The CHINA SYNDROME

China's membership of the World Trade Organization (WTO) has helped drive huge expansion of trade for Beijing – but it hasn't brought about the domestic freedoms the West believed would follow

STEWART PATERSON's new book paints a sobering picture of this new era – and illustrates the danger it poses for China itself – and for other countries' freedoms and growth

The decisions in the late 1990s that led to China's accession to the WTO in 2001 have been called the height of the great optimism.

China joined because western governments believed membership and the closer engagement it would necessitate would mean democratic capitalism – or at least freer markets leading to freer politics – sweeping China soon enough.

As former US President Bill Clinton put it: "By lowering the barriers that protect state-owned industries, China is speeding a process that is removing government from vast areas of people's lives.

"In the past, virtually every Chinese citizen woke up in an apartment or house owned by the government, went to work in a factory or farm run by the government, and read newspapers published by the government… That system was a big source of the Communist Party's power."

Advocates of WTO membership and Permanent Normal Trade Relations with China claimed membership would mean continual political opening – a "one-way street". Tariffs would be steadily cut, intellectual property protected.

Stewart Paterson's *China, Trade and Power: Why The West's Economic Engagement Has Failed* asks why it hasn't turned out this way.

In this well-researched book, Paterson's condemnation of western policymakers' naivety, and the results for the political atmosphere of western countries, is severe. What has gone wrong?

The collapse of the Soviet Union told the Chinese Communist Party that despite reform at home, continued economic isolationism would exact a heavy price. WTO non-membership was limiting foreign direct investment and technology transfer.

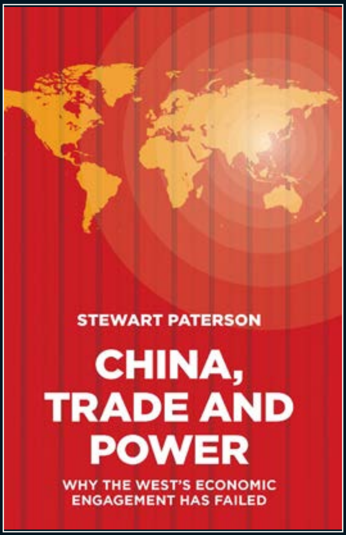
Indeed, the first ten years after Chinese WTO accession saw Foreign Direct Investment (FDI) triple; the Chinese share of world manufacturing expanded four-fold as the country became the world's largest manufacturer.

By 2007 China had surpassed the United States as the world's largest exporter; China's exports that year, at $1.2 trillion, were larger than its entire economy just seven years before. A rules-based system and legal level playing field would surely follow.

In historic terms the change in attitude has been sudden. Paterson describes growth achieved not by "market forces to allocate resources efficiently [but] economic nationalism that harnessed some aspects of a market [and] societal goals set by a central government."

The loss of (some) jobs in the West has been exacerbated by China's policies aimed at artificially inflating manufacturing (the US lost five million manufacturing jobs in 2001-6; in Mexico, average monthly manufacturing wages were $2 per hour in 2000; in 2016 they were still $2 per hour). The mercantilist charge sheet is lengthy.

An undervalued Renminbi (the Chinese currency) has bolstered exports, suppressing domestic demand for foreign goods. That intellectual property infringement has long been a feature of



CHINA, TRADE AND POWER: WHY THE WEST'S ECONOMIC ENGAGEMENT HAS FAILED

Stewart Paterson
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technological catch-up says little of its possible impact in the context of an expansionist China:

"The advertising of Johnnie Walker Red Labial 'Scotch' whisky is amusing… 'Heimekem' lager may not be as refreshing as the real thing… but the remarkable similarity between the American F35 stealth jet fighter and the Chinese J-31 is more sobering".

Yet domestically, these anti-competitive distortions tell us that if China does not let entrepreneurs flourish, then China, as much as others, will pay the penalty. Will the country continue to disincentivise the innovation it badly needs in order to escape the middle-income trap, by allowing state-owned enterprises to better protect patents, for instance?

The book has perhaps relatively little acknowledgment of how the expansion of markets has raised China from the poverty that socialism helped create, although examples like "'one-pants families' where clothes were worn in shifts" are telling enough.

A market capitalism severely rigged for the benefit of state-backed incumbents is very far from ideal, but it is much better than the recently-tried hard-socialist alternative.

Perhaps the most interesting questions this book leads to are of technology as a challenge to the political elite, much like the printing press in the Reformation.

The era of the smartphone is supposed to set information free, and to a degree has done so in the west. That Beijing is now testing algorithms to grade citizens' behaviour for conformity and political supplication tells us that the counter-attack launched by the Chinese state has turned its online age into one of unprecedented surveillance.

That very few states in human history have managed sustained economic growth is partly because elites tend to suppress the innovation it requires, fearing its capacity to enrich potential rivals.

The Chinese elite now senses the threat from the innovation they simultaneously know China needs.

If the great optimism for the steady expansion of market freedoms towards political choice may be over, for now, this tells us that western countries' own approaches to the markets that sustain innovation and growth have become all the more vital•

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