



CARNEGIE ENDOWMENT  
for International Peace

Volume 1/Number 3  
February 2001

# Policy Brief

## summary

China's impending entry into the WTO will pose unprecedented economic and political challenges to the Chinese government. Initial adjustments to WTO entry are expected to increase the pains of reform and pressures on the government. U.S.–China relations could also deteriorate as bilateral tensions over trade and human rights increase. Despite the long-term promise of WTO entry for China's economic and political reform, the Chinese government's ability to overcome these short-term difficulties is not assured because of the inherent weaknesses of the current Chinese political system and accumulated social and political stress in Chinese society. ■

## Future Shock: The WTO and Political Change in China

*Minxin Pei*

*Senior Associate, Democracy and Rule of Law Project*

The normalization of trade relations between the United States and China has greatly strengthened the existing framework of economic engagement between the two countries. However, granting China permanent normal trading relations (PNTR) status and welcoming it into the World Trade Organization (WTO) have not only economic, but profound geopolitical implications.

The United States and the international community have as an article of faith that WTO membership will encourage political reform. Former President Bill Clinton has explicitly suggested that integration of China into the global trading regime will help constrain China's external behavior, encourage its cooperation with the West, promote radical economic reform, and even facilitate future political opening. Indeed, in both the short and long term, China's entry into the WTO—and the radical economic reforms likely to accompany it—will generate powerful political shocks to the country's existing political system.

It remains highly uncertain, however, whether the Chinese regime is resilient

enough to withstand such shocks in the short term and whether the same shocks will contribute to long-term political liberalization. At the moment, China's leaders may be girding themselves for post-WTO economic challenges, but they seem utterly unprepared for the resulting political challenges, especially the pressures for political reform that will be generated by the growing gap between China's increasingly open economy and its closed polity. At the same time, Washington seems to have given little thought as to the real possibility that actions taken by the Chinese government in adjusting to the WTO shocks could create new strains in U.S.–China relations.

Because the economic and institutional reforms that must accompany WTO membership are expected to exacerbate social tensions, at least in the short term, and increase political strains with the Chinese system, the effects would be the *reverse* of Washington's wishes. The Chinese government's likely response to rising social and political stress—whether iron-fisted repression or failure to honor its WTO obligations—would damage U.S.–China relations.



**Minxin Pei**, a senior associate with the Democracy and Rule of Law Project, conducts research in Chinese politics, economic reform, East Asian politics, U.S. relations with East Asian countries, and democratization in developing countries. Before joining the Carnegie Endowment, he was a faculty member of the politics department at Princeton University. He holds a doctorate in political science from Harvard University and writes extensively on comparative politics, including, *From Reform to Revolution: The Demise of Communism in China and the Soviet Union* (Harvard University Press, 1994).

The Democracy and Rule of Law Project analyzes efforts by the United States and other international actors to promote democracy worldwide. The project also examines the state of democracy, looking at patterns of success and failure in democratic transitions. It is part of the Global Policy Program at the Carnegie Endowment.

Therefore, the explicit political agenda of past administrations' China strategy—promoting political opening through economic engagement—will be sorely tested in the next few years as the post-WTO adjustments take a toll.

Chinese domestic interest groups that will be hurt by WTO adjustments can be expected to highlight, exaggerate, and politicize the costs, thus energizing opposition to reform. Analysts have so far focused mainly on the negative impact of WTO membership on urban unemployment (as many state-owned firms close under competitive pressures) and on rural income (as China's inefficient, small-scale farming becomes uncompetitive vis-à-vis world producers). In addition, WTO rules will most likely reduce the ruling elite's power of intervention and regulation in the economy. Members of the elite, who have managed to enjoy both the fruits of partial economic reform and the old privileges of authoritarian rule, are unlikely to give up these benefits without a fight. The most likely scenario is that they will seize on possible social unrest as an unacceptable cost in order to undermine reformers, obstruct the process of WTO adjustment, and protect their privileges.

Chinese leaders' policy has been to stifle internal debates regarding the downside risks of WTO entry. Opponents therefore feel shortchanged by the political process, while the public remains poorly informed about the short-term adjustment costs required. These strains will catch the Chinese leadership at its most awkward moment and dramatically increase the possibility of conflict within the government. Within two to three years, just as China starts to fully implement the WTO economic reforms, a new leadership will assume power in Beijing. In the face of such challenges, it may react by further tightening the grip of the state on society and using repressive measures to enforce political and

social stability. These actions, in turn, will arouse criticism in the United States and increase tensions in U.S.–China relations.

For the United States, the political benefits of China's WTO membership will come, if at all, only in the longer term. WTO entry and the implementation of economic-reforms will force changes, directly, in state–market relations and, indirectly, in intergovernmental and state–society relations. Structurally, these changes will further reduce the state's role in the economy, thus eroding the power of the ruling Communist Party. Privatization (or bankruptcy) of state-owned firms, the influx of multinational firms in the service industries (especially in the financial sector), and the removal of internal trade barriers will not only increase economic efficiency, but will undermine the economic foundations of the Chinese party-state. There is a distinct possibility that, eventually, the structural and institutional changes originating from WTO entry could even force the ruling regime to undertake, though at great risk, long-delayed political reform (perhaps within the next decade at the earliest).

### The Status of Political Reform So Far

One of the prevailing myths about post-Mao reform in China is that the ruling regime has managed to pursue economic reform without political reform. This view ignores some of the important political (though not necessarily *democratizing*) reform measures undertaken under Deng Xiaoping's regime, such as the strengthening of national and local legislatures, legal reform, a mandatory retirement system for government officials, meritocracy, the establishment of norms and procedures managing intra-regime conflict, and limited experiments in rural self-government. Admittedly, these measures fall far short of the minimal standards of democratization. But they served several crucial purposes: increasing the level of elite cohesion

and contributing to political stability; laying the foundations of institutional pluralism; and establishing some institutional mechanisms to protect property rights, regulate market activities, and manage state–society conflict. These reforms provided the necessary political safeguards for economic reform; indeed, it is hard to imagine that Chinese economic reform would have succeeded at all without them.

At the same time, however, it is critical to recognize the limits of the political reform initiated under Deng's rule.

Second, as himself a victim of repeated elite power struggles, Deng understandably focused his reforms on mechanisms to manage such conflict and minimize its impact on overall political stability. His reforms may have contributed to elite cohesion, but have not dealt with another source of political instability: the conflict between the state and society. Consequently, China's institutional mechanisms for managing this type of conflict remain woefully inadequate, making state–society conflict the most likely source of political upheaval.

## The explicit political agenda of past administrations' China strategy—promoting political opening through economic engagement—will be sorely tested in the next few years as the post-WTO adjustments take a toll.

First, the primary objectives of Deng's political reforms were to guard against a repeat of the excesses of Maoist rule, maintain political stability, and facilitate economic reform. He avoided confronting the central political issue: the monopoly of power by the Communist Party in its relationship to the state. In this respect, his reforms have hardly changed the nature of China's party-state (reformers proposed untangling the ruling party from the state apparatus, but made no progress against fierce resistance from within the regime). Unlike its rhetorical adherence to Marxism, the Communist Party has allowed no challenges to its monopoly of power. Thus, legislative, legal, and civil service reform and grassroots experiments in self-government have all been tightly constrained.

Third, Deng's reforms also skirted the important issue of intra-state relations, especially central–provincial relations. No new institutional framework was put in place to manage conflict of interests between the central government and provincial authorities. Only ad hoc solutions (mostly through administrative fiat) were applied when difficult problems arose. The lack of a durable framework for central–provincial relations comparable to federalism has hampered efforts to carry out legal reforms (as local authorities defy the enforcement of laws and regulations made by the central government) and of developing a unified national market (as many jurisdictions erect their own barriers to trade).

Deng's limited political reforms may have fulfilled the urgent need to restore political

order after the unpredictable and brutal Maoist rule, but they are now totally inadequate for a China transformed by two decades of rapid economic reform. Indeed, most of the political obstacles to economic reform that Deng deliberately tried to circumvent now threaten to block future progress and could even undo his economic legacy. Moreover, the inherent flaws in Deng's strategy have been compounded by the failure of his successors. In recent years, with the exception of the brief thaw in 1998, the Chinese government has largely coasted on Deng's political legacy while resisting calls for political reform and discouraging even internal

reform. Without laying a political foundation that incorporates rule of law, pluralism, and democratic participation, China's next generation of leaders will jeopardize not only their country's economic development, but the very survival of the ruling regime.

At the moment, the threats arising out of the gap between the economy and the political system are most prominent in two related areas: corruption and declining governability (see boxes pp. 5 and 6).

### Clueless in Beijing?

Without doubt, the Chinese government's decision to enter the WTO signals its

## China's WTO entry will produce immediate and concentrated pains while promising diffuse benefits in the future.

exploratory discussion as to how such reform might be pursued in the Chinese context. The limited political reforms adopted under Deng have slowed down significantly, further increasing the gap between the economy and the political system. As a result, the symptoms of political stagnation are pervasive today: Maoist ideological campaigns have returned; crucial legal reform measures are put on hold; expansion of semi-competitive elections beyond village level is stalled; corruption has become uncontrollable; and repression against dissent has intensified.

The status quo is hardly sustainable. Political repression may provide brief relief, but the stability thus achieved is superficial and short-lived at best. Any long-term solutions to closing the economy-polity gap, improving governance, and sustaining economic development must be sought in a deliberate and gradual program of political

commitment to market reform even at the risk of rising social unrest. The politics of economic reform has changed fundamentally in recent years and forced post-Deng leaders to confront many new challenges. While the late great reformer was able to capitalize on the immediate benefits produced by his reforms and build political support, his successors must now forestall the erosion of political support caused by the dwindling benefits and rising pains of reform. Economic restructuring, globalization, and technological revolution have benefited a relatively small number of well-educated people while reducing the social status, employment security, and income of two mass groups—workers in traditional industries and rural farmers. These two groups have now become immense reservoirs of social discontent. Unlike Deng's reforms, which produced immediate benefits but delayed many painful measures, China's

WTO entry will produce immediate and concentrated pain while promising diffuse benefits in the future. This will make it almost impossible to mobilize popular support. Finally, reforms that will weaken the party-state's role in the economy are almost certain to generate fierce elite-level resistance.

Thus, to make economic reform work, Chinese leaders must develop a political strategy. There are several alternatives. One is to pursue a strategy of simultaneous political reform. The rationale for this approach is to establish institutions of democratic participation to lend some legitimacy to the regime in a period when it can no longer count on economic performance to maintain popular support. A new politics of inclusion may create channels of popular participation and institutional arenas where organized social interests can bargain and compromise, enabling the government to stay the course through trying economic times. Strengthening the rule of law will help alleviate social tensions as popular grievances may be redressed more fairly and effectively in a more independent legal system. Additionally, as experience elsewhere has shown, an improved legal system, along with expanded press freedom, could help curb official corruption.

However appealing, this approach is least likely to be adopted by the ruling party due to its high risks. Given the regime's persistent suppression of autonomous social organizations, Chinese society remains highly fragmented and atomized. Even if the ruling party should try to rally political support from social groups, its grassroots organizations have become too discredited or decayed to help it to do so. It would also be infeasible to depend on the Communist Party to perform needed political mobilization, for the party enjoys little popular support. Decades of political monopoly have transformed the former revolutionary party into a giant patronage machine that is ill-suited to win the hearts and minds of the Chinese people. The

Tocqueville rule that autocracies are most likely to be overthrown when they relax political control has been proven with few exceptions in recent regime transitions. The democratic transition also provides a once-in-a-lifetime opportunity for ethnic minorities to seek a breakout, regardless of positive political changes in the center. This significantly increases the risks of ethnic conflict, if not full-blown secessionist movements, in China's outlying areas at a critical moment.

Therefore, China's leaders will most likely stay with the current course: maintaining elite unity (i.e., "hang together") on the one hand and applying a mixed bag of ad hoc solutions

### Corruption: The Growing Cancer on the Chinese Political System

Official reports, scholarly studies, and anecdotal evidence all suggest that corruption in China has reached unprecedented levels (two estimates put the aggregate costs of corruption at 4–8 percent of Chinese GDP).<sup>\*</sup> The post-Deng regime's campaign-style measures against corruption have proved ineffective, while proposals to tackle the root causes of corruption—the unchecked power of the Communist Party, lack of press freedom, weak judiciary, and absence of political accountability—are ignored or deemed politically unacceptable. If allowed to continue on its recent trajectory, corruption will sap China's economic strength, further delegitimize the ruling party, and increase the risks of a Suharto-style collapse.

<sup>\*</sup>See Minxin Pei, "Will China Become Another Indonesia?" *Foreign Policy* (September 1999); Hu Angang, "Corruption and Anti-Corruption in China" (Chinese Academy of Sciences, mimeo, 2000).

to political tensions on the other. In policy terms, these measures include a relatively high level of repression against political dissent and social unrest; pragmatic approaches to economic reform to generate desperately needed growth; and extremely cautious and incremental tinkering with the existing political system to make the government more effective. (As for foreign policy, the severe domestic challenges leave Chinese leaders little room for errors abroad; their international



behavior will remain relatively conservative, except with respect to Taiwan.)

These ad hoc solutions will likely buy the regime some time, perhaps three to five years. At the moment, it can take full advantage of several favorable factors:

- Despite widespread social discontent, most ordinary Chinese people remain fearful of the political chaos resulting from a change of regime. The ruling party has skillfully played upon this genuine fear of instability to discredit challengers to its power and maintain its political indispensability.
- The fragmentation, weakness, and disorganization of various opponents rule out any realistic possibility of a concerted anti-regime movement powerful enough to challenge the ruling party.
- The successful coöptation strategy adopted by the regime after 1989 has led to the inclusion of most social and political elites in the regime. This has deprived potential anti-regime movements of leaders and activists.
- Strong nationalist sentiments among ordinary Chinese, especially the younger generation, further strengthen the ruling party's case for maintaining the status quo and make opposition movements with links to the West less credible inside China.

### Declining Governability

Many see China as a country governed by an effective autocracy, but the Chinese state is really quite weak. The supremacy of the ruling party has been sustained at great cost. Reforms that would have strengthened key state institutions cannot have their desired effects unless the constitutional status of the Communist Party is changed. China's weak state has reduced its ability to provide adequate public goods, such as environmental protection, health, education, and poverty reduction.

At the same time, tensions between the state and society have risen to critical levels. Urban protests, labor riots, and rural anti-tax revolts have increased sharply. Although the impact of economic reform (unemployment, stagnant rural income, and rising inequality) is an underlying factor, China's flawed political system bears most of the blame. There are few effective political institutions or processes capable of adjudicating disputes between the state and social groups. The agents of the state operate with little constraint, creating a lethal combination: an abusive elite ruling a people whose grievances the political system is incapable of redressing.

But these factors will not remain unchanged for long. The tensions generated by the gap between an increasingly open economy and a closed political system will intensify as political and institutional reforms are delayed. The Chinese political system will continue to operate under tremendous stress. Any shock—an economic crisis, an intra-regime dispute, or any other unanticipated event—could change the political equation drastically. For self-interested Chinese leaders, it would thus be a dangerous delusion to plan on the sustainability of the status quo.

### Washington's Limited Options

The combination of dynamic economic change and stagnant politics is likely to produce mixed signals for a while, creating both hopes for long-term transformation and disappointments in the immediate future. This continuation of the status quo means that the new Bush administration will inherit

the same political difficulties in managing U.S.–China relations that bedeviled President Clinton. The same criticisms leveled at Clinton’s China policy are almost certain to be directed at George W. Bush’s.

Barring a dramatic rupture in U.S.–China relations, the existing “conengagement” framework—political and economic engagement coupled with military deterrence—is likely to endure. While the rhetoric used by each side may change (for example, replacing the much-maligned phrase “strategic partnership” with “strategic competition”), important substantive changes are unlikely. However, bilateral relations will cool because

Nevertheless, the new administration must not abdicate its crucial role in assisting the forces of reform through various means. These may include efforts to promote legislative exchanges between Congress and its Chinese counterpart, the National People’s Congress (which could play a crucial role in the event of a regime transition); creation of new programs targeting Chinese local legislatures (through exchange programs with American state and local governments); assistance to China’s fledgling legal system; high-level academic exchanges designed to influence elite-level thinking about political reform; technical assistance to village elec-

## The new administration must not abdicate its crucial role in assisting the forces of reform through various possible means.

Beijing remains deeply wary of the Republican Party’s open hostility toward China in general and the party’s tough stance on key security issues (especially national missile defense) in particular.

This situation provides future American policy makers few direct means to influence internal developments in China. Washington should therefore be prepared for likely short-term deterioration of political conditions in China as its leaders cope with social and political stresses generated by WTO-related reforms while failing to comply fully with WTO obligations. The expected outcry from all sides—human rights groups, opponents of China’s PNTR status, and even business groups—will further tie the Bush administration’s hands in taking new initiatives to advance U.S.–China relations.

tions; and activities facilitating exchanges between civil society groups in the two countries. These efforts should not be expected to produce dramatic results. Cumulatively, however, their combined effects would be positive and far-reaching. Indeed, they are the logical and, ultimately, the necessary policy complements to a strategy of economic engagement and military containment. ■

---

*The Carnegie Endowment normally does not take institutional positions on public policy issues; the views presented do not necessarily reflect the views of the Endowment, its officers, staff, or trustees.*

© 2001 Carnegie Endowment for International Peace



CARNEGIE ENDOWMENT  
for International Peace

[www.ceip.org](http://www.ceip.org)

**Visit the new Carnegie  
Endowment web site:  
“A must for the web surfer  
interested in global affairs.”**

—Dow Jones Business Directory

The Carnegie Endowment for International Peace is a private, nonprofit organization dedicated to advancing cooperation between nations and promoting active international engagement by the United States. Founded in 1910, its work is nonpartisan and dedicated to achieving practical results. Its research is primarily grouped in two areas: the Global Policy Program and the Russian and Eurasian Program.

## Related Resources from Carnegie Endowment

Visit [www.ceip.org/pubs](http://www.ceip.org/pubs) for these and other publications.

Why Recessions Don't Start Revolutions, Minxin Pei and Ariel David Adesnik (*Foreign Policy*, Spring 2000).

Will China Become Another Indonesia? Minxin Pei, (*Foreign Policy*, Fall 1999).

Reuters-Carnegie Public Policy Series: Visit [www.ceip.org/reuters](http://www.ceip.org/reuters) to watch Michael Moore, director general of the World Trade Organization, debate representatives from the environmental community, AFL-CIO, and developing country organizations on the “human face” of globalization and issues of open trade and economic growth.

CARNEGIE ENDOWMENT  
for International Peace  
1779 Massachusetts Avenue, NW  
Washington, DC 20036



Non Profit Org.  
U.S. Postage  
PAID  
Washington, DC  
Permit No. 2090

[www.ceip.org](http://www.ceip.org)