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## THE LIBERALISATION OF FOREIGN TRADE POLICY OF EMERGING CHINA IN THE WORLD ECONOMY

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## LIBERALIZACJA ZAGRANICZNEJ POLITYKI HANDLOWEJ WSCHODZĄCYCH CHIN W GOSPODARCE ŚWIATOWEJ

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**Summary:** In this research work, the author focuses on the analysis of the liberalisation of foreign trade policy of emerging China in the world economy. What indicates the importance and innovativeness of the research is the presentation of the technical progress in P.R.China and the benefits resulting from the liberalised Chinese foreign trade policy. In accordance with the foreign trade policy theory further trade liberalisation and improved framework policies would increase trade and promote growth. It must be emphasized that openness to trade is associated with higher incomes and growth and there is a need for new approaches to trade cooperation in the light of the forces that are currently re-shaping international business. The key of trade developments within the broader socio-economic context is especially the rise of global supply chains, the general shift of trade power away from the West towards Asia. The main aim of the article is the presentation the liberalisation of foreign trade policy of emerging China in the world economy.

**Keywords:** emerging China, foreign trade policy, liberalisation effect, natural environment protection, bilateral agreements, world economy.

**Streszczenie:** W ramach podjętego tematu badawczego autor analizuje kwestie liberalizacji polityki handlowej i handlu zagranicznego wschodzącej gospodarki chińskiej w gospodarce światowej. Ważność i innowacyjność badania polega na przedstawieniu postępu technicznego oraz korzyści wynikających z liberalizacji handlu zagranicznego Chin. Zgodnie z teorią polityki handlowej liberalizacja handlu, także w przypadku Chin, istotnie przyspiesza jego wzrost i ogólny wzrost gospodarczy tego państwa. Należy podkreślić, że otwartość dla handlu sprzyja wzrostowi PKB i stwarza warunki do rozszerzania nie tylko wymiany handlowej, ale także współpracy inwestycyjnej z innymi państwami. Sytuacja ta prowadzi równocześnie do dalszych przekształceń i zmian w biznesie międzynarodowym. Kluczem rozwoju światowej wymiany handlowej w obecnych warunkach społeczno-ekonomicznych jest przede wszystkim wzrost globalnego łańcucha podaży i ogólnego nasilenia strumieni handlowych z Zachodu w kierunku Azji. Głównym celem artykułu jest przedstawienie liberalizacji zagranicznej polityki handlowej i handlu zagranicznego wschodzących Chin w gospodarce światowej.

W ramach celów szczegółowych przedstawiono współczesne modele polityki handlowej, różne warianty polityki handlowej między państwami, efekty liberalizacyjne handlu zagranicznego Chin, problemy konfliktu między liberalizacją handlu zagranicznego i bardzo ważną kwestią ochrony środowiska naturalnego Chin oraz zagadnienie wzrostu porozumień bilateralnych prowadzących do efektu przesunięcia handlu i zmniejszenia znaczenia wielostronnego systemu handlu międzynarodowego.

**Słowa kluczowe:** wschodzące Chiny, zagraniczna polityka handlowa, efekt liberalizacyjny, ochrona środowiska naturalnego, porozumienia bilateralne, gospodarka światowa.

## 1. Introduction

It must be emphasized that there is a need for new approaches to trade cooperation in the light of the forces that are currently re-shaping international business. It suggests that the multilateral trading system will need to adjust to developments in trade and in the trading environment. The key of trade developments within the broader socio-economic context is especially the rise of global supply chains, the general shift of trade power away from the West towards Asia and especially to China. However, a long-termed stability of China depends on the fast economic growth, which is possible only when this country is a partner being able to play global roles. The question raised is whether the West will see China's rise as an opportunity for cooperation or for conflict.

The international trade in the beginning of the XXI century has been strongly affected by the force of the economic crisis. The changes are evident in the growing importance of international trade to national economies and to domestic groups within those economies, in the closer linkages between trade and other international issues. Important trends in the global trade regime during the economic crisis are a realistic point. The growing interdependence and the decline of the USA trade hegemony have led to increased competitiveness and greater temptations to resort to strategic trade policy.

## 2. Materials and Methods

The paper was prepared in the framework of the Grant OPUS, National Centre of Science – NCS, Nr UMO – 2013/11/B/HS5/03572. Methodologically inclusive account breaks the liberalisation of foreign trade policy of emerging China in the world economy. The article presents the contemporary theory of foreign trade policy, foreign trade policy of authoritarian regimes, the variation in the foreign trade policy among states, the liberalisation effect of foreign trade policy of emerging China, the tendencies to foreign trade liberalisation of China and the problem of natural environment protection, and the tendencies to bilateralism in the foreign trade policy of China. The general theoretical approach will be of broad interest to economists in-

terested in international questions as well as to political scientists. The main method applied in this research was a method of scientific study. The comparative method, the documentation method and statistical methods were used. The descriptive method was also applied.

### **3. Discussion**

#### **3.1. The contemporary theory of foreign trade policy**

Traditionally, political and economic models of trade policy have tended to focus on the demand for protection, with factor endowments driving political reactions to exposure to international trade. Such a model simply assumed that adversely affected economic agents would organize to seek protection, which would be afforded to them by their elected representatives in the political system. The supply side for trade policy [Jones 2015] was either ignored or underspecified in most models [Thies, Porche 2007, p. 172].

In the foreign trade policy theory interesting are the reviews of Alt et al. and Nelson about the demand for trade policy in terms of the theoretical importance of factor specificity [Alt et al. 1996, p. 695; Nelson 1988, p. 806]. Factor specificity refers to the ease with which factors (land, labor, and capital) one can move from one sector to another in an economy. The two dominant approaches to explaining the demand side of trade policy used radically different assumptions about the specificity of factors. The Heckscher-Ohlin model, used by Rogowski in his seminal contribution “Commercs and Coalitions”, assumes very low-factor specificity [Rogowski 1989]. The low specificity of factors means that factor returns are equalized throughout a region’s economy. Producers should export goods that intensively use their abundant factors and import goods that intensively use their scarce factors, with the result that owners of abundant factors will favor free trade and owners of scarce factors will favor protectionism. Trade policy coalitions will therefore be organized along factor or class lines. On the other hand, the Ricardo-Viner assumes that some factors are stuck in their present uses; therefore, factor returns are not equalized throughout a region’s economy, but are industry specific. Trade policy coalitions should form along the lines of exporting versus import-competing industries.

Neither of these models explains how preferences over trade policies are actually translated into political action [Alt et al. 1996, p. 695]. In a discussion of the endogenous tariff literature, Nelson notes that the mobility costs of the specific-factors model may be a result of productivity differentials, labor union activity, or individual preferences for membership in a given geographic area, industry, or firm (i.e., some form of solidarity) [Nelson 1988, p. 806]. In all of these cases, one can derive a link to preferences for tariff policy, “but without additional information on why the specific-factor model is chosen, it does not tell us much about political organisation”.

Alt et al. suggest that one can begin to understand this process by assuming that rational individuals make cost/benefit calculations [Alt et al. 1996, p. 695]. The Heckscher-Ohlin and Ricardo-Viner models tell us the benefits that individuals hope to receive, but the costs of collective action also intervene as they organize to achieve those benefits in the political system. Olson argued that small groups with specialized interests are easier to organize and more effective in securing economic rents than large groups with diffuse interests [Olson 1985, pp. 928-937]. Small groups are better able to control free riders than large groups, and groups with specific or homogenous interests can more easily coordinate and target their activities than groups with diffuse or heterogenous interests. This approach is thought to explain the success of agricultural producer groups in developed countries in organizing for protection as well as the inability of agricultural producer group to organize in developing countries [Anderson 1995, pp. 401-423; Coleman 1998, pp. 632-651; Olson 1985, pp. 928-937; Olson 1986; Sheingate 2001; Eagleton-Pierce 2013].

However, Nelson points out that we should not assume that organized interests will be equally responsive to all issues [Nelson 1988, p. 807]. Institutionalized interaction among actors may help to explain systematic patterns of action, especially as institutions created for specific historical purposes may outlive those purposes. Alt et al. suggest that if a particular group has paid the fixed costs of establishing collective action and developed well-worn channels of access to public officials, it may defend its trade policy preferences even when the stakes are low because the marginal costs of action are low [Alt et al. 1996, p. 696]. It may be the case that “a much more affected but inchoate group does nothing because the start-up costs of organization are too daunting”. Past strength of an organization should therefore be an important intervening variable predicting group action on trade policy. Further, as Nelson argues, once these institutions exist, supply-side interventions may also affect their usefulness as some are deemed legitimate or illegitimate aggregators of interest [Nelson 1988, p. 807]. Thus, we must examine the way in which economic institutions and political institutions interact. Most economic models simply assume that a model of the economy is a model of the demand side for trade policy, but Nelson suggests that we must elaborate the mechanisms by which demand is articulated to the suppliers of trade policy [Nelson 1988, p. 810]. For a good overview of this argument, especially as it pertains to agriculture, one should consult [Thies, Porche 2007, p. 172; Eagleton-Pierce 2013].

If the political systems rewards small sectoral groups, than individuals will not pay the costs of organizing large intersectoral coalitions. If the political system rewards large mass movements (i.e., majoritarianism), than individuals will have to pay the costs of organizing large intersectoral coalitions in order to achieve any benefits. Collective action costs and political institutions are interactive with factor specificity. They suggest that Rogowski’s Heckscher-Ohlin framework requires low factor specificity, low collective action costs, and domestic political institutions that favor mass movements [Rogowski 1989]. The Ricardo-Viner framework used by the

endogenous tariff literature requires that factors are specific, collection action costs are high, and institutions are less majoritarian, with changes in any of these three variables also affecting the type of coalitions that they form.

In the state perceived as a rational dictator model, the state may be seen as either pursuing “good government” goals along a social welfare function or intervening in the economy for its own self-interested model of the state views of politicians such as offering preferential trade policy to economic actors in exchange for political support [Magee et al. 1989; Grossman, Helpman 1994, pp. 833-850]. On the other hand, pluralist theory typically view a state as a neutral aggregator of demands from groups in the society. The supply of trade policy is then determined by the balance of power on any given issue. The supply side of trade policy [Jones 2015] is relatively undeveloped theoretically, and yet a crucial part of the equation. A variety of different characteristics of the political system are posited to affect the supply of trade protectionism, such as politicians incentives to cultivate personal votes, the size of electoral districts, party fragmentation, federalism, presidential versus parliamentary systems, and so on [Nielson 2003, pp. 407-491; Rodrik 1995; Rogowski 1987a, pp. 1121-1137; Rogowski 1987b, pp. 203-222;].

On a theoretical level, understanding of the choice of trade policies in countries is very important. A survey of economists in 1984 suggested that one of the few things they agreed on was that, under most conditions, tariffs and quotas reduce the general welfare [Frey 1984, pp. 986-994]. The stubbornness of protectionism in the face of international and academic pressure against it has led economists to seek explanations. These explanations range from the simple ignorance of politicians to arguments about the rationality of protection for “infant industries” and “optimal tariff levels” in developing states. Faced with this frustrating question, scholars have increasingly turned to political answers in order to explain the choice of what would seem to be an “irrational” policy [Frey 1984, pp. 199-223; Nau 1989; Nelson 1988, pp. 796-837].

The evidence considered provides substantial support for the argument that the trade interests their constituents, as indicated by export orientation and import sensitivity of their district, influence policymakers’ behaviour on political and security issues. These effects are mediated by party and the heterogeneity of constituency and are consistent in both roll-call voting and sponsorship activity [Kleinberg, Fordham 2013, p. 615]. Export orientation appears to be somewhat more important than import sensitivity. Both have substantively meaningful effects on sponsorships, but only export orientation is a statistically significant predictor of roll-call voting [Kleinberg, Fordham 2013, p. 615].

About the liberal argument it is important to underline that trade reduces international conflicts and promotes cooperative foreign policies. The first is that the benefits of international trade indeed appear to influence policymakers’ attitudes toward trading partners as the liberal argument suggests [Kleinberg, Fordham 2013,

p. 615]. These results complement similar effects and can be found in surveys of mass public [Kleinberg, Fordham 2010; Fordham, Kleinberg 2011].

The second conclusion is an important qualification of the liberal argument, though not the one that is at odds with its underlying logic. Because the aggregate benefits of international trade are not shared equally within the trading states, trade's political effects do not apply to everyone. The fact that some people can expect their income to decline as a result of international trade is critically important for whether it actually reduces conflict between trading partners. These people could contribute to demands for a less-cooperative foreign policy as well as for trade protection. In principle, the winners in the trading relationship should be able to remove this motive by compensating the losers out of the aggregate benefits of trade. In practice, such a compensation is not always offered [Kleinberg, Fordham 2013, p. 615].

It is important to underline that legislative measures do not always have an immediate effect on national policy [Kleinberg, Fordham 2013, p. 615]. For example the East Asia Security Act did not become law, though it had substantial support. Many of the other measures have a large number of cosponsors. The executive branch can and does block a lot of such measures that would harm for example US relations with China. These legislative measures are still consequential. The cost of blocking them rises with the number of members who support them. Facing an unfavorable domestic political environment, an executive might set aside cooperative measures that they would otherwise have proposed. Moreover, for example the Chinese government takes not hostile proposals in Congress into account, so they may affect political relations even if they do not become national policy [Kleinberg, Fordham 2013, p. 615].

A bilateral relationship is also very important. This relationship is clearly unusual in some key respects. The relations of the USA with China are far more uncertain than relations with other major American trading partners, many of whom are longstanding democratic allies. Those harmed by trade with other states would cause difficulty to convince Americans to view them as potential enemies. However, it does not follow that trade cannot have an effect on these relationships. There are points of tension and disagreement even among the closest allies. Those who are disadvantaged by trade might support less cooperative positions perhaps using them as the basis for limiting the trading relationship. The 1996 Helms-Burton Act's effort to force European firms to adhere to American sanctions against Cuba is one possible example of such a measure [Kleinberg, Fordham 2013, p. 615]. Special research would be necessary to test the domestic political effects on trade in the context of friendlier international relationships, but there is not any reason to expect these effects to be confined to the relations between the United States and China [Kleinberg, Fordham 2013, p. 615].

### 3.2. Foreign trade policy of authoritarian regimes

Interesting question is, which authoritarian regimes are most politically liberal? Among the authoritarian regime types often identified in the literature, multiparty, and to a lesser extent single-party, regimes will tend to have the largest electorates. Therefore, it can be argued that multiparty and single-party authoritarian regimes will have more open trade policies than other authoritarian regime types, but other features the same. More specifically in the Wright and Geddes data [Wright 2008a; 2008b; Geddes 1999], the coding is divided into four categories: single-party, military, monarchist, and personal regimes [Hankla, Kuthy 2013, p. 495]. In the case using of these data, it can be expected that single party regimes will tend to have more liberal trade policies than other authoritarian regime types. For the test the Hadenius and Teorell data are used [Hadenius, Teorell 2007, pp. 143-156]. It can be expected that multiparty regimes will tend to have more liberal trade policies in comparison with any other four regime types (single-party, military, monarchy, and personal regimes) [Hankla, Kuthy 2013, p. 495].

The second component of institutionalization argument is that regime stability encourages free trade policies in authoritarian systems. More institutionalized autocratic regimes are better able to co-opt dissent and should therefore tend to enjoy longer and more stable tenures. As a regime's stability increases, the time horizons, in turn, produce powerful incentives to enact policies that will benefit the country's economy in the long run rather than just shore up support for the leadership in the immediate future. As Olson [1986] argued even kleptocratic dictators have good reason to maintain the health of their national economies, if only to provide sources of future loot. By contrast, authoritarian leaders sitting at the top of unstable regimes and fearing removal will not think about the long-term future. Instead their focus will be on providing immediate benefits to their supporters in order to remain in power. As a consequence, the leaders of more stable autocratic regimes will be more likely to provide the public good of free trade, while those whose power is precarious will tend to rely on particularistic goods such as protectionism to keep their winning coalition intact [Hankla, Kuthy 2013, p. 495].

This argument follows the logic presented by Hankla [2006] on time horizons and trade policy decisions in democracies, if they are concerned here with authoritarian stability rather than electoral volatility. It is also similar to the argument developed by Wright [2008b] linking long time horizons in authoritarian regimes to the effectiveness of foreign aid (a rare piece of research exploring the policy implications of regime stability under dictatorship). Indeed, the prospects for stability to matter are perhaps greater in authoritarian regimes than in democracies, because losing power by ruling groups in the regimes often results in death or imprisonment. Therefore, the pressure for protectionism in an attempt to gain short-term support in new unstable regimes is likely to be even greater for authoritarian governments than for those in a democracy. Additionally, truly stable authoritarian regimes tend

to have individual leaders with very long time horizons (far beyond those of stable democratic leaders), providing them with stronger incentives to choose policies, like free trade, that may contribute to long-run economic growth [Hankla, Kuthy 2013, p. 495].

It is important to underline that authoritarian regimes like China do not behave similarly to one another with regard to their trade policies and that it is a mistake to consider such regimes as identical ones [Hankla, Kuthy 2013, p. 503]. Using the Hadenius and Teorell data, [Hadenius, Teorell 2007, pp. 143-156] it can be found that multiparty regimes have significantly lower levels of trade protectionism than single-party autocracies, monarchies, non party regimes, and military juntas. As a robustness check, Wright and Geddes data are considered as a significant support [Wright 2008a; 2008b; Geddes 1999]. In addition evidence can be found using both the Hadenius and Teorell and Wright and Geddes data to conclude that more stable regimes, such as China, will, on average, have more liberal trade policies. The effect of individual leader duration appears weaker, but there is some limited evidence of its importance [Hankla, Kuthy 2013, p. 503].

Scholarly understanding of the behavior of authoritarian regimes will need to be tied closely to an examination of their institution and institutionalization. Perhaps the most fruitful arena for future research will be to focus on the specific preferences of electorates composition and policy outcome [Pepinsky 2008]. Such research could answer the question how different formal institutions in autocratic system mediate these preferences in the formation of policy. It could also shed light on the types of electorates likely to exist in different types of authoritarian regimes. A deeper examination of these questions can extend the knowledge of how autocratic institutions mediate social and elite preferences in the development of policy in a wide variety of areas [Hankla, Kuthy 2013, p. 503].

### **3.3. Variation in the foreign trade policy among states**

It is important to underline that despite the pressure of international organizations like WTO, there is a large amount of variation in trade policy among states [Kennedy 2007, p. 145] In the modern activity of World Trade Organisation (WTO) very important are new forms of trade like services, intellectual property rights and the trade related aspects of the investment policy. The WTO has a cursory agreement on trade-related investment measures (TRIMs). Talks over the Multilateral Agreement on Investment (MAI) broke down under OECD in 1998 because of the pressure from environmental and labor groups concerned with race to the bottom scenarios and also due to France's refusal to join the talks [*Global Policy Forum (GPF)* 2006]. In 1996, investment was one of four so-called Singapore Issues. But it was thwarted in Cancun in 2003 by developing countries for fear of domination by Western multinationals, and also by NGOs and civil society groups concerned about the adverse impact on the environment and labor. The investment issue was thus dropped from Doha agenda [Pekkanen et al. 2007, p. 960].

The WTO – through its agreements on safeguards and antidumping actions – offer some recourse for states to rein in the forces of free trade. However, many experts suggest that there are legal ambiguities in WTO regime that have limited invocation of safeguard measures [Komuro 2001, p. 851; Kawase 2006]. Japan is moving toward the use of WTO-consistent safeguards. These concerns have been fueled because there is increasing Chinese competition in weak industries and because it is harder to request supplying countries to take grey measures such as VERA in agriculture and textiles than it was in the past (e.g., edible fats from New Zealand, textiles from Korea and China). However, officials do not appear to have high hopes of using safeguards as a matter of routine under the WTO because the text and precedents regarding the Safeguard Agreement are murky enough to deter successful invocation and because, if it takes place, invocation is scrutinized heavily in the WTO dispute-settlement system [Kawase 2005; 2006].

Trade policy takes on additional importance in economic battle of the valiant liberal reformers, fighting against self-dealing rent seekers profiting from the inconsistencies of the transition economy [Aslund 2002, p. 19; Kitschelt et al. 1999]. Many of the clientelist policies that shelter rent seekers are impossible to maintain in the face of competition in the international economy. On the other hand, high tariff walls, export licensing, and artificial exchange rates provide numerous sources of rents for business people who are trying to promote their own loyalties.

World trade growth in 2013 and 2014 is likely to be slower than previously forecasted. WTO economists predicted 2013 growth of 2.5% (down from the 3.3% forecast in April) and 4.5% in 2014 (down from 5.0%), but they say conditions for improved trade are gradually falling into place (Figure 1, Table 1).



**Figure 1.** World merchandise trade volume by level of development, 2010Q1-2013Q4 (figures for 2013Q3 and 2013Q4 are perspectives). Seasonally adjusted indices, 2005Q1=100

Source: WTO Secretariat, [http://www.wto.org/english/news\\_e/pres13\\_e/pr694\\_e.htm](http://www.wto.org/english/news_e/pres13_e/pr694_e.htm), 24.10.2013.

**Table 1.** World merchandise trade and GDP, 2009-2014 a. Annual % change

	2009	2010	2011	2012	2013P	2014P
Volume of world merchandise trade <sup>b</sup>	-12.5	13.8	5.4	2.3	2.5	4.5
Exports						
Developed economies	-15.2	13.3	5.1	1.1	1.5	2.8
Developing economies and CIS	-7.8	15.0	5.9	3.8	3.6	6.3
Imports						
Developed economies	-14.3	10.7	3.2	0.0	-0.1	3.2
Developing economies and CIS	-10.6	18.2	8.1	4.9	5.8	6.2
Real GDP at market exchange rates	-2.4	3.8	2.4	2.0	2.0	2.6
Developed economies	-3.8	2.7	1.5	1.2	1.2	1.9
Developing economies and CIS	2.1	7.4	5.5	4.7	4.5	4.9

<sup>a</sup> Figures for 2013 and 2014 are projections; <sup>b</sup> Average of exports and imports.

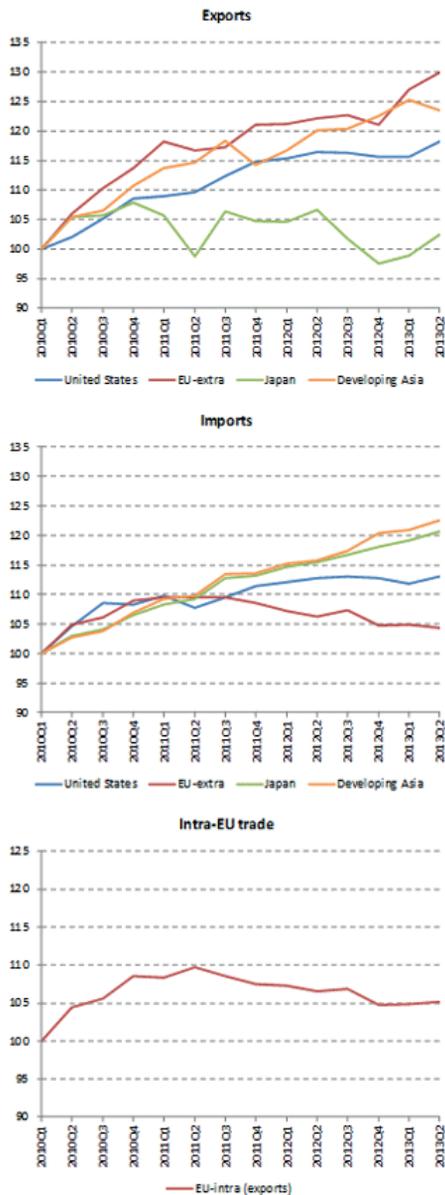
Source: WTO Secretariat for trade, consensus estimates of economic forecasters for GDP. [http://www.wto.org/english/news\\_e/pr694\\_e.htm](http://www.wto.org/english/news_e/pr694_e.htm) 24.10.2013.

The demand for imports in developing economies is reviving but at a slower rate than expected. This hindered the growth of exports from both developed and developing countries in the first half of 2013 and was the reason for lower forecasts (Figure 1, Table 1). Although the trade slowdown was mostly caused by adverse macro-economic shocks, there are strong indications that protectionism also played a part and is now taking new forms which are harder to detect. Negotiations under way in Geneva can address these problems, facilitating greater trade and opportunities to spur economic growth. Some short-term prospects are improving with encouraging data coming from Europe, the US, Japan and China. Reports on private sector activities from purchasing managers (purchasing managers' indices which give some indication about future activity), shipping rates, automobile production and other leading indicators, suggest that the economic slowdown has bottomed out and that a tentative recovery is underway.

The European sovereign debt crisis has eased significantly since 2012, unemployment in the United States has fallen to 7.3% from a post-crisis high of 10%, and the growth of GDP (gross domestic product, a measure of a country's output) in Japan has accelerated since the adoption of new fiscal and monetary policies [Jackson 2013]. Although large developing economies have slowed appreciably, the latest figures from China on industrial production suggest that the country may be regaining some of its dynamism. On the other hand, India's economy is still in the midst of a sharp developing countries.

However, both extra-EU imports and trade among EU countries (i.e., intra-EU exports) have declined steadily since the middle of 2011, dropping around 2% year-on-year in the first half of 2013. Since the EU (including intra-EU trade) accounts

for fully 33% of world imports and 58% of developed economy imports, economic shocks there will be strongly reflected in world aggregates (Figure 2).



**Figure 2.** Merchandise exports and imports of selected economies, 2010Q1-2013Q2. Seasonally adjusted volume indices, 2010Q1=100

Source: WTO Secretariat, [http://www.wto.org/english/news\\_e/pres13\\_e/pr694\\_e.htm](http://www.wto.org/english/news_e/pres13_e/pr694_e.htm), 24.10.2013.

US exports and imports have been flat since the beginning of 2012, held down by weak external demand and slow growth at home. However, in the second quarter of 2013, exports jumped by 2.2% compared to the previous quarter (9% when calculated as an annual rate), while imports advanced 1.0% (4% annualized), possibly indicating a turning point for US trade flows (Figure 2).

The other notably weak performance presented in Figure 2 is Japan's on the export side. The sharp decrease in exports in 2011 is linked to the earthquake and tsunami that devastated Japan during that year. The more recent slump beginning in 2012Q3 appears to be related to a diplomatic dispute between Japan and China that has soured trade relations between the two countries. By the second quarter of 2013, Japanese exports little changed since the beginning of 2010, but imports rose around 20% over the same interval. Japan's export performance may be erratic, but since it only makes up 4% of world exports and 9% of the developed economy exports it has less of direct influence on broad aggregates (Figure 2).

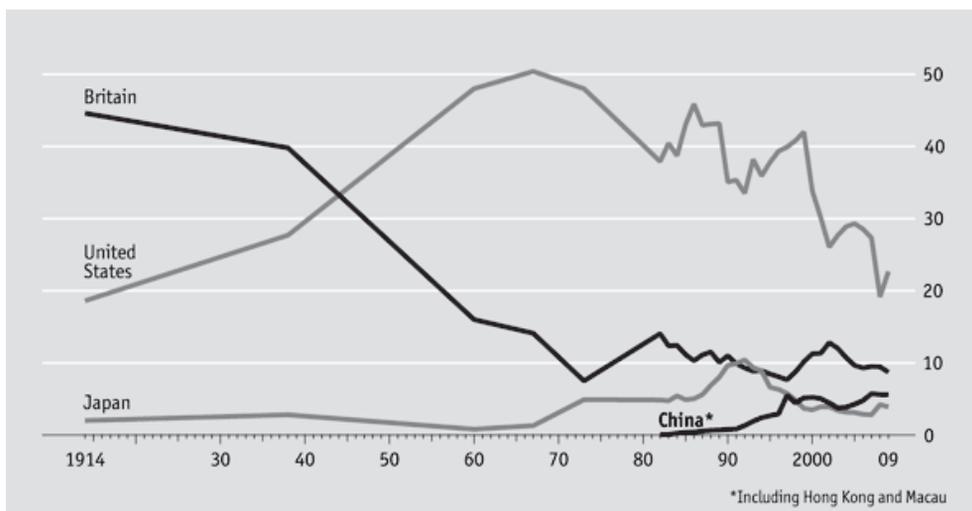
Trade flows of developing Asia (which includes China) maintained a steady pace of growth in recent years, but exports decreased by 1.4% in the second quarter of 2013 compared to the first quarter (5.4% annualized) (Figure 2). This was due to a relatively sharp drop in China's exports, which could partly be related to weak demand in China's trading partners, but could also reflect recent Chinese efforts to correct for the misreporting of trade values. However, since trade data are not revised for earlier years, it is unclear whether the drop in the second quarter represents an actual decline in trade flows.

### **3.4. The liberalisation effect of foreign trade policy of emerging China**

It must be emphasized that the access of China to WTO (November 2001) was a moment in which new trade rules became obligatory. In the next five years China eliminated all kinds of quotas and other non-tariff barriers that had been slowing down the inflow of foreign goods. Customs duties which were lowered were gradually reduced to an average of 9%. Foreign banks received the right to introduce the foreign ownership in 100% of economic fields and the right to take in the deposits from the Chinese banks in their own currency. The Chinese government no longer faces the serious problem of protecting domestic production from foreign competition with agricultural production as a possible exception. In fact some other countries are facing competition from Chinese exports, to the point of threatening to use import quotas and higher tariffs on Chinese product [Chow 2015, p. 322]. It is important to underline four aspects of foreign trade and investment: the large amount of import from China, the outsourcing of job to China (and India), foreign investment to China, and technology transfer to China [Chow 2015, p. 322].

Emerging China is now the biggest exporter and receiver of foreign investments (Figure 3 and 4). China is the world's number one exporter after replacing Germany in 2009. China's total in 2009 were US\$1.2 trillion, compared to Germany's US \$1.17 trillion (816 billion euros) [*China's Customs Office...* 2010]. About 20% of

China's exports go to the United States [World Bank 2013]. The U.S. is China's largest trading partner [LaFleur 2010]. In 2010, U.S. exports of goods to China increased by 32%, to US\$92 billion [Your Next Job 2011]. Seven of China's top 10 big partners in trade are in Asia continent [LaFleur 2010]. Six of the world's largest container ports are in China [Trading Places 2010]. China was the second-largest recipient of Foreign Direct Investment (FDI) in 2009 [United Nations 2010]. China attracted \$105.7 billion in foreign direct investment in 2010 when FDI in China exceeded \$100 billion for the first time [China FDI Rises Strongly... 2011; Foreign Direct Investment 2011].



**Figure 3.** Stock of outward foreign direct investment (% of world total)

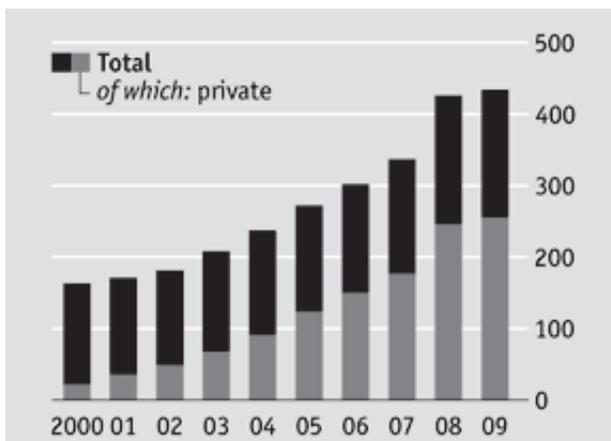
Source: UNCTAD, 2013.

China's weak currency, which is good for Chinese exports, also makes the yuan (RMB) one of the most undervalued currencies. China is poised to make its money a global currency, which could strengthen China's influence in overseas financial markets and begin to erode the dollar's dominance. China has over US\$1 trillion in foreign exchange reserves (exceeding Japan's), and continues to grow around \$200 billion every year [World Bank 2013]. China owns over 25% of U.S. Treasury Bonds and is the largest creditor in the world [Rediff Business 2010]. Emerging China is also the USA's largest creditor, holding more than US \$900 billion. The second and third creditors are Japan and the UK [Factbox: China leads 2011].



**Figure 4.** Foreign direct investment (FDI inflows, 2010 estimate, \$ bn)

Source: UNCTAD, 2013.



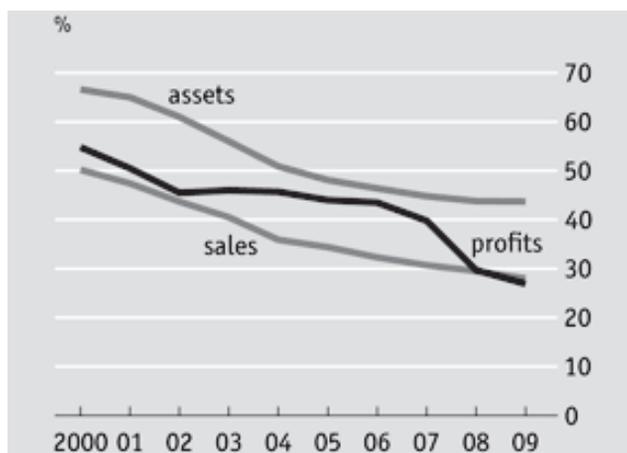
**Figure 5.** Firm advance. China industrial enterprises

Source: China Macro Finance. Revenues over 5 m yuan (RMB), <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10. 2013.

China’s emerging market stocks are predicted to quintuple in the next two decades – reaching a market value of around \$80 trillion by 2030. The Shanghai Stock

Exchange is the fifth largest stock market in the world (market capitalization of US \$2.7 trillion). Eight of ten largest stocks on the Shanghai Stock Exchange are state-controlled enterprises, 98% of China's banking assets are state-owned, as are most of China's financial institutions [Rediff Business 2010]. China's state-controlled entities are not particularly profitable. The average return on equity for companies wholly or partly owned by the state is barely 4%. In comparison, the returns of unlisted private firms are no less than ten percentage points higher. In China a new economic era has recently begun, described as *guo jin min tui*: state advances, private retreats. The number of registered private businesses in China grew by more than 30% a year between 2000 and 2009, but these figures exclude unregistered businesses. No one quite knows how much private companies contribute to China's fast-growing economy. However, enterprises that are not majority-owned by the state account for two-thirds of industrial output (Figure 5).

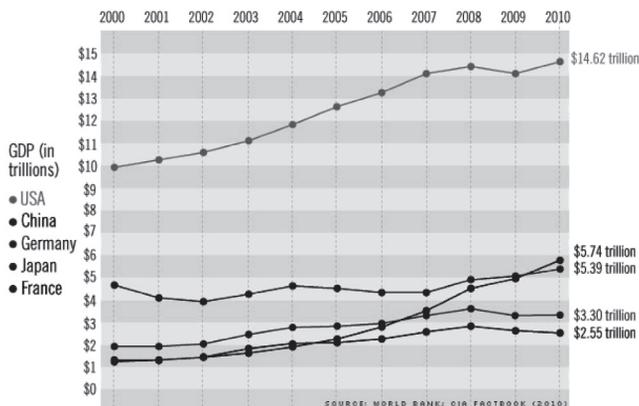
China's private firms account for about 75-80% of profit in Chinese industry and 90% in non-financial services [Let a million... 2011] (Figure 6).



**Figure 6.** The receding state. China state-owned enterprises' share of industrial: (%)

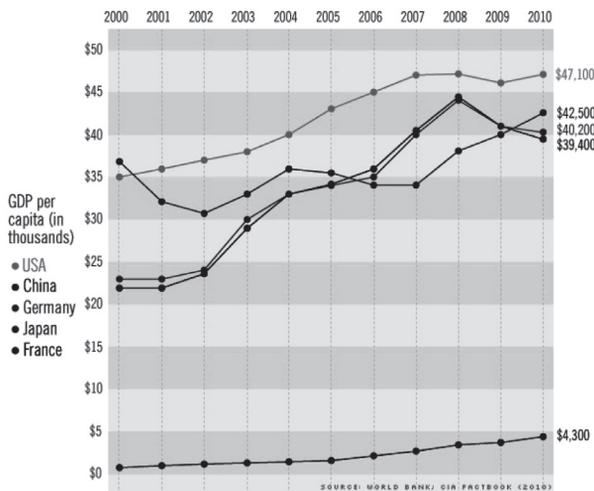
Source: CEIC: Keywise Capital Management, <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10. 2013.

China in the half of the second decade of the XXI<sup>st</sup> century was the world's fastest-growing major economy, with an average growth rate of 10% for the past three decades. In 2000, China's accounted for only 7.1% of the world's total GDP (in PPP terms). In 2010, that figure increased to 13.3%. By 2020, it is expected to reach 20.7% [*Top 10 largest economies in 2020*, 2010]. In 2000, China surpassed Italy to become the world's sixth-biggest economy and in 2005, France to become the fifth-largest. In 2006, it moved up again by surpassing the UK. In 2007, China became the third-largest economy before Germany [*China is Richer...* 2011] (Figure 7 and 8).



**Figure 7.** GDP per capita of China in comparison with the most developed countries (in trillions of US\$)

Source: World Bank: CIA Factbook (2010) <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10. 2013.



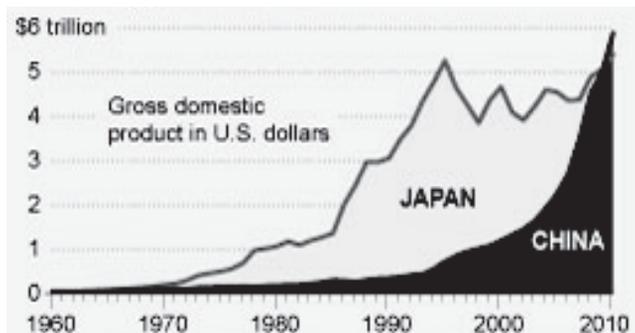
**Figure 8.** GDP growth: per capita (in thousands)

Source: World Bank: CIA Factbook (2010) <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10. 2013.

However, China’s per capita GDP still only ranks 127 (2010), just under that of Albania and Turkmenstan [CIA World FactBook 2011].

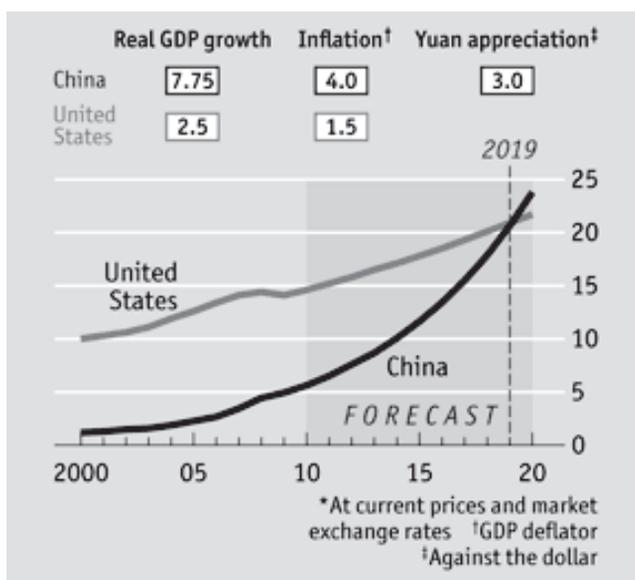
Emerging China is the world’s second largest economy, after overtaking Japan in 2010 (Figure 7, 8 and 9) [The Economist 2013]. It is important to underline that

according to economic experts China could overtake the U.S. as the world’s biggest economy by 2030 [*China Passes Japan...* 2010].



**Figure 9.** Shifting Fortunes (\$ trillion)

Source: World Bank: International Monetary Fund, 2013, <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10.2013.



**Figure 10.** Passing the buck (GDP, \$trn). Based on the long-term assumptions, annual average, %

Source: The Economist, <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10. 2013.

According to Goldman Sachs Group Inc. chief economist Jim O’Neill, China could overtake the U.S. as the largest economy as early as 2027. China’s economy could overtake the US economy by 2019, “given reasonable assumptions”, according

to “The Economist” in 2011 (Figure 10). It must be underlined that China’s population is enormous. It has over four times as many people as America, and so its output per capita only needs to be about a fourth of America’s to match it in total size.

Estimates by R.J. Tammen et al. anticipate that China will overtake the United States in the mid-century [Tammen et al. 2000]. Thus American dominance should endure until mid-century. Afterwards, Asian demands for modification to the international system will likely increase, and unless resolved, will be increasingly likely imposed by force (Table 2 and Figure 11). The question raised by this empirically grounded extrapolation is whether the West will see China’s rise as an opportunity for cooperation (as former European enemies did when responding to the post-World War II resurgence of Germany by creating the EU) or for conflict [Kugler 2006, p. 39].

**Table 2.** The global balance of economic powers in 2010 versus 2020

Rank	Country - 2010	GDP (U\$ million)	Country - 2020	GDP (U\$ million)
1	USA	14,802,081	China	28,124,970
2	China	9,711,244	USA	22,644,910
3	Japan	4,267,492	India	10,225,943
4	India	3,912,911	Japan	6,196,979
5	Germany	2,861,117	Russia	4,326,987
6	Russia	2,221,755	Germany	3,981,033
7	United Kingdom	2,183,277	Brazil	3,868,813
8	France	2,154,399	United Kingdom	3,360,442
9	Brazil	2,138,888	France	3,214,921
10	Italy	1,767,120	Mexico	2,838,722

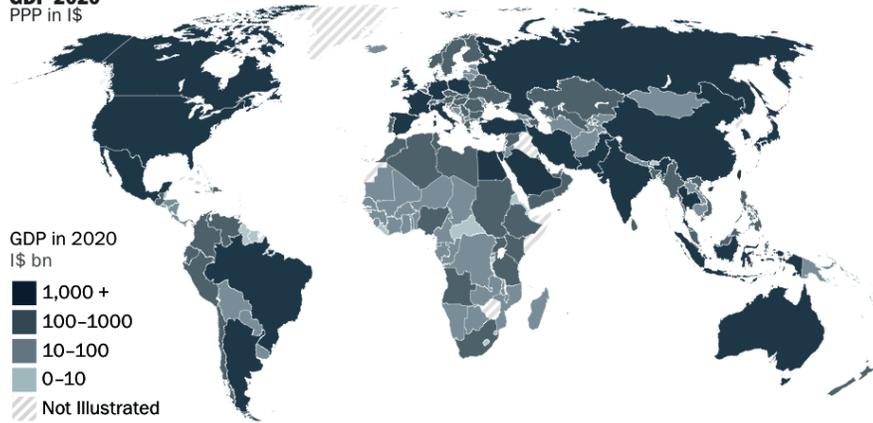
Euromonitor International from IMF, International Financial Statistics and World Economic Outlook/UN/national statistics

Source: Facts about China: Economy & GDP 2011-2012, <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/>.

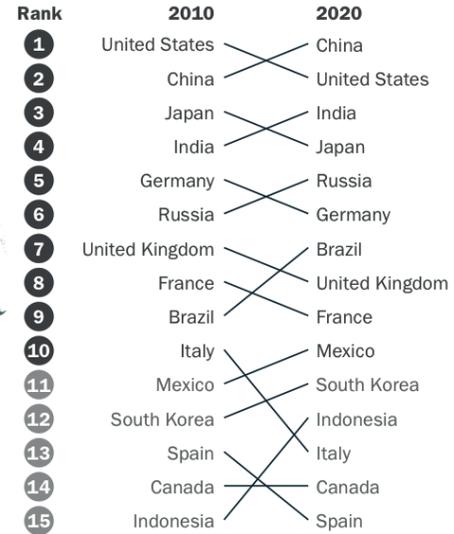
It is important to underline that intensive development through economic growth is generally preferable to military and extensive expansion. With new investments, a country can transform its position through industrial expansion at home and sustain it through international trade. An access to the economies of other nations is sufficient; a rising nation does not need territorial control of them. Peaceful development can thus take the place of aggressive expansion. Since World War II, a number of economies have adopted this principle, including Germany, Japan, China and other East Asian Nations [Rosecrance 2006, p. 33].

Emerging China will enter a world global market in which a lot of spoils have already been appropriated. However, fewer and fewer major firms may actually dominate the world economy. Some countries, like Mexico, will possess few, if any, decreasing cost industries. They will have to send their labor elsewhere to retain economic advantage. China will be studied with the United States, Japanese, and European firms contributing high technology to Chinese development. Aside from textiles, however, it is not clear how many purely Chinese industries will attain the economies of scale.

**GDP 2020**  
PPP in I\$



**Rank Shift in GDP**  
2010 vs 2020; PPP in I\$



**Figure 11.** Countries and consumers. Top biggest economies: 2010 vs 2020

Source: Facts about China: Economy & GDP 2011-2012, <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/>.

Under these circumstances, even very economically strong countries will be at least partly dependent on industries headquartered somewhere else. Even today, America does not represent the attainment of unipolarity in economics, whatever its military might. It is dependent upon money market and foreign direct investment from China, Japan, and Europe. Economic concentration today has three or four different nodes, not just one. The same will be true in 2020 or 2030. Decreasing cost (increasing returns) industries will be located in different zones and no one great power will monopolize them all. Europe will boast the London-Frankfurt and Zurich-Milan corridors. America will find large-scale competitive champions in two zones: Boston to North Carolina and San Diego to Seattle. China will have industrial or software concentrations in north China, Fujian, and Guangdong terminating in the Pearl River Delta. But no country, however powerful in terms of GDP, will incorporate all worldwide industrial or service potential. It is even possible that the defense industry on an international basis is one of increasing returns to scale. Under these circumstances, there will be overlapping zones of economic competency among great powers, and some countries will be left out altogether.

The assumed result of one great power hegemony replacing another and a shift between unipolarities will not be obtained in the next few decades. Thus, even militarily very powerful countries will find themselves needing the products and markets of countries (and corporations) located somewhere else. In theory, a militarily very strong power might be able to expand to take over the industries on which it has become dependent, but for a host of reasons this is unlikely. Again, cost-benefit reasons would cut against any attempt at conquest – openness would provide an access to such industries much more efficiently than seizure that would not be successful in the longer term [Rosecrance 2006, p. 35].

One, of course, cannot be sure that the more full-throated globalization of the present and future will remedy the difficulty. History shows that states sometimes engage in a war for insufficient reasons, neglecting the ties that bind nations together. Short-term motives take precedence over long-term maximization. But they are not likely to happen between the United States and China, both being long-term maximizers. China is especially sensitive to the advantages of intensive growth and will not wish to disrupt essential economic arrangements that have been crucial to its success.

In addition, should it decide otherwise, there are neighboring powers that would present barriers to extensive expansion. Japan, unified Korea, India, and Russia all border on China. Even if the United States were not a major power guarantor of the existing settlement, these powers would make Chinese external expansion difficult if not impossible. Japan, perhaps, has traditionally underused its power, but this is not true of Russia or India. A unified Korea will represent another uncertainty for China. Again, economic ties with these nations will be preferable to a military expansion against them. And the presence of the United States and its military bases will occasion additional hesitation. No one can be certain that relations among great

powers will be peaceful over the long term. But the current economic, political, and military relationships make that prospect much more likely than it has been in the past [Rosecrance 2006, p. 35].

### **3.5. The tendencies to liberalisation of China foreign trade policy and natural environment protection**

The tendencies to liberalise the international trade often stand in clear conflict with the protection of natural environment. It is also in China. Pressure groups acting for natural environment protection see the trade policy in two aspects: as a way of improvement of environmental protection standards in individual countries and over their borders, and as an instrument for persuading those countries to sign international agreements on environmental protection.

In trade policy, of discriminating means in relation to the environment, it is in accordance with the article XX of WTO, and it testifies to the fact that trade barriers are used for the protection of the environment. In this context it is important to underline that the activities related to environmental protection are in conflict with the tendencies leading to international trade liberalisation. From the theoretical point of view, we cannot say that trade liberalisation may help environmental protection [Chichilnisky 1994, pp. 851-874; see also Copland, Taylor 1995, pp. 716-737; Corden 1996]. When some government finds itself in a difficult situation, trade reforms will be much more preferable for it than the actions in the environmental protection area [Bhagwati, Srinivisan 1996]. In this situation pressure groups connected with the environmental protection are against international trade liberalisation. An agreement between the problems of international trade liberalisation and the protection of natural environment especially in the context of sustainable development also in China is an important task for the WTO.

Reaching the agreements on the international trade liberalisation and on very important in China environmental protection in the light of sustainable development is considered to be both a very difficult and very delicate question. Because of very intensive industry production the problems of environmental protection in China have become the most important issues. The control of pollution resulting from production using existing technology in China is a difficult way for environment protection which aim is to promote the use of clean energy by reducing its price relative to the price of existing energy. This can be achieved by imposing a cost to using pollution energy (which is hard to enforce) or by promoting technological innovations for the development of clean energy, especially to replace the use of coal. There are incentives in the free market for such innovations to take place. In addition the government can promote such innovations by subsidy and tax policies if it can identify them correctly [Chow 2015, p. 187].

There are appeals to multinationals doing business in China to play a positive role in protecting China's environment by setting an example for practicing environmentally friendly production while impressing the Chinese government

of such a conduct in their pursuit of profits. If it is in the self-interest of the multinationals to do so, one wonders why this would not also be to the self-interest of domestic Chinese firms. If such an understanding is to their self-interest why have multinational and Chinese domestic enterprises failed to do so? An economist would question that multinationals and Chinese enterprises are ignorant of their self-interests in this regard [Chow 2015, p. 187]. It is also evident that the international market has to take the problems of environmental protection in China into account. In the context of sustainable development, the main problem is to make a proper choice: is the introduction of restrictions on international trade more effective, or will the profits from environmental protection (as applied by a multilateral trade system) be higher than the costs?

It is also necessary to emphasize that if the rules of international trade are clear – and if they are perceived to be supportive of important environmental values – then their legitimacy will be much greater. Over the long term, public support for the WTO depends on a perception that it is balanced and fair [Esty 1998, p. 123]. Efforts to address the issues identified above could greatly enhance the WTO's reputation. Competing trade and environmental principles could best be balanced through the creation of an interpretive statement that focuses on how the “exceptions” spelled out in Article XX would be implemented, rather than through full-blown renegotiation of the environmental elements of the trading system [Esty 2000, pp. 250-251].

Finding ways to address the environmental issues that inescapably arise in the context of deeper international economic integration and tendency to sustainable development must be seen as an important trade policy priority, as a matter of WTO commitment to undergirding the trade regime with sound economic theory, and as a matter of political necessity. Building a system of trade that is more sensitive to pollution control and natural resources management issues is mandated by the growing degree to which these realms intersect with trade and environmental policies mutually reinforcing, being also advisable to the extent in which the presence of trade rules that internalize externalities will prove to be more economically efficient over time. Institutionalizing the links from the trade regime to environmental actors and other elements of civil society will also pay dividends. A culture of openness within the WTO is likely to generate policies that the public accepts and that therefore become more useful and durable [Esty 2000, pp. 250-251].

### **3.6. The tendencies to bilateralism in the foreign trade policy of China**

The tendencies in foreign trade policy development can create changes in domestic markets also in China, placing pressure on political actors to obtain aid from the government especially during the economic crisis [Krist 2013; Jackson 2013; Ravenhill 2014]. There are also groups which want to coordinate activities and change foreign trade policy. Government in China provide the justification for protection of the domestic market in response to global competition. What is essential, the government appears to supply protection for affected parties; yet, the

overall impact on consumers, producers, and foreign competition is negligible [Thies, Porche 2007]. Significant government ownership of the productive resources of a country has a negative effect on trade liberalization, while the fragmentation of decision-making authority, expressed as fragmentation within the government and pluralism in society, has a positive impact on the liberalization of trade policy [Kennedy 2007; Krist 2013].

In the area of foreign-policy the analysis has focused on “three is”: interest groups, international structure, and ideas [Kennedy 2007]. In the interests groups literature, government policy is viewed as the outcome of competition between groups for trade policies that benefit their industry [Nau 1989; Milner 1995; Milner, Yoffie 1989; Schattschneider 1935]. International structure suggests that freer trade was a reflection of US interests and its hegemonic status after World War II [Krist 2013; Kirshner 2013], while a decline in free trade is a reflection of the US’s hegemonic decline [Krasner 1976; Krist 2013; Kirshner 2013]. The literature on ideas suggests that policy beliefs are reflected in laws and institutions [Jones 2015]. These laws and institutions, in turn, carry a type of inertia that continues to influence policy outcomes long after changes in international and domestic structure would predict policy change [Goldstein 1989; Goldstein 1995; Jones 2015]. The institutional problems suggests that the current WTO system cannot create the conditions to deliver consensus on multilateral trade liberalization [Jones 2015]. In contrast to these explanations government interests in the economy and in maintaining stability also play a large role in trade policy [Kennedy 2007; Jackson 2013].

On the one hand, a multilateral forum with near universal membership offers the maximization of gains from trade and reduced transaction costs. However, a single state cannot expect to have much control over trade partners or liberalization agendas at the multilateral level [Jackson 2013]. On the other, a bilateral FTA [Krist 2013; Jones 2015] often yields very small gains from trade and usually increases transaction costs by producing the idiosyncratic sets of rules. However, at the same time, a large state can acquire a high level of control in terms of partners, issues and agenda selection, and sectoral exclusions or inclusions based on domestic political needs [Pekkanen, Solis, Katada 2007]. One can contend that the industrialization of aggregate economic gains is in the interest of national welfare (largest in multilateral forums) or in seeking control over rules in line with political interests (greatest in bilateral forums) [Krist 2013; Jones 2015].

The liberalizing rules on agriculture, and other less competitive sectors, are no longer an acceptable political price for the economic gains bundled across sectors [Jackson 2013]. Such policies, they contended, allow farm products to be sold at artificially low prices, thus undermining the sales of products from poorer regions. Farmers in developed countries achieved considerable success blocking trade reforms in agriculture before and the WTO has been less successful lowering barriers in this field in those states than in others [Jackson 2013]. Yet, this sort of vague statement fosters uncertainty for domestic actors at home in uncompetitive

sectors like agriculture [Eagleton-Pierce 2013] and in several cases, for example in Japan and China, trade officials need to show that they have more concrete control for political reasons – an element more credible in a bilateral setting [Krist 2013; Jones 2015] than a multilateral one [Pekkanen, Solis, Katada 2007; Jones 2015]. This situation may also indicate the withdrawal from globalisation to the neomercantilist tendencies in the foreign trade policy [Krist 2013; Jackson 2013].

It is important to underline that a few multinational firms are responsible for a major share of world trade. On the one hand, these firms should support regulatory harmonization across different PTAs in order to lower trade costs. On the other hand, they might also resist harmonization – and encourage certain non-tariff measures – in order to prevent new competitors from entering markets. This may partly explain the persistence of regulatory divergence, and suggests that the political economy of regulatory convergence may be more complex than it is sometimes suggested.

#### **4. Results and Findings**

Trade liberalization has special positive significance in the global context. However, international trade policy is strongly affected by the force and trends of the world economy development. The changes are evident in the growing importance of international trade for national economies and domestic groups within those economies, in closer linkages between trade and other international issues. In this context it must be emphasized that on a theoretical level, understanding the choice of trade policies between liberalism and protectionism in countries is very important.

A question is how we can recognise the type of power, the type of rule. First of all, we should investigate what level of resources a given government is going to achieve. If an authoritarian government is more or less corrupted than a democratic one, it will be creating income, to a bigger or lesser degree, through protectionism. It will also appropriate some part of that income. Secondly, a given type of government may remain under the influence of different pressure groups. If an authoritarian government is trying, to some extent, to subordinate special pressure groups including the regulated labour sector, it will be, to some extent, generating incomes through protection and it will be turning over some part of them to those special pressure groups.

It should be pointed out that there exists a close relation between democracy and an economic growth. There are well known examples of open societies that stimulate the economic growth. This is true mainly in case of highly developed and strongly urbanised countries. In the countries with a developed democracy, the pressure groups have a bigger opportunity for acting. The research shows that the presence of trade unions helps to accelerate the economic reforms. The benefits resulting from the liberalisation of the international trade are bigger when the trade unions exist in the sector of the economy under protection. The growth of import abilities leads to the decrease of wage pressures, and when the trade unions agree to

that, such a situation allows for a better allocation of labour force in the economy. This is true both in the case of active and passive trade unions, although the effects are better in case of active ones.

Trade policy takes on additional importance in an economic battle of the valiant liberal reformers, fighting against self-dealing rent seekers profiting from the inconsistencies of the transition economy. Many of the clientelist policies that shelter rent seekers are impossible to maintain in the face of competition in the international economy. On the other hand, high tariff walls, export licensing, and artificial exchange rates provide numerous sources of rents for business people who are trying to promote their own loyalties. The reduction or the elimination of trade restrictions significantly stimulates the growth of the world trade exchange, while the foreign trade, in turn, is an important factor of the economic growth of individual countries.

Scholar understanding of the behavior of authoritarian regimes will need to be tied closely to an examination of their institution and institutionalization. Perhaps the most fruitful arena for future research will be to focus on the specific preferences of electorates composition and policy outcome. Such research could answer the question how different formal institutions in autocratic system mediate these preferences in the formation of policy. It could also shed light on the types of electorates likely to exist in different types of authoritarian regimes. A deeper examination of these questions can extend the knowledge of how autocratic institutions mediate social and elite preferences in the development of policy in a wide variety areas.

Further trade liberalisation and improved framework policies would increase trade and promote growth. It must be emphasized that openness to trade is associated with higher incomes and growth and there is a need for new approaches to trade cooperation in light of the forces that are currently re-shaping international business. A major factor was even more remarkable transformation of emerging China, as market reforms opened up its economy to foreign trade and investment, and unleashed an unprecedented growth dynamic that has continued, with only minor slowdowns. In the new circumstances for the development of the global economy and the global trade, emerging China seems to be a production superpower, able to change the world trade. In many areas it possesses comparative advantages. Emerging China may continue its development to specialize in electronics and increasingly in services.

With or without further trade agreements, services will be more traded and trade policies will have to adjust to changes in the organisation of global value change. The question raised is whether the West will see emerging China's rise as an opportunity for cooperation or for conflict. Economic growth is generally more preferable in China to military and extensive expansion. With new investments, the country can transform its position through industrial expansion at home and sustain it through international trade. China is especially sensitive to the advantages of intensive growth and will not wish to disrupt essential economic arrangements that have been crucial to its success.

The integration of emerging China into the world trade system may have increase aggregate welfare in the rest of the world by 0.4% but factor incomes in individual sectors may fall or rise by more than 5%. Thus dealing with relative wage pressures and needs for structural adjustment due to rising trade integration will be important. The benefits from trade liberalization are transmitted through several channels like shifting production from low to high locations, relocation of factors of production towards sectors and firms with high productivity and rising incomes due to an increase in market size that supports more specialisation, faster technology diffusion and stronger incentives to invest in non-rival assets.

The former two effects mostly include static from international trade in goods, services and factors of production, while the latter entails dynamic growth effects. Significant static and dynamic efficiency gains, especially for emerging China, could be reaped through further multilateral trade liberalization while global welfare gains from regional agreements are much more limited due to trade diversion. While fostering multilateral trade liberalisation has proved difficult in the recent past and regional arrangements have been frequent, the former should remain priority due to these larger benefits and despite the practical challenges of seeing through such reforms in a multipolar world. These results are based on the partial multilateral trade liberalization scenario based on multilateral cuts in tariffs (50%) and transaction cost (25%) relative to baseline.

It is important to underline that also fiscal consolidation will require major efforts in several countries. Fiscal pressures will build up in reverse areas over coming decades unless extensive fiscal reforms are pursued. Emerging China growth could be curbed further by damages from environmental degradation due inter alia to climate change, which are likely to affect this country earlier than expected. By 2060, environmental damages in China may lower its GDP by more than 5% .

## 5. Conclusions

Trade policy plays a key role in the maintenance of both economic and political liberalization of emerging China. The prominence of rent seeking in a country can have far-reaching implications for its economic development. Both structural and micro-political economy analyses of foreign trade policy have missed the impact of changing ideas about protectionism and relatively unchanging institutions designed to handle domestic producer complaints. The political consensus on the supply of trade policy and protectionism has changed over time. In the economic depression protectionism played important roles in the political parties policy. Protectionist tendencies which accompany economic recession also started to prevail in the global financial and economic crisis in 2008-2010. At the same time, the impact of multilateral trade agreements on the processes of liberalisation of international trade in the framework of the WTO weakened and the importance of bilateral agreements and regional agreements increased. We can observe these tendencies also in

emerging China. This point of view is very important for the theory and practice of the contemporary international business.

The need for firms to organize their supply chains across different countries also across emerging China has led to a demand for regional agreements that cover more than preferential tariffs. The harmonization of standards and rules on investment, intellectual property and services has become a standard part of new trade agreements. The differences among firms involved in trade are also important for the future development. The picture that arises from the trade is that even if many firms are indirectly involved in trade-related activities, only relatively few are exporting or importing and these firms tend to be larger and more productive than others. Such firms also have a role in technology advancement and the diffusion of know-how through supply chains.

Emerging China's growth is good for the world economy with significant terms of trade gains being experienced in its trading partners, reduction in poverty and increases in living standards. Chinese economic growth has been good for the Chinese with massive reductions in poverty and rising living standards. Moreover, emerging China is now a very large regional power and the preceding discussion has provided evidence that it is having a very large growth effect on its neighboring trade partners. If China continues on its path of stable growth there is every reason for export to continue and expand benefits for its trade partners.

Current trends in the world economy and global politics provide evidence that emerging China has now arrived to the world economy at last, bringing with it new patterns of uneven development, inequality and injustice. Its newly confident elites, now fully engaged in global circuits of trade, investment and finance, and in global governance too, appear to have left their previous role behind. It is clear that China or the emerging economies, have suffered less and recovered more quickly. In addition, now it seems that the patterns of political impact may be equally significant and unexpected not in the sense of immediate crisis measures but long-term very big shifts.

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