

China's Evolving Engagement with the Trading System

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OVERVIEW

- China as the world's trading giant
- Deep integration → global ramifications:
 - Global current account imbalances
 - Political polarization in the US (“China shock” literature)
 - US-China trade and technology war
 - Deadlock at the WTO
 - Weaponization of trading relationships
- Yet China's engagement with global trade ≠ linear export expansion
- Long standing tension: globalization vs reducing external vulnerability
- “Dual Circulation” strategy: formalization of hybrid growth strategies
 - What's new: securitization of economic relations

Key Turning Points in China's External Engagement

Years	Event	Growth Strategy
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2020	Covid-19 pandemic	

■ External
■ Domestic

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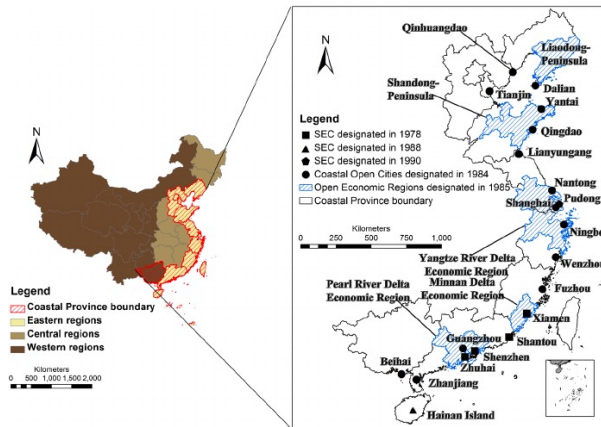


Source: bbc.co.uk

- Cautious, experimental approach to growth
- Explosive growth centered in rural reforms
 - Household responsibility system
 - Township & village enterprises
- Circumscribed experiments with trade liberalization
 - Special economic zones
 - Command economy outside the zones

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Source: Liu et al (2013)

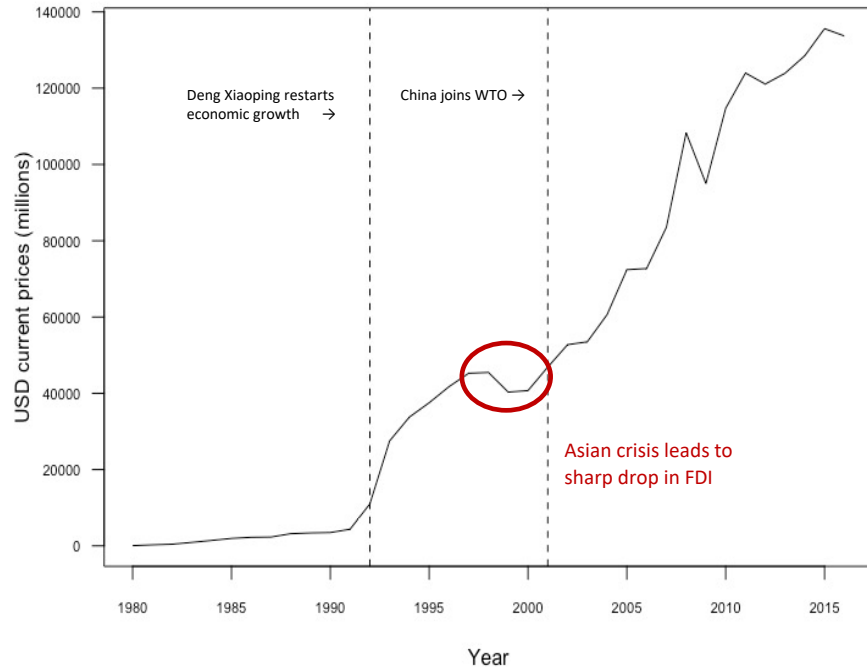
- Free trade zones extended along the coast
- Bifurcated trading regime
- Coastal zones: foreign firms
- Interior: Planned regime dominated by state-owned firms
- Negligible role of domestic private sector

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Asian Financial Crisis (1997-8)



FDI inflows into China, 1980-2016

Source: UNCTAD

- Crisis triggers fall in FDI and exports
- Heightened policy concerns over external dependence
- Increased reliance on land development and state-led spending
- Infrastructure spending triples from 1997-2002
- Urbanization made a national priority in 2001 10th Five Year Plan

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2001 Entry into World Trade Organization

DISAGGREGATING CHINA, INC.

STATE STRATEGIES
IN THE LIBERAL
ECONOMIC
ORDER



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- Critical turning point for global trading system & for China
- Protracted, 15-year process
- Achieved over fierce resistance in the bureaucracy
 - Fears over import threats to strategic industries
 - Fears over external scrutiny + curbs on domestic policy
- Abolition of dual trading regime
- From shallow to deep integration
 - Extensive legal and institutional reform commitments

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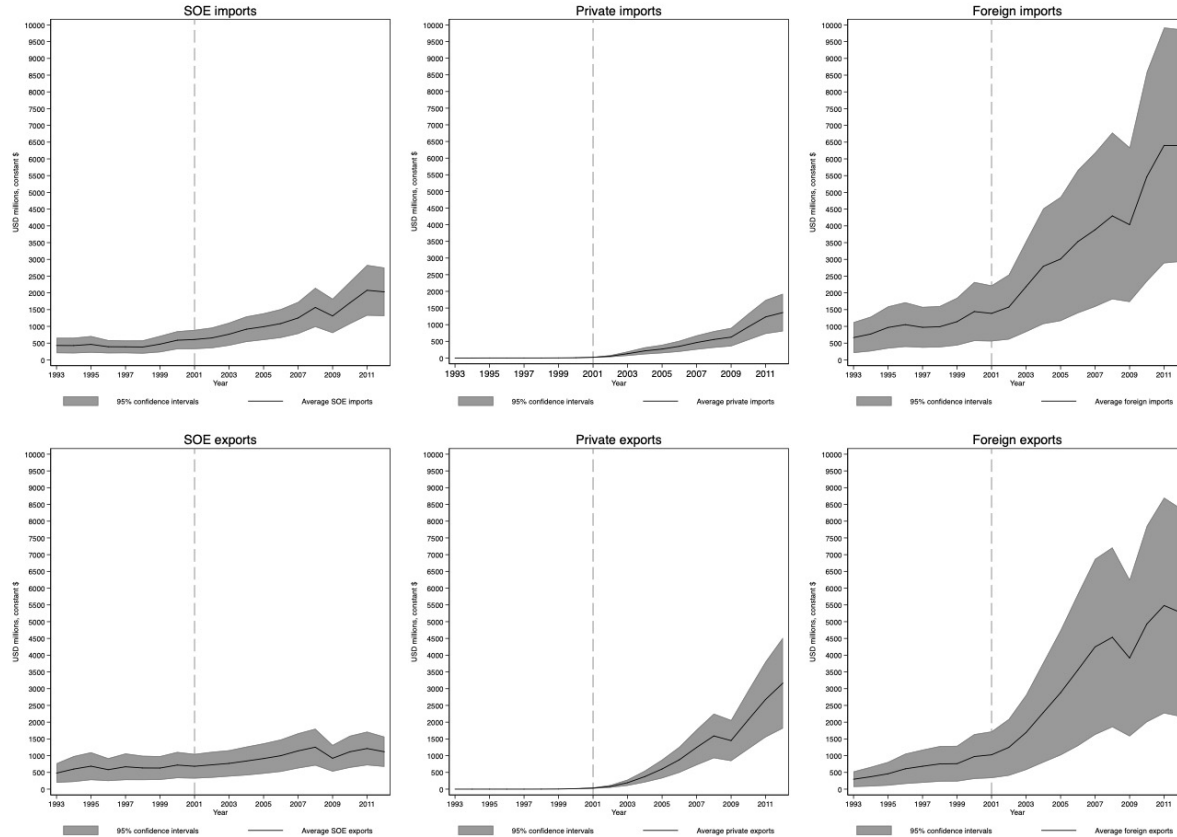
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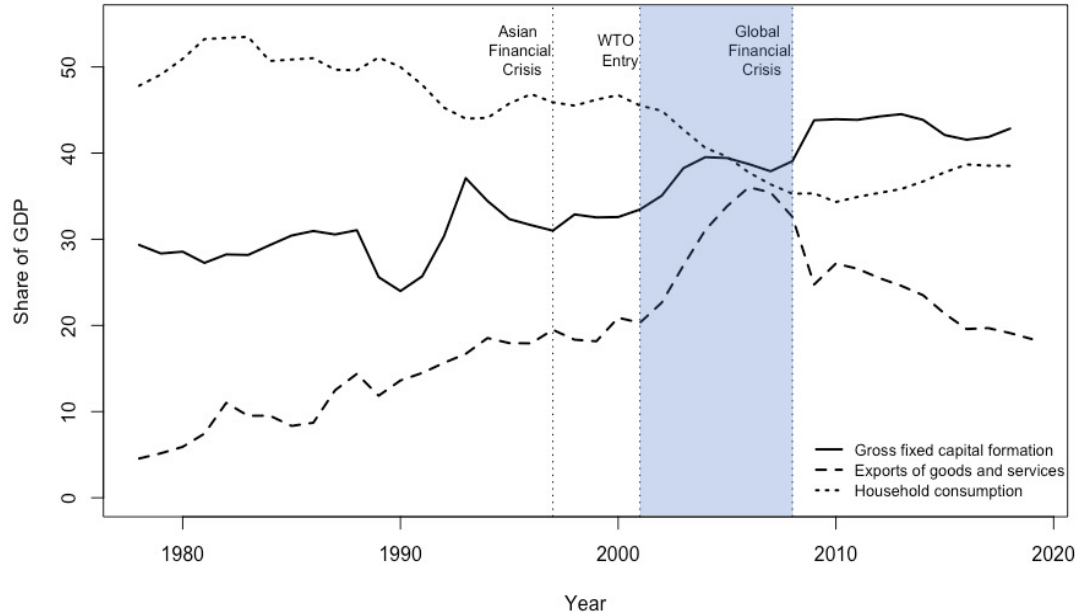
- Legislative overhaul by central government
- Strengthening of technocratic, market-enhancing agencies
- But contradictory strategies adopted by subnational governments
- As WTO reform momentum slowed:
 - Backlash from industrial policy agencies
 - Under a weaker Chinese leadership
 - Rise of Chinese “state capitalism”

2001 Entry into World Trade Organization



- Major beneficiaries:
- Domestic private firms
 - Foreign firms

2001 Entry into World Trade Organization



Source: World Development Indicators

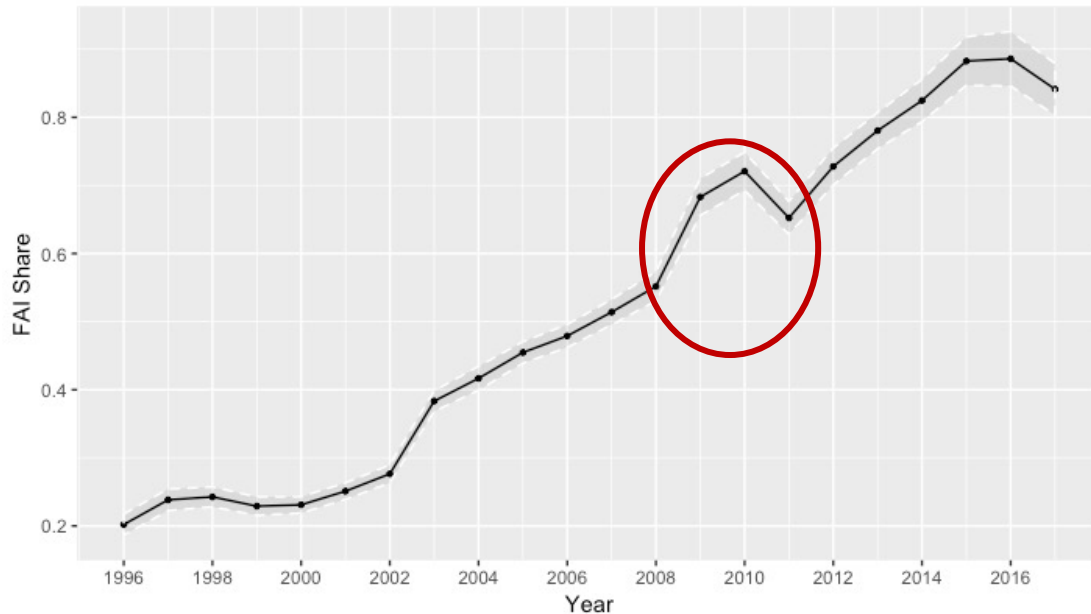
- Major shift in economic structure
- Surge in exports share of GDP
- Decline in consumption share
- World's largest exporter
- Global current account imbalances

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- External
- Domestic

2008-9 Global Financial Crisis

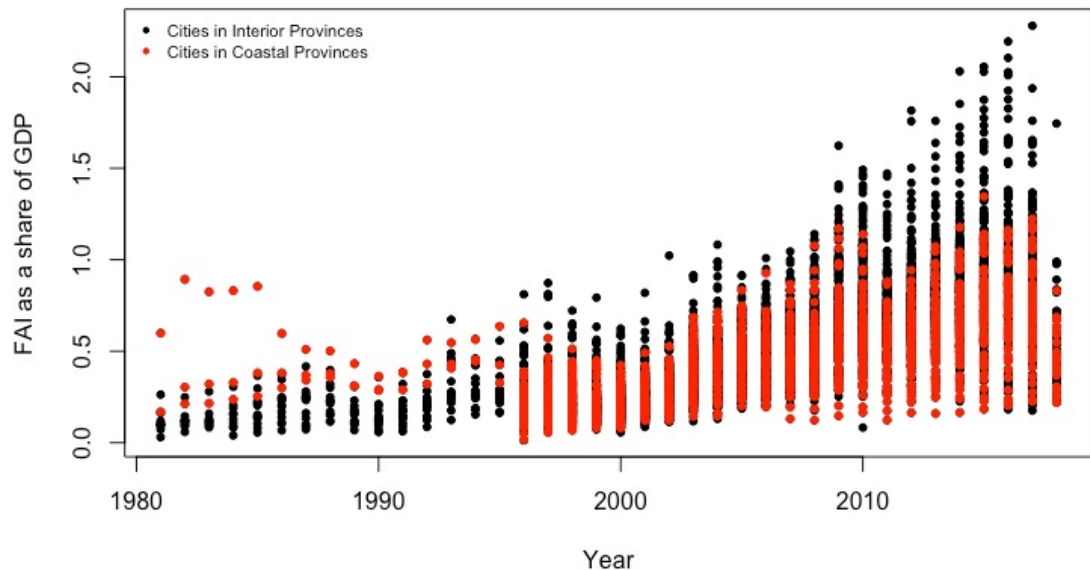


Average Prefecture Fixed Asset Investment as share of GDP, 1996-2017

Source: CEIC Data

- 4 trillion RMB stimulus, channeled through state-owned banks and enterprises

2008-9 Global Financial Crisis



Fixed Asset Investment as share of GDP in Chinese prefectures, 1996-2017

Source: CEIC Data

- Major focus on construction in China's interior provinces
- Shifts in elite thinking about growth strategy
- Rebalancing a more urgent priority
- 2008 3rd Plenum emphasizes land development, urbanization
- Growth in local government debt
- Problems of excess capacity

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Belt and Road Initiative



- Multiple domestic & geopolitical drivers
- Exporting of domestic excess capacity
- Major beneficiaries: SOEs, western provinces
- Continued attempts at re-balancing (2015 Supply-side Structural Reform)

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US-China Trade and Technology War



Representatives from 15 countries signed up for the Regional Comprehensive Economic Partnership on Sunday. Photo: AAP

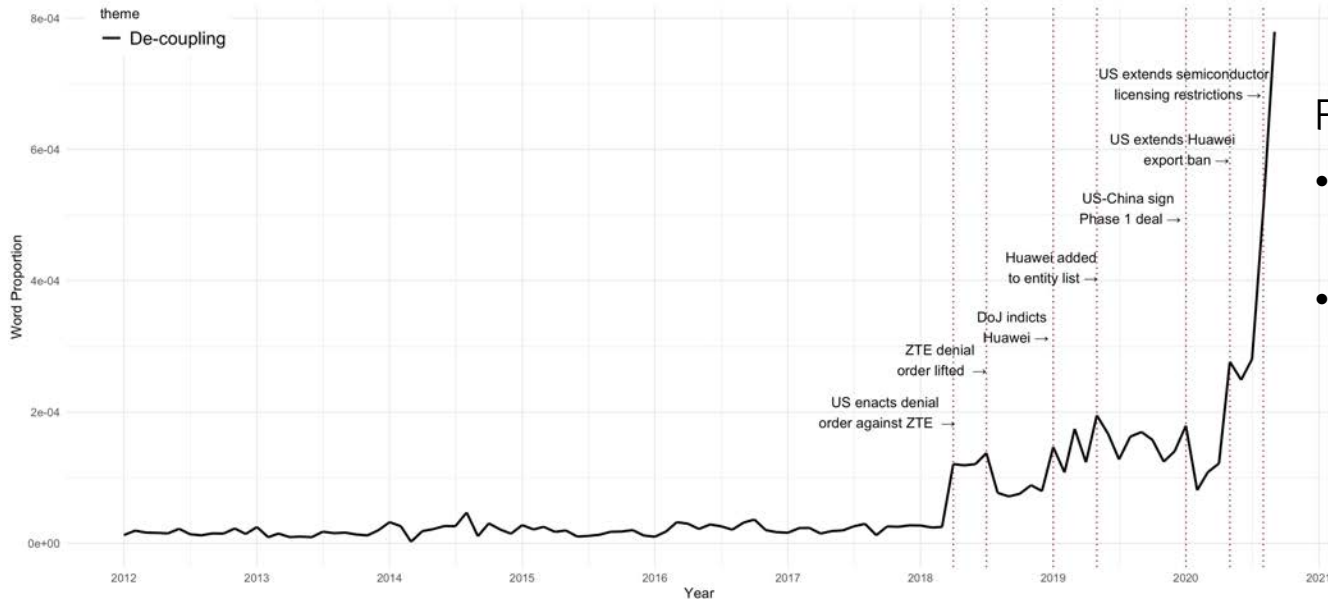
Response 1: **Defend**

- Retaliatory tariffs

Response 2: **Diversify**

- RCEP
- China-Mauritius FTA
- China-Cambodia FTA
- (CPTPP)

US-China Trade and Technology War



Response 3: “De-couple”

- Self-reliance, resilience in critical technology
- Shift in elite thinking: integration as a source of vulnerability

Prevalence of phrases related to decoupling in Chinese S&T media articles
(on-going work with Dallas, Farrell & Newman)

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China's "Dual Circulation" Strategy

- Reduce reliance on external economy (first circulation)
 - Not the same as de-coupling
- Increase reliance on domestic market (second circulation)
 - Consumption, "new" infrastructure
- In many ways, a doctrinal formalization of long-standing trends/concerns
 - Tension between gains from globalization and vulnerability to external shocks
 - Easier said than done (clashing domestic interests)

China's "Dual Circulation" Strategy

- What's new?
- Securitization of economic policy
- Xi Jinping's speech on the 14th Five Year Plan (2021)
 - "security" mentioned 17 times (compared to 5 times for the 13th Plan)
 - "security is a prerequisite for development, and development is a guarantee of security"
 - National strength needed in "preventing and resolving various types of risks and hazards, and actively responding to the challenge of shocks brought about by shifts in the external environment."

China's "Dual Circulation" Strategy

Implications

- Continued supporter of globalization, BUT
 - External environment as source of risk
- Continued weaponization of trade relations
- Impact on WTO negotiations, e.g.
 - Domestic policy space
 - E-commerce

Conclusion

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- Despite status as #1 exporting nation, engagement with trading system far from linear
- Shifts over time in outward vs inward economic reliance
- Internal tensions in “dual circulation” strategy
- Each type of growth supported by strong domestic groups with vested interests
- Tensions between continued globalization and securitization

Thank you

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