

GLOBALIZATION AND ECONOMIC NATIONALISM IN CHINA

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Abstract: Since the admission of China in WTO in the early 2000s the transition to the liberalized markets and new trade rules didn't actually meant that the economic nationalism that characterized the prior Chinese economic policies behavior changed dramatically. The aim of this paper is to assess the 'new' Chinese economic nationalism post-WTO accession and how the Chinese economic state economic policies evolved in the present globalized environment. As research methodology we use the qualitative approach by investigating the case of economic nationalism in Chinese state policy. Although economic nationalism is now seen as a force that can potentially slow down the march of globalization, if not necessarily derail it, the concept itself is contentious and subject to varied interpretations. As findings of this study we stay in line with the existing literature and highlight the fact that increasing globalization might lead to an increase in economic nationalism especially in the Asian emerging markets. The value of this work is the close up framework of Chinese economy post-WTO followed by the assessments of the implications of Chinese state economic policies in the new tendencies and global shifts in world's economy.

Keywords: liberalized, markets, policies, globalized, environment, economic, nationalism

Introduction

Economic nationalism is a set of policies that emphasize domestic control of the economy, labor, and capital formation, even if this requires the imposition of tariffs and other restrictions on the movement of labor, goods and capital. In many cases, economic nationalists oppose globalization or at least question the benefits of unrestricted free trade. Economic nationalism may include such doctrines as protectionism and import substitution. The objective of this set of measures is to support economic activity and promote social cohesion.

Economic nationalism has been and will continue to be a contentious issue. While it is surely not a recent phenomenon, its manifestations in today's global economy have been frequent. Although economic nationalism is now seen as a force that can potentially slow down the march of globalization, if not necessarily derail it, the concept itself is contentious and subject to varied interpretations. (Akhter, 2007)

In many ways, the idea of economic nationalism acts as both a balance to and an opponent of the concept of globalization, in which all nations are seen as economically interdependent. An economic nationalist nation will generally support any move to make use of domestic production instead of imported goods and services to meet domestic consumption. In many ways, the idea of economic nationalism acts as both a balance to and an opponent of the concept of globalization, in which all nations are seen as economically interdependent.

Nationalism is difficult to measure and therefore ignored by economists. Yet its effects on the economy, especially in the long term, can be profound. In fact, even when the current crisis blows over, the underlying collision between such societies as China, where economic nationalism is strong, and those like America, where it is weak, will intensify. (Kaufmann, 2009)

Not every country can succeed with economic nationalism. The dark days of socialist self-sufficiency and import substitution were a failure in countries such as Brazil, where economic nationalism had shallow roots. In Brazil, increasing economic nationalism has given rise to protectionism and a lack of openness to trade and investment (The Economist, 2000). In East Asia, by contrast, there is a widespread sense of ethnic homogeneity and consensus that lets economic nationalism thrive.

The long way of China's accession to World Trade Organization (WTO) was an important step forward to the market liberalization and openness to trade of the Chinese economy. From China's request to resume its status as a contracting party to the GATT (General Agreement on Tariffs and Trade) to its final accession to the WTO, it took China 15 years to go through the arduous and prolonged negotiations. On July 10, 1986, China formally submitted to the GATT Secretariat its request of resumption of China's status as a contracting party to the GATT. In November 1995, China formally requested to accede to the WTO. On December 11, 2001, China officially became WTO's 143rd member.

Since its WTO accession China has blossomed into the world's greatest exporter and second-biggest importer. The marriage of foreign know-how, Chinese labor and the open, global market has succeeded beyond anyone's predictions. (The Economist, 2011) The price of re-entry was as steep as the wait was long. China had to relax over 7,000 tariffs, quotas and other trade barriers.

In the lead up to China's accession, many international experts were concerned that if it was not handled appropriately, China's entry could undermine the entire global trade system. Some experts were anxious that the WTO would be swamped with dispute cases. Others were concerned that China would not fully abide by the norms of the global organization, including 'non-discrimination' and especially the WTO's elaborate and precise 'transparency' requirements – unless compelled to do so through special compliance measures. (Centre for International Governance Innovation Publication Series, 2011a)

Since the admission of China in WTO in the early 2000s the transition to the liberalized markets and new trade rules didn't actually mean that the economic nationalism that characterized the prior Chinese economic policies behavior changed dramatically. China's accession had an enormous impact on both China and the world trading system.

Statistical figures make clear the profound effect of China's WTO accession. In 2001, China's was the world's sixth-largest trading nation. At present, it is the largest. In 1993, China received a meager \$10 billion of inward foreign direct investment (FDI). In contrast, the year after its WTO accession, inward FDI reached a startling \$50 billion. (Blanchard, 2011)

Prior to joining the World Trade Organization (WTO), the common perception in China was that the WTO and its forerunner, the GATT, belonged to the 'Club of the Rich', in which wealthy countries imposed rules on poor and weak developing countries. Now, the WTO is one of the most widely recognized international organizations within China, along with the United Nations (UN), the World Bank and some specialized agencies of the UN, such as the World Health Organization. (Centre for International Governance Innovation Publication Series, 2011b)

China's WTO accession agreement provides a comprehensive roadmap for many aspects of reform in China's trade regime. In particular, it provides for substantially

reducing protection, for strengthening the protection of intellectual property rights, and for adopting a framework of trade rules at home and abroad. However, the agreement is not all-inclusive, and China needs to keep a strong focus on its development needs, maintaining the perspective that has guided the steady transformation of its trade regime and economy, generally, from plan to market. (Bhattasali, Li, and Martin, 2003)

Literature review

A definition of economic nationalism provided by the Cambridge Business English Dictionary states that a situation in which a country tries to protect its own economy by reducing the number of imports and investments from other countries is considered to be a case of economic nationalism. (Cambridge University Press)

In 1937 William Rappard stated that ‘there is no social phenomenon neither more universal in its incidence, nor more far-reaching for the future of mankind in its consequences, than economic nationalism today’. (Rappard, 1937) Since then a lot of the international economic relations environment have changed but one of the actors that is strongly linked to the concept of economic nationalism it’s still present and powerful – the nation state. Professor Rappard goes on to say that ‘a nationalistic ruler of a nationalistic state will be more tempted to practice economic nationalism than a liberal ruler of an individualistic state’.

Conventionally economic nationalism has drawn inspiration from Friedrich List and Alexander Hamilton who believed in protectionist measures to achieve mercantilist goals. Economic liberalism, on the other hand, has its roots in the teachings of Adam Smith who advocated free trade to enhance the wealth of nations.

Economic nationalism is thus said to manifest itself in the ‘role that the national government, domestic firms, and general public is expected to play in curtailing the involvement of foreign firms in the domestic economy’. (Akhter et al., 2003) The concept of economic nationalism thus has a specific focus – preservation of the national economic autonomy.

Anthony D’Costa, defines economic nationalism as a set of state practices, policies and strategies, often in concert with private capital and politically supported, generally by organized labor to protect and promote national economic interests such as improving wages and incomes, fostering national competitiveness, promoting national champions. (D’Costa, 2012)

Burnell (1986), for example, noted that the concept of economic nationalism has not been explored adequately. Furthermore, Baughn and Yaprak (1996) note that the conceptualization of economic nationalism does not go beyond explicating the “economic practices and policy measures that historically have come to be characterized as nationalist.” Furthermore, a review of the literature indicates that the term economic nationalism is often confused with other related but conceptually different terms such as nationalism, patriotism, ethnocentrism, and consumer ethnocentrism, thus compounding the ontological and epistemological problems.

Wei and Liu argue that economic nationalism is a consequence of and response to the age of imperialism, modernization, and globalization, which propelled economic activities and competitions across national borders and which led to the consciousness and actions to protect national economic interests. (Wei, Liu, 2001)

Nationalistic government economic policies are usually directed according to the same authors quoted above toward six goals:

- To recover and protect a nation's economic sovereignty and rights;
- To secure a supply of strategic raw materials and access to world markets;
- To assist the key economic sectors for stability and sustained development at home;
- To guide a nation's economic development for security and prosperity;
- To protect the interests of individual businesses and strengthen their position in competing with foreign business;
- To strengthen and promote a nation's position in the global economic order;

Harry Johnson (1965) analyzed economic nationalism as an economic program that 'seeks to extend the property owned by nationals so as to gratify the taste for nationalism'. In literature we can also find two opposite presuppositions when it comes to nationalism and economy – the materialistic one and the idealistic one. The first assumption is supported by Ernest Gellner (1983) who exemplified the materialistic theory where the power of nationalism is explained as a subordinate part of more general processes of socioeconomic transformation. Liah Greenfield (2001) supports the second one an idealistic view in which the emergence of capitalism is a function of nationalism.

When it comes to the assessment of the relationship between nationalism in economic terms and globalization we also distinguish in literature two main views. The first one is a critic brought to the new global economy thesis and the second one is the convergence thesis according to which globalization is producing one dominant model of market economy. The paradox is that even with all the processes of interdependence, integration, and liberalization of the economic environment – the world economies are still governed by states. The current transformations of national economies in the context of economic globalization are directed or strongly influenced by national states and particular groups of states which still dominate. Also the generalization of the national state ignores the great diversity of states with different cultural specificity. (Helleiner, Pickel, 2004)

Economic nationalism in Chinese version

In the course of the 1980s and 1990s China emerged as a major player in the global economy; indeed no other country has ever expanded its role so rapidly. Its foreign trade increased explosively, from about \$20 billion in the late 1970s to \$475 billion in 2000. After China's inward looking Cultural Revolution decade (1966-1976) drew to a close, China's trade began to grow dramatically faster than world trade. By 2000 its share of total world trade had sextupled as compared with 1977 and as early as 1995 China had become one of the top ten trading countries in the world. (Lardy, 2001) Simultaneously China attracted record amounts of foreign direct investment. For much of the decade of the 1990s China was the world's second largest recipient of foreign direct investment, following only the United States. By the end of the 1990s the total stock of foreign direct investment in China accounted for almost a third of the cumulative foreign direct investment in all developing countries. Cumulative foreign investment in China far exceeded the total stock of foreign direct investment in

countries such as Mexico and Brazil, which opened their doors to foreign direct investment decades before China.

Nationalism of all forms is up in Asia. Disputes over islands, fisheries, oilfields, visits to shrines and even national dances are the current mainstay of regional press coverage. Manifestations of patriotism in Asia are nothing new, and have long sat along a continuum varying from acceptance to extreme resistance. In order to understand the faces of nationalism in this part of the world we need to better understand the cultural environment in the Asian countries that leads to nationalism even in its economics terms. China is no distinguish case and in some ways we can assess that China is one of the leading nations that promote economic nationalism in the Asian region being a regional power.

The economic growth in the past 20 years in China has been coincided with the rise of nationalism in economic terms. YongnianZheng(1999) is stressing the fact that ‘the revival of nationalism in China can be attributed to its rapid domestic development and the consequent resurgence of Chinese power in the nation-state system.

Economic nationalism in China went through certain evolutionary stages when it started engaging with globalization. First there were Deng Xiaoping’s economic reforms which recognized that China needed to open up in terms of ‘learning from the West’. The goal was to technologically upgrade its economy whilst still protecting its domestic industries. Thus economic nationalist policies adopted certain defensive strategies of just “inviting in” foreign firms to invest in joint-ventures in China between 1971 and 1991. After recognizing the benefits of being able to export to external markets, economic nationalistic policies started “gearing with the world” in the 1990s to prepare for entry into the World Trade Organization in 2001. China’s economic ascendancy and need to secure resources for China’s economy has led President Hu Jintao to develop the ‘harmonious world’ and ‘going out’ concept since the start of 2002. (Carvalho, 2012) These more aggressive strategies involved the state institutions and firms undertaking outward foreign investments that provide the mutual benefit of helping other nations develop whilst also securing resources for China’s economy.

The general opinion of the scholars is that China is a *status quo power*. Having this as a starting point most analysis focus on the competitively issues that Chinese economy is bringing to the global economic environment. Much of the recent commentary in Washington, DC, and Brussels suggests that China has largely not lived up to its commitments and is vigorously pursuing a path of economic nationalism. Various cited are a host of mercantilist tactics, including: aggressive use of antidumping and safeguard measures, manipulation of its exchange rate, provision of subsidies to State Owned Enterprises (SOEs), condoning violation of intellectual property rights (IPR), explicit or implicit demands of technology transfer in exchange for market access, blocking foreign industry from government procurement, adoption of unique technical standards, and discriminatory implementation of health and safety standards. (Kennedy, 2008)

The evolution of economic nationalism in China is divided by YongnianZheng and Rongfang Pan into three different phases. The first phase covers the 15 years period from 1978 until 1992 which concur with China’s opening up due to Deng Xiaoping’s economic reforms. The generic name of this phase is called by the authors ‘Inviting-in’ referring to the introduction of foreign capitalism and the economic nationalism form that characterized this phase is the focusing on the import substitution industrialization strategy. The second phase

suggestively named ‘Gearing in the world’ is characterized by China’s efforts to be geared to international practices and the global market before its entry into the WTO. In this period China made pragmatic adaptations to international standards so that conventional economic nationalism was on the retreat while newly created measures came on the scene. From 2002 onwards the third phase entitled ‘Going-out’ was represented by China’s exploration of overseas markets. Economic nationalism at this stage took a new look, characterized by aggressively extracting economic benefits from the global economy by leveraging domestic and international resources. (D’Costa, 2012) All the three phases are better represented in Table nr. 1 – The evolution of economic nationalism in China.

Table nr. 1 – The evolution of economic nationalism in China

Manifestations	Actors	Phase I ‘Inviting-in’ 1978-1991	Phase II ‘Gearing in the world’ 1992-2001	Phase III ‘Going-out’ 2002 - present
Ideology	State	Learning from the West; Gradualism; Economic security; Nature: Defensive	Accepting international rules and norms; Nature: Defensive on the retreat; aggressive on the rise;	Harmonious World; Scientific Development Concept; Nature: Aggressive
Industrial policies	Government	ISI strategies; Tariffs; Non-tariff barriers; A dual foreign exchange system; Export retention quota; Export tax rebates; Credit loans to exporters; The special economic zones (SEZs); Government controls on the right to engage in foreign trade;	Promotion of inward FDI; Trading market access for technology; Support of national brands; Protection of infant industries and strategic industries; Tariff reduction; Elimination of import quotas and licensing controls; Abolishment of export subsidies; The end of export retention;	Promotion of domestic enterprises going overseas; Culture going out; Media going out; Selective inward FDI; Anti-monopoly law; Neo-techno-nationalism; Indigenous innovation; Monetary nationalism; Protection of strategic

				industries;
Industrial practices	Firms	Foreign participation mainly through joint ventures; Monopoly of state owned foreign trade firms; Small and medium sized projects in the SEZs	Decentralization of SOEs in foreign business; Over 450 of the Fortune Global 500 invested in China;	National oil companies searching for energy supply; Sovereign Wealth Fund; Mergers and acquisitions; Anti-takeovers of national brands;

Source: D'Costa, Anthony, (2012) *Globalization and Economic Nationalism in Asia*, Oxford University Press, pp. 92-93

China post-WTO

Joining WTO meant that China has had to comply with new trade rules liberalizing its markets for goods and services. Intuitively, this implies the demise of economic nationalism, something that is part of a 'flat world' wherein borders and nationalities finally surrender to competitive advantage.

Since the admission in the WTO in 2001 China has scored remarkable achievements in economic and social terms:

- 2nd largest economy in GDP terms;
- 1st largest merchandise exporter;
- 2nd largest merchandise importer;
- 4th largest commercial services exporter;
- 3rd largest commercial services importer;
- 1st destination for Inward FDI among developing countries;
- 1st investor for outward FDI among developing countries;

China has established a unified and transparent policy system consistent with WTO rules according to the Permanent Mission of China to the WTO:

- Amend and repeal more than 3000 pieces of laws, administrative regulations and departmental rules;
- Open the website of Central People's Government;
- Established China WTO Notification and Inquiry Centre;
- Publish laws, regulations and other measures related to or affecting trade at China Foreign Economic and Trade Gazette;
- Legislation public hearing system since 2005;

China made heroic reforms in the years around its WTO entry. That raised expectations that it has conspicuously failed to meet. It signed up for multilateral rules, but neglected the rule of law at home. Free trade did not bring wider freedoms, and even the trade was not exactly free. It is in China's interest to liberalize its exchange rate further, to prevent

local officials from discriminating against foreigners and above all to do far more to support the global trading system. The WTO is undermined when any member flouts the rules, never mind one as big as China. (The Economist, 2011a)

Prior to the completion of the lengthy negotiations on Chinese WTO Accession, there was extensive debate inside China on the merits of this step from a Chinese perspective. This debate has continued despite the initiation of implementation of the terms of accession now due to be completed by 2007. The talk in China today is of post-WTO China; and every new policy initiative is discussed not only in terms of its WTO compatibility, but also in terms of its ability to contribute to the implementation of the accession process and the eventual harnessing of China's resulting WTO benefits. (Mallon, Whalley, 2004)

Concluding remarks

In a globalized world, FDI is increasing its position as the main engine of the economy. The dominating view in the literature is that economic nationalism is bad for FDI-flow. According to Professor Robert M. Norris, public opinion in foreign countries is believed to influence the results of a company operating outside its home, regardless of its organizational type.

In his closing remarks at the Third Strategic Economic Dialogue (SED) in Beijing in December 2007, U.S. Treasury Secretary Henry Paulson stated that both China and the United States 'recognize the need to fight economic nationalism in our two nations'.

The effects of the economic nationalism are considered to be rather bad than positive for the world economy on the one hand by halting the FDI flows and on the other hand by deteriorating political climate.

China's accession to WTO in 2001 brought some changes in the economic policies of Beijing but still the international arena is upset with the practices that are used by the Chinese government supportive in some way to economic nationalism.

As findings of this work we stay in line with the existing literature and highlight the fact that increasing globalization might lead to an increase in economic nationalism especially in the Asian emerging markets. The value of this paper is the close up framework of Chinese economy post-WTO followed by the assessments of the implications of Chinese state economic policies in the new tendencies and global shifts in world's economy.

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