ensuring a stable, productive bilateral relationship that could gradually guide China toward goals the United States finds desirable. Consistency means keeping communication lines open and maintaining academic, professional, and even military exchanges, regardless of the ups and downs of the overall relationship. It means

### **consistency and clarity in communication are the best way of ensuring a stable, productive bilateral relationship**

maintaining funding and protocol levels for worthwhile programs such as rule of law exchanges even while both sides are arguing over some other aspect of the relationship. It also means managing the level and intensity of rhetoric aimed at China, positive and negative, and moderating U.S. responses to Chinese rhetoric. China tends to be surprisingly concerned with its public image. China is also very reactive, though often the response evoked is not the one sought.

Above all, there must be patience. Despite the not-inconsiderable influence Western thought has exerted on the Chinese psyche over the last 2 centuries, the Chinese worldview remains firmly rooted in a belief that change is a product of evolutionary processes

responding to events and conditions over time. Americans tend to approach things in a more linear fashion, based on a relatively direct cause-and-effect perspective and the belief that careful planning and a deliberate process bring the desired result. Given this gulf, mutual understanding has been and probably always will be difficult.

This is not to say that excuses must be made. It is to say that patience is paramount. It will always be difficult to avoid misunderstandings and clashes between two such widely differing worldviews. But setting a rational course, maintaining it with minimal variance, and proceeding in a steady manner over time will minimize mistakes. If one does it, the other is more likely to follow suit. Patience and consistency are the keys to a U.S.-China relationship that is successful over the long term.

#### **Note**

<sup>1</sup> Chinese military spending is clearly increasing but the magnitude of the increases and the baseline for measuring them remain points of contention among Western military analysts. According to analysis by the U.S. Department of Defense (DOD), the People's Republic claims to have increased defense spending in 2002 by about \$3 billion, or roughly 17.6 percent, to a total of \$20 billion. DOD, on the other hand, asserts that such figures fail to include sizable outlays for weapons research, development, and acquisition. DOD puts the figure for overall military expenditure at roughly \$65 billion, and foresees double-digit percentage increases in military spending through mid-decade. For details, see U.S. Department of Defense, *Annual Report on the Military Power of the People's Republic of China* (Report to Congress Pursuant to the FY 2000 National Defense Authorization Act), 38. Available at <<http://www.defenselink.mil/news/Jul2002/d20020712china.pdf>>

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