Globalisation and China’s perspectives and experiences

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Abstract: Nowadays, the concept of national identity becomes much richer and the governments’ policy-makings have been largely monitored by the markets. If some countries have been more successful than others in responding to the same challenges posed by incorporation by the world economy, then the reason for these different answers is to be found in their national choices. The article reviews her unique pathway in quest for a new identity in the era of globalisation and tries to find some enlightenment equally useful for other developing countries.

Keywords: China; globalisation; governance; trade liberalisation.


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1 Introduction

A globalisation has far-reaching influence on the world and also enlarges the traditional perspectives of doctrine. The mercantilism of global economy and the globalisation of market economies push the Nation–States into a shock; in fact we can see very different performances among different countries in the same world, some become the true beneficiaries and others are left far behind. In optimistic view, we believe that free trade and globalisation are beneficial for virtually all people in all countries; however, the reality shows that wealth and opportunities brought by the globalisation are unevenly distributed across countries. While the Nation–State continues to be the main political role in the international scenario, the concept of national interests becomes much richer and the governments’ policy-makings have been largely monitored by the markets. If some countries have been more successful than others in responding to the same challenges posed by incorporation by the world economy, then the reason for these
different answers is to be found in their national choices: namely, how to integrate in the wave of globalisation, how to get the benefits of globalisation and realise the development, how to safeguard better the national interests and have a bigger share of voice in global democratic governance?

The largest majority of people on Earth live in the South. Over the past 30 years, few developing countries have enjoyed benefits from interaction with outside world as much as China has. As a late-comer of globalisation, in the course of modernisation, China has been confronted with a great difference between eastern and western cultures as well as a clash between the dissolution of a traditional society and the construction of a modern one. Taking into consideration China’s history, population, size, potential and geopolitical influence, this article reviews her perspectives, experiences and the unique pathway in quest for a new identity in the era of globalisation and tries to find some enlightenments equally useful for other developing countries.

2 Globalisation as an important way for development and prosperity

Economic globalisation, a state of flux, can be understood as transnational circulation of goods, services, essential factors of production and information. Economic activities are no longer confined to national boarders, but are underway in global sphere. New production patterns allow most industrial goods to have different components produced in different locations and final assembly to take place in anywhere. The essence of economic globalisation is the evolution and deepening of international division of labour in the light of comparative advantage, which in turn, leads to trade expansion and international capital flow. The different levels of participation in the international division of labour give rise to convergence and divergence among economies.

The results aroused by globalisation to date have been spectacular. Trade has grown twice as fast as world output over the past decade or more. Both developed and developing economies have had economic growth and benefited from economic freedom. The globalisation has raised 375 million people out of extreme poverty over the past 20 years (Hills, 2005). On average, poor countries that have opened their markets to trade and investment have grown five times faster than those that kept their markets closed (Woods, 2005). UNCTAD figures show that, in the period 1990–2003, developing economies enjoyed an average 7.3% annual average growth in their merchandise exports against 4.9% for developed economies. In the same period, inward FDI stock in developing countries increased by over four times (by over three times, if China is excluded) – about the same as for developed countries (Woods, 2005).

Economic theories are read as clearly supportive of the proposition that free trade has a positive effect on economic growth and real incomes. From the classical view of the benefits of free trade, Adam Smith argued an absolute advantage according to which the division of labour (specialisation) promotes productivity (Smith, 1976). David Ricardo extended this concept to the doctrine of comparative advantage (so called ‘deepest and most beautiful result in all economics’). He believed that trade allows each country to specialise in what it does best, thus maximising the value of its output. Even a country is relatively worse than any other country at producing every good, it can still benefit from free trade (Ricardo, 1951). The Heckscher-Ohlin-Samuelson model of comparative advantage explains the benefits stemming from international trade. The character of a country’s factor endowments (capital, labour and natural resources) will determine the
type of goods a country will import and export. International trade serves essentially to extend the size of domestic markets, granting competitive exporters a wider range of potential consumers, and freeing labour and capital from uneconomic pursuits. New trade theory (Lipsey and Dobson, 1987; Maneschi, 1998), taking into account imperfect competition, increasing returns to scale and changing technology, provides stronger support for free trade policies throughout the postwar and suggests dynamic benefits from trade, such as greater market size, enhanced competition and technological improvements. On all accounts, trade and economic openness can promote growth through increased specialisation according to comparative advantage, greater exploitation of increasing returns, learning of knowledge and technological capacities and improving economic performance through positive impacts on institutions and the political process. The idea that openness to trade is inherently good for both growth and development enjoys almost universal support and is deeply ingrained nowadays.

Like any dynamic economic change, participation in international trade creates both winners and losers, despite trade’s net positive effects on the economy (Fang, 2002). Some economists argued divergence between the rich countries and the poor countries (Romer, 1986), while others found empirical evidence of convergence (Sala-i-Martin, 1991). Many economic researches have been made to analyse factors that may lead to the convergence or the divergence. In our view, the increased trade in the era of economic globalisation can really bring about convergence provided the internal and external limits can be surmounted.

The internal limits contain domestic policies, technological changes, optimisation of trade structure, restructuring and reform affecting national markets and participation level in the globalisation. An active participation in the economic globalisation and outward orientation policies appear to be necessary components of effective development strategy and key explanations of why some countries have done better than others. Trade and investment liberalisation significantly pays high dividends in terms of improved economic performance. High protection, poor governance and bad national policies in developing countries are harmful to their own development, to other developing countries and to the global system.

The external limits refer mainly to the inhibiting factors that restrict right conditions and more fair and balanced rules in favour of the developing countries in multilateral trading system, such as the access to the world market, multilateral trade rules in force and other international factors.

The global inequality so far, to a large extent, represents the different levels of taking advantage of opportunities in international markets. It is a reflex of positions of the international division of labour occupied by different countries in the world economic system. It also reflects constraints on convergence and development.

3 China’s engagement of the world economy over the long sweep of history

The globalisation goes through various stages of development. The first stage, denominated by mercantilist expansion, began in 1450 and ended in 1850; the second stage characterised by imperial and colonial industrial expansionism occurred between 1850 and 1950; and the third stage of globalisation aptly called started in 1960 and was accelerated in 1990s.
Till the end of the first stage of globalisation, China was the centre of Asian tribute-trade system (the tribute system was indeed a patriarchal diplomatic institution, in which China stood at the centre and other countries were subordinated to the Middle Kingdom by paying tribute in exchange for China’s recognition. It was the only legal means of access to the Chinese market), so-called Chinese trade network or Sinocentric international order, and played an active role after the maritime expansion under Zheng He, in the early of the 15th century. At that time, China’s competitive advantages in terms of productivity of agriculture, handicraft industry and land and water transportation resulted in very favourable balance of trade. Ming China had a great monopoly in porcelain, ceramics, silk, gold, copper-cash and tea (after 1600) on world export market. Meanwhile, China was the major net importer of world’s silver (American) through Europe and Asia and an essential importer of silver and copper from Japan. ‘China, not Europe, was the centre of the world’ (Frank, 1998). It was estimated by economic historians that in 1500, China had been the world largest economy and had the highest income per capita (Maddison, 1991); in 1750, China’s share of global manufacturing output corresponded to 33% of the world and as late as 1798, China was the richest country in the world (Nolan, 2004). After then, China started to enter a long-term economic decline.

Around 1800, western countries, benefiting from the fruits of industrial revolution and transformation the disadvantages in the past to own advantages, became the winners in the global economy, while China’s role changed drastically. Till 1913, China’s share of world manufacturing output was below than 4% and fell behind (Maddision, 1995; Nolan, 2004).

The reasons to explain the China’s dramatic decline were largely due to its stagnant despotism, closed-door policies and rejection attitude of foreign technology adopted by Late Ming and Qing emperors (Landes, 1999). China’s lower level of incorporation in the world economy cut down its benefits from international division of labour and production specialisation and reduced the national income level and capital accumulation to promote industrialisation.

The resistance of Celestial Empire was finally broken by Great Britain after the Opium War at the beginning of the 1840s. As a consequence, a series of humiliating treaties (about 300 treaties and agreements) forced China to open up to the world market. Even though apparently China remained a sovereign state, it lost its economic sovereignty and autonomy, because of foreign military and economic invasion. Chinese tariff and custom administration were managed by foreign countries and foreign trade in China was also dominated by foreign firms.

The rulers of Qing China tried to respond the crisis, in the latter half of the 19th century, some comprador bureaucrats initiated ‘westernisation movement’, asserting ‘Chinese learning as the base and western learning for application’, with a view to introduce techniques in production and modernise weaponry. The Hundred Days Reform in 1898, aiming to generate conservative political and institutional change from above, did not gain popular support and suffered a defeat. After the revolution in 1911, China was divided under military warlords and soon after had to face Japanese aggression. The Nationalist Party Regime restored tariff autonomy, revoked some foreign concessions and carried out a number of financial reforms, however, due to social upheavals and lack of peaceful environment, economic development was hindered and China had become one of the poorest countries in the world and posted large trade deficits by the first half of the 20th century (Lu, 2000; Sugihara, 2005).
Thus, it is clear that the China’s passive opening-up and engagement of the world economy pushed by western powers really did protected the interests of each imperialist power instead of bringing out for China fair opportunities in participating the international division of labour.

After the foundation of People’s Republic, China was still very poor and was eager to match its regained political pride with better living standards for the population. Right after independence, China drew reference of Soviet Union’s model, adopted a planned economy and an import-substitution strategy, choosing heavy industry as a priority of its national developments in order to catch up western powers. The expressions of import-substitution strategy could be found in official declarations, foreign trade organisations, centralised foreign exchange system and the models of import and export. The export was for the import in a sense of earning foreign exchange and the import was for the socialist industrialisation and to reduce the gaps with western countries. Based on the idea of self-reliance, the state monopolised the foreign trade via a few state-operated companies; the import tariffs did not serve as an instrument of import and export; the exchange rate of national currency was over-valued; the government controlled strictly the foreign exchange rate; the export had been subsidised and China had no contacts with international economic organisations (Lardy, 1992). In addition, very limited capital was concentrated on capital-intensive and energy-intensive sectors; enterprises were no longer worried about profits, but to achieve the state planning. However, price system distortions, low efficiency in the allocation of resources and the strategy not based on comparative advantage did not achieve a good record.

The Chinese historical facts show that neither passive interaction with the world economy under external economic control nor autarchic protectionist orientation against comparative advantage will lead to development and catching up. The only effective pathway is to take initiatives to deepen the participation of international division of labour, enhance the capacity to accept the great challenges and conduct good governance.

4 The path to national resurgence in quest for new identity

In the late of 1970s, China initiated an open policy toward the outside world. Together with closer diplomatic relations with industrialised countries, China entered some leading international organisations and reached out integration closely with the globe.

Since the second half of 1980s, the world economy has undergone substantial and complex changes due to the new wave of globalisation. Some essential factors are changing and will continue to change the formation of new international order. First of all, multinational corporations have adopted a global strategy which represents a revolutionary production model. In the second place, the technological progresses and information revolution have far-reaching repercussions on every aspects of human life. In the third place, international and regional organisations played a greater role in coordinating different views, settling global problems and seeking new rules in international arena. In the political aspect, the Cold War and the East–West confrontation ended smoothly with the demise of the Soviet Union. Democracy and the principles of free market economy were trumpeted as universal values.

China, as a late-comer, like other developing countries, has been pushed into the defensive in the context of present stage of globalisation. The economic globalisation amplified the risks and costs of development, as evidenced by the widening gap between
the South and the North and by emerging global threats, such as power politics, terrorism, contagious diseases and environment degradation, etc. But looking from another angle, all these have brought about historic opportunities for development.

The challenges of globalisation for the developing countries in general embody mainly in two levels. The first is the link between the national economy and the world market challenges the existing institutions and the domestic governance capacity, for example, the structural imbalance within national economy, vulnerability of capital market, increasing inequality in wealth, etc. The second is in the international level, the developing countries are bearing great pressures because the new world order has not been rebuilt while the old one was not fully destroyed; and there are still many unbalanced situations or negative discrimination against the developing countries in the current multilateral system which requires more impartial institutions and rules to safeguard sustainable growth and gain credibility from all participants.

China has drawn a lesson from past frustrations and begun to adopt an open and an active attitude by implementing significant measures to introduce market economy and institutional innovations to surmount both internal and external limits, because the national economy needs the stimulus of external markets and technologies for the transition to a higher growth trajectory.

A good homework to respond the challenges of globalisation depends on national capacity of reforms, training period of development, and above all, the domestic conditions and comparative advantages. As for China, it possesses abundant physical labours which represent one-fourth of world summation; with regard to the two main resources of agriculture, China is short of cultivated land and water, being each of them only 7% of world gross amount; China also lacks capital, technological and other natural resources. The domestic conditions illustrate that China has visible comparative advantage in exporting labour-intensive products and should import more capital-intensive and resource-intensive products, attract foreign capital and introduce advanced technologies. Therefore, the right strategy is to participate actively in the international division of labour and coordinate the domestic politics, society and economy with globalisation process.

Over the past 30 years, China has implemented an extensive agenda of reforms which included the following points:

4.1 Active interaction between international environment and domestic policies

Free trade has been a critical force to bring about economic development and is seen as a means to promoting competition in China. It is estimated that about 25% of its annual economic growth is achieved by foreign trade (Fang, 2002). Since 1978, China has adopted an outwardly oriented strategy, undergoing four stages: import substitution and marginal export orientation (1980–1983), offsetting import substitution by export promotion (1984–1990), export promotion and marginal trade liberalisation (1991–1993) and trade liberalisation (after 1994; Feng, 2006).

In 1986, Chinese government applied to resume its membership of GATT and hence started the long march of accession negotiations of the WTO. The joining into the WTO and participation in the multilateral trading system in 2001 was a strategic decision by the Chinese leadership. China can benefit from a non-discriminated treatment and a dispute settlement mechanism in the multilateral system. Chinese reformers have used consciously international rules, its international commitments and obligations to shape
domestic policies, accelerate industrialisation and urbanisation and deepen domestic reforms, especially, to dislodge domestic monopolies that curb growth, because openness can introduce advanced ideas, technologies and competition.

In this sense, globalisation circumscribes the use of domestic industrial policy in certain ways. China precisely searches for global market forces as external action or auxiliary booster to accelerate its domestic socio-economic transition.

### 4.2 Transformation of government’s role

Nowadays, beginning from 1978, China is a transitional economy in the process of marketisation. Since, China’s economic activities were mostly under the direct control of the central government in the period of planned economy, the reforms involve the delegation of more and more economic powers to lower level governments.

The strong governing capacity of central government was beneficial to a united political framework and legal system as well as breaking a closed economy and building a unified market. However, a very rigid centralism led to low efficiency, high administrative costs and bureaucracy. In order to give more incentives to and seek cooperation from local governments, central government took an administrative and a fiscal decentralisation strategy, holding sometimes laissez-faire, sometimes regulatory or promotional attitude. Local decision-making powers consist in mainly strengthening of local government’s role in local economic management, such as examination and approval of projects and issue licenses to newly established firms, delivery of goods and materials, resource allocation, investment with self-financing, use of foreign investment, delegation of control of state-owned enterprises, autonomy to set prices of commodity, profit sharing with central government, etc.

In China, economic reforms depend largely on decentralisation, local initiatives and innovations. In fact, tremendous economic growth of China stemmed from foreign direct investment and non-state-owned township and village enterprises, both of which rested upon the efforts of local governments.

The established special economic zones are regarded as ‘windows to know the world’ and ‘laboratories of opening-up policy’. The autonomy enjoyed by special economic zones consists in special institutional benefits and preferential policies, such as lower tax rates or tax exemption, higher share of revenues and so on.

On the other hand, the globalisation requires further decentralisation, allowing the rising civil society and local governments to undertake some responsibilities of management. The Chinese reform since 1978 is underway just along the main line of decentralisation from central to local and from state to society.

In short, when Chinese central government’s role becomes less intrusive, market forces and other private agents have gradually permeated the economy. The government’s function is concentrated on economy adjustments, market supervision, society administration and public services (Hu, 2004).

### 4.3 Institutional construction and rule of law

The biggest challenges of Chinese market transition are institutional construction and rule of law. The globalisation has changed the Chinese traditional concept of ‘good government’ into a modern idea of ‘good governance’. Important decisions are taken as the result of a complex deliberation process in which the government’s interest is only
one element within a wide angle. Civil society is growing and has the voice of the representatives of specific interests.

Economic prosperity will not lead automatically to social justice and social stability. On the way to the modernisation, Chinese economy passed many stages: from natural economy of feudalism, bureaucratic-capitalist economy, planned economy to the establishment of market economy, the entry into the World Trade Organization and more active integration into the global economy. Law has been used to achieve harmony in Chinese society. Both judicial remedies and alternative dispute resolution (such as mediation and arbitration) offer different choices and approaches.

Since 1990s, China has made huge progress in terms of institutionalisation of legal systems. The National People’s Congress and its Standing Committee made around 400 laws, the State Council promulgated over 800 administrative regulations and the local people’s congresses elaborated over 8,000 local regulations. According to the commitments made by Chinese government on the Protocol on the Accession of the People’s Republic of China into the World Trade Organization, more than 1,000 normative documents of law have been updated or revised.

In addition to the efforts concentrated on positive law, some universal political values, such as democracy, representation, human rights, responsibility and equality, rule of law, justice and cooperation have been accepted by China. The government shall implement policies and measures within the limits of Constitution and Law in order to minimise negative impacts and increase positive impacts of globalisation.

Just like other developing countries, China is also modernising its legal system and learning from international rules, but taking into consideration the localism. The concept of rule of law, formal or substantial, should be planted on Chinese soil and the law is determined by specified political, economic, historical and cultural factors.

4.4 Participation in international democratic governance

Transnational problems require global responses. In order that the globalisation can have sustainable development, the new world order should meet the interests of the widest number. As the biggest developing country and the most populous country in the world, China hopes to have broad participation in international regime making and is undertaking more and more responsibilities in regional and international issues.

From China’s perspective, there is a great need for global democratic governance. Democracy is essential to social peace and stability, not only within national borders, but also in the world at large. In recent years, at different occasions, Chinese leaders have conveyed frequently the idea of ‘great harmony of the international community’, which means there are not only confrontation and competition in the world, but also interdependence and common interests; the diversities of ideologies and cultures should not be obstacles of exchanges and globalisation should not wipe out national identity.

5 Conclusions

Economy has been globalised, but politics is not. China’s unique pathway in quest for a new identity in the era of globalisation shows that each country must choose the path that best suits its own genius.
Globalisation has eroded powers of the government and has compelled the government to redefine its roles and functions. In economic matters, government’s decision is subject to the scrutiny of the markets. The emergence of multilateral trade bodies, the individual empowerment that trade provides, the NGOs and multinational corporations have weakened the government powers in implementing its will.

However, in the context of globalisation, the Nation–State continues to be the main political role in the international scenario and the government is still the engine to spur on social sustainable development and achieve good governance and holds the prime responsibility of facing challenges from the globalisation, particularly in the developing countries. The Nation–State will never fold its hands without knowing what to do, but can do good homework and evolve national policies to restrict negative effects of globalisation.

Chinese experiences show us how important the positive role that government should develop facing the challenges of globalisation. As illustrated by history, the government intervened fully in economic life and such role was very harmful to trade and development. Since 1978, instead of continuing to adopt a passive attitude to impose overall restrictions on trade, China has learned to adapt better with international environment and participated actively in the international division of labour and now is pursuing new patterns of development by creating gradually new comparative advantages and competitive advantages.

During these years of opening-up, the Chinese government brings its potentials into play, effectively addresses the opportunities of globalisation and becomes more and more constructive in seeking the benefits of globalisation. The most important thing is that through the integration with the world, China has made great achievements in establishing and enhancing its national concept and national identity.

References


