China and the World Trade Organization

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Dramatis Personae:

JUDGE: Jiang Zemin, president of the People’s Republic of China, General Secretary of the Chinese Communist Party, and protégé of the late (lamented?) Deng Xiaoping.

DEFENDANT: The World Trade Organization (on charges of crimes against humanity)


DEFENSE: Deng Xiaoping, reformist leader of the People’s Republic of China, once exiled by Mao as a ‘capitalist roader’ and counter-revolutionary, who led China toward market and trade reforms from 1978-1997. Also dead, but not defeated.

WITNESSES: Sarah Anderson, expert on the WTO, from the Institute for Policy Studies


Mikhail Gorbachev, former Secretary General of the former Communist Party of the former Soviet Union.

Subcomandante Marcos, Mexican leader of an indigenous peasant rebellion in the poor southern state of Chiapas, Mexico. Internet superstar, sex symbol, and critic of globalization.

Kim Young Sam, former opposition leader and current President of South Korea.

Zhu Rong-ji, rising Chinese technocrat and old buddy of Jiang Zemin since their days in local politics in Shanghai. An intellectual defender (and sometime engineer) of market-oriented economic reforms since the late 1980s, he has been called the ‘Gorbachev of China’.

Renato Ruggiero, the pudgy, cheerful Italian chosen as the first Director-General of the World Trade Organization. A career diplomat (and former consultant for Fiat and Ferrari) Ruggiero has the reputation of a tough negotiator, as his nickname—‘Rocky’—suggests.
Yang Shangkun, former head of the Military Commission and former president of China. After supporting Deng’s decision to use force at Tiananmen, he and his younger brother were ousted the following year, in part because his power base in the People’s Liberation Army had become too strong, and he posed a potential threat to Jiang.

This is a fictional account of China’s decision to seek entry into the World Trade Organization, and is intended only to present in a dramatic fashion the factors that a country like China might consider. The people are all real, and to the extent possible, their own words have been paraphrased or cited. The statistical and descriptive analysis is essentially accurate for the time period, although in a few cases it was necessary to use figures that reflect later dates. However, the actual event herein described never occurred.

Or did it?


Jiang Zemin rubbed his eyes wearily and pulled his bathrobe close around him as he stared at the latest economic reports. These past few days since the death of his mentor and political sponsor Deng Xiaoping had been difficult. Though he had governed China mostly on his own since Deng’s withdrawal from public life a little over two years earlier, he had always known that he could fall back on Deng’s authority—and his considerable guanxi (connections)—to bolster his position on any policy. Now Deng was dead, and he was truly on his own. In the short term, at least, he felt confident that he could maintain his position. Deng had warned him repeatedly to learn from the fate of Hua Guofeng, Mao’s chosen successor, who had ruled China briefly before losing a power struggle to none other than Deng himself. “Hua made two mistakes,” Deng had said. “The first was made for him. Mao disliked any challengers to his authority, and constantly changed his designated successor. He did not give Hua sufficient time or resources to consolidate his position before Mao himself died. I have given you that time, by withdrawing from public life and allowing you to assume the positions of power: Secretary General of the Communist Party, President of China, and head of the Military Commission that controls the People’s Liberation Army. The second one Hua made himself. He did not deliver improvements in China’s economic or political position. This gave me the opening I needed to take China away from him. I have done what I can to set China on a firmer footing, but you will now be responsible for avoiding Hua’s second mistake.”

Indeed, Jiang’s position was far from certain. His old rival, Yang Shangkun, retained some influence within the military despite his exile from official positions. Qiao Shi had the support of the public security bureaucracy. Zhu Rong-jii, though an old political ally, was seen by many as a more convincing and credible reformer. Jiang himself—let’s face it—was dull. He lacked the charisma or personality of a real leader. His peers saw him as indecisive, a consensus-builder rather than an innovator. Not for nothing had they nicknamed him ‘the Weathervane.’ In the two years since Deng turned over formal power, Jiang had governed mostly by rote, following the Dengist political and economic line, in part to avoid a last-minute change of heart by Deng, who still had enough influence to overturn Jiang’s succession.
Now that Deng was dead, he had the opportunity to reconsider this trajectory. Jiang had always had more doubts about pro-market reforms than many in Deng’s circle, including Zhu Rong-ji. China’s application for entry into GATT, originally made in 1986, had gone nowhere, opposed by negotiators in the United States who constantly criticized China on political grounds, and made no allowances for its massive challenges. China’s effort to become a founding member of the World Trade Organization, in 1995, had failed too. And unrest was mounting within China. Only last summer, a book published in China had argued that China Can Say NO to free trade.¹ Given the restraints on Chinese media, this publication indicated swelling nationalist sentiment within some sectors of the Chinese Communist Party. The effects of past liberalization had contributed already to one disaster that threatened Communist Party power: the Tiananmen Square protests in 1989. It had been necessary to use the Army to break up pro-democracy demonstrators. Jiang Zemin had supported the repression. In a way, he owed his job to Tiananmen. He had only become Deng’s successor after Deng fired his original choice, Zhao Ziyang, for showing too much sympathy for the demonstrators. But Jiang could not afford another Tiananmen on his record now.

Yet if he abandoned the pro-market, pro-trade line, what would happen to China? In only a few months, Hong Kong—a major trading island—would be returned to Chinese sovereignty. A few months after that, the Fifteenth Party Congress would meet. He needed to start building a political coalition now, to support his final decision about whether to shift direction, and how to deal with Hong Kong.

Anxious and tired, Jiang lay back in his chair and closed his eyes.
A loud banging noise startled him awake. “Your honor?” said a strangely familiar voice, an aide of his he supposed. “We’re ready to begin now.” Jiang looked around. He was no longer in his own office, but a large courtroom, and standing before him—but no, this was impossible!—he recognized the figure of Deng Xiaoping. “You’re DEAD!” he blurted. “Not exactly,” said Deng. “I have given my life in service to China. Did you really think I would take no interest in her after my death? I have been granted this opportunity to speak with you one more time, to help you make your decision. I act today as the Attorney for the Defense—defense, that is, of the World Trade Organization. I will have the right to present witnesses, examine the evidence, and argue that China should continue to pursue entry into the WTO, as rapidly as possible. Representing the defendant here is Renato Ruggiero, Director-General of the WTO.” “Pleased to make your acquaintance,” said Ruggiero, smiling broadly.

“Not so fast,” another voice chimed in. Jiang turned to his left and blinked in disbelief. The voice, he had forgotten, but the face—yes, he knew that face. Who in China did not know the face of Mao Zedong, founder of Chinese Communism? Mao continued speaking. “Deng is not the only man who gave his life for a greater China. But he has forgotten that China is her people. I act today as Prosecuting Attorney. I charge the World Trade Organization with subjecting its victims to the harsh dictates of capitalism. I charge it with crushing the workers and the peasants, the common masses, in the name of efficiency and greed. And I come prepared to back up my claims. China is large enough and strong enough to make it on her own. Do not sell China to the highest bidder. Keep her whole, and free, and focused on the needs of her own people, not the needs of rich multinational companies.”

“Yes, well…” Jiang stammered. Clearly, this was a hallucination of some sort, or an especially vivid dream. Renato Ruggiero had to be thousands of miles away, while Deng and Mao—well, they were dead, after all. But this promised to be entertaining, and he found himself curious about what they had to say. “Proceed with your opening statements. Chairman Mao?”

“Thank you, Comrade. We are here because of a great treason, committed by none other than the attorney for the defense, in collusion with the capitalist and imperialist forces that the defendant represents. Twenty years ago, Deng Xiaoping came to power against my will. I exiled him for betraying the principles for which the revolution was fought. Since he came to power, he has ruled in my memory, while desecrating every principle I taught. He has forgotten that the people and the people alone are the motive force in the making of history. He has forgotten that our point of departure, our purpose as China’s leaders, is to serve the people wholeheartedly, to proceed in all cases from the interests of the people and not from one’s self-interest, or from the interests of a small group. He has defended the interests of a small group of Chinese bourgeois capitalists, and worse, he has encouraged them to ally with foreign capitalist powers. We should unite with the peoples of the imperialist countries and strive to coexist peacefully with them, do business with them and prevent any possible war, but under no circumstances should we harbor any unrealistic notions about them. Make trouble, fail, make trouble again, fail again, till their doom, that is the logic of the imperialists. Fight, fail, fight again, fail again, fight again, till their victory, that is the logic of the people.”

But Deng Xiaoping forgot these things. He forgot the nature of imperialism. He lost faith in the power of the people. He forgot that our policy should rest on our own strength, our own efforts, and not the manipulations of foreign interests. Since his accession to power, he has introduced the principle of greed into our socialist project, inviting foreign investors into China, lowering her trade barriers, and even
attempting to convert our collective agriculture system into privately owned land. Now, he wishes you [Jiang Zemin] to complete his treason by bringing China into the World Trade Organization, an organization designed not for the benefit of the oppressed peoples of the world, but for the benefit of the United States and her capitalist allies. More than any previous trading regime, the World Trade Organization subjects developing nations to the dictates of foreign governments—in terms of trade, services, labor standards, environmental rights, even our domestic political arrangements.

The Defense will claim that these policies have brought prosperity and growth to China. But at what price? What price have the Chinese people paid? Above all, what price will the peasants—the heart and soul of our Revolution—pay for further trade reforms? Since the acceleration of trade reforms, in the mid-1980s, regional income disparities have become more acute. In 1978, 10 provinces in China generated per capita incomes of less than 80% of the national per capita income average, while five provinces earned per capita incomes more than 120% of national per capita income. By 1994, 14 provinces stood at less than 80% of the national average, and 8 provinces stood at more than 120%. A regional polarization has occurred. The richest province today has a per capita income more than ten times greater than the poorest. The inter-provincial GINI coefficient, which measures income disparities, has increased since 1978, from .24 to .27. China has always been unequal. But I worked to develop the more backward provinces, bring them up to the level of the more prosperous ones. Deng, by establishing Special Economic Zones for foreign trade and investment, and by spending state funds preferentially to develop the already wealthy coastal provinces, has done exactly the opposite. Regional inequality is unusually high in China—worse than Indonesia, India; indeed, only Yugoslavia is higher.

Income disparities have also begun to grow between the rural and urban sectors. These disparities have long existed, but Deng encouraged them, arguing that it is glorious to get rich. The advantage of city incomes has grown from 1.7 times farm income in 1985, to 2.3 times farm income in 1995.

Moreover, the state has withdrawn from its role of protecting and promoting the popular interest. Deng has begun to lift price controls, with the result that inflation is rising. As state protection of jobs and services diminishes, unemployment has gone up, and the provision of critical services has deteriorated, especially in the rural areas. Life expectancy in the poor provinces is 59 years, comparable to that of the lowest income countries in the Third World, even as life expectancy in the rich provinces rose to 75 years, comparable to that of the high-income capitalist nations. Rapid industrialization has contributed to urban air and water pollution, acid rain, and an increasing garbage problem that will worsen the health of our urban comrades as well as that of the peasants.

Such inequality and neglect is both unacceptable and dangerous. Other governments have fallen victim to civil violence and unrest motivated by government neglect and the perceived injustice of inequality. China—and you—will suffer the same fate unless action is taken now to correct these trends. Entering the WTO will only make things worse. If protecting our people means retreating from trade and markets, even if it means accepting a slowing down of GDP growth, then so be it. We should not be afraid to sacrifice for our principles, for our nation. I will present evidence today, from other victims of world trade, that if we seek entry into the WTO, we are accepting an economic structure that condemns many to poverty and misery while enriching a few. We are abandoning the revolutionary project. And we are handing over our nation to the exploiters of humanity.”
As Mao sat down, Deng Xiaoping rose calmly, and began to speak.

“Chairman Mao has spoken very eloquently of the goals of development, of the people, of our glorious revolution, and our national pride. And I believe in all those things. I fought for independence, for our Communist Party, for the benefit of the peasants and the working classes, just as he did. I respect his contribution to our past. But he is wrong when he says that we must abandon our strategy of opening and economic reform in the name of equality. Some people in rural areas and cities should be allowed to get rich before others. It is only fair that people should become prosperous through their own hard work. Since conditions for the country as a whole are not ripe, we can have some areas become rich first. Egalitarianism will not work.\(^9\)

What matters more to people? Equality? Or improvement in their standards of living? In 1980, I called for China to quadruple its GDP by the year 2000. People laughed. They thought this goal was unrealistic. But 25 provinces and autonomous regions have already reached it.\(^{10}\) Per capita incomes have risen most quickly in wealthy regions, but they have also risen in poor ones. Even in China’s poorest province, Guizhou, per capita GDP rose from 219 renminbi in 1980 to 1,853 RMB in 1995, more than eight times greater than in 1980. Consumption levels have increased for both farmers and non-farmers. Although 50 million people remain in destitution, over 200 million people have been lifted above the poverty line since 1978.\(^{11}\) Poverty is not socialism. Socialism means eliminating poverty. Unless you are developing the productive forces and raising people’s living standards you cannot say that you are building socialism.\(^{12}\)

To be sure, some of this growth did not result from trade, the issue before us today. However, trade and foreign investment have played a key role in China’s economic success. I will call witnesses to these facts. China’s pursuit of socialism with Chinese characteristics has resulted in one of the most impressive growth records in the developing world. This only demonstrates the correctness of our path of opening. China needs WTO membership to lock in these reforms, to protect access to foreign markets, to attract foreign capital, and to continue China’s strong growth. We need growth to help our people. We need growth to defend our national independence and sovereignty. A wealthy China is a powerful China. Equality is irrelevant in these circumstances; what matters is the ability to live more comfortably, not whether I live more comfortably than you. Does equality make the peasants better off? Or do trade and markets make the peasants better off? Prosperity, not equality, is what China must offer its people.

As for the means of giving them prosperity, it doesn’t matter whether a cat is white or black, as long as it catches mice.\(^{13}\) If prosperity means engaging in the world trading system, using market mechanisms to achieve our goals of improving the lot of China’s people, then that is what we must do. Today, I will call witnesses to testify to the positive effects of participation in the world trading regime. I urge you to declare the WTO innocent of crimes against humanity—indeed, to declare it responsible for major gains in world welfare. And I urge you to redouble your efforts to secure China’s entry into the WTO with the least possible delay. Thank you.”

Mao: The Prosecution calls Sarah Anderson, an academic from the Institute for Policy Studies.\(^{14}\)
Dr. Anderson what is the World Trade Organization?

SA: The World Trade Organization is an international organization whose main purpose is to
reduce international barriers to free trade. In 1995, it replaced the older GATT—that’s the General Agreement on Trade and Tariffs—created in 1947 as a framework for multilateral negotiations to reduce trade barriers.

Mao: So the WTO is just another name for the GATT?

SA: In a way. The GATT rules have become part of the WTO, but the WTO is a much broader and more powerful institution. GATT was never ratified in members’ parliaments, and contained no provisions for the creation of an organization. The WTO is a permanent international organization, ratified by the member nations. GATT dealt only with trade in goods, but the WTO covers services and intellectual property rights as well. Perhaps most importantly, the WTO has much stronger enforcement powers. GATT had mechanisms to mediate trade disputes among members when one nation accused another of breaking the rules, but member nations often ignored GATT rulings. Unlike GATT, WTO decisions are binding. The WTO can then authorize a complaining nation to impose trade sanctions. This development represents a shift in power from citizens and national governments to a global authority run by un-elected bureaucrats. The WTO is not required to consult with non-governmental organizations or release documents until after decisions are made. WTO dispute resolution panels hold hearings and announce rulings in secret.

Furthermore, under the WTO, member countries have the right to challenge other countries’ local, state or federal laws as ‘impediments to international trade.’ If the WTO finds the law to be WTO-illegal, the government in question must overturn the law or face potential trade sanctions.

Mao: In your view, how do these rules affect developing country industries?

SA: The WTO does give developing countries access to industrialized markets, but it also forces their industries to compete with large transnational firms, which have much greater access to capital, economies of scale, and advanced technology. In the service sector, locally-owned services with ties to the community would have to face competition (and potential buyouts) from multinational firms with no ties or stake in the welfare of the people. How might the lending policies of banks change? Or the cost of hospital care for the poor, if private HMO giants run them? The proposed Multilateral Investment Agreement now under negotiation for inclusion in the WTO rules would even further diminish developing countries’ power to protect local industries from being wiped out by foreign corporations.

The situation is often worse for agriculture. WTO rules on market access undermine national strategies to ensure food security. In developing countries with large peasant populations, such as China, the agricultural sector may lack the capital inputs to compete effectively with agricultural powerhouses like the United States. When China is forced to lower its tariff barriers and cut its farm subsidies to comply with WTO rules, many of China’s 700-800 million farmers may be driven out of farming by competition, and incomes will certainly fall. What will they do? They are supposed to find work in the city, but there are not enough jobs as it is.

Mao: How does WTO membership affect labor?
In the negotiations to create the WTO, members refused to include protection of workers rights, probably because the violation of core worker rights (and environmental standards) is often used by large corporations and governments to gain trade advantages. Under the WTO, a nation cannot discriminate against products on the basis of how they are produced—be it by child labor or with environmentally destructive technologies. U.S. law, for example, has banned tuna imports from countries that allow long circular nets designed to catch tuna, but which also trapped and killed dolphins. Yet in the eyes of the WTO, a can of tuna is a can of tuna, whether dolphins were killed in the production process or not.

Built into the WTO rules is the ‘least trade-restrictive’ principle, a test applied to national laws designed to protect health, or environment—a measure is deemed necessary only if there is no less trade restrictive means available to achieve the measure’s legitimate health-related goals. The WTO also places the burden of proof on the accused country to prove that the product actually is dangerous. For example, when the EU banned artificial hormones in beef, the WTO ruled that the EU had to prove that such hormones are not safe in order to allow the ban.16

Some people do argue that. But governments have mostly avoided the issue. Part of the problem is that as competition increases, there is pressure on the governments themselves to improve their relative competitiveness by lowering labor and health standards. Developing country governments argue that they should not be held to the standards of the First World labor unions—that this only means that instead of having a bad job, their people end up with NO job. And in the industrialized nations, labor movements have less clout than corporate lobbyists.

Our position is that no global body should be able to challenge any nation’s health, safety, environmental or other laws as being too stringent; it is up to each nation to determine how high standards should go. At the same time, no nation should be allowed to gain unfair advantage in international trade through the denial of worker rights. A new global trading body should be allowed to enforce this. But it should be run more democratically, and with more sensitivity to developing country needs to protect domestic industries and services.

However, that is not the way the current WTO operates.

Dr. Anderson, isn’t it true that decisions are made in the WTO by consensus, rather than majority?

Yes, that’s true, at least in practice, though majority votes are not ruled out by the WTO statutes.

And developing countries receive special treatment under WTO rules?

Yes. Three-fourths of WTO members are developing countries. They typically receive
concessions in adjustment to full compliance with WTO rules, such as longer time periods for meeting commitments, and support to help developing countries implement technical standards.

Mao: Dr. Anderson, has China received developing country status in its GATT/WTO negotiations?

SA: When it applied for entry into GATT, in 1986, China requested ‘developing country’ status, based on low GDP per capita and agricultural economic structure. The United States opposed their request, on the basis of China’s large size. This became one of the obstacles in negotiations.

Mao: So China has not been offered such concessions up to now, has it? Thank you Dr. Anderson. In the hope of shedding further light on these issues, the prosecution calls Subcomandante Marcos, of Mexico.

(Marcos takes the stand, wearing his customary black ski mask and smoking his trademark pipe.)

Mao: Please tell us about yourself, and the movement you represent.17

SM: Marcos was ‘born’ in 1983, in the jungles of the state of Chiapas. My life before that time is unimportant. What I have become since then is the result of living among the indigenous peoples, the tzotzil, the tzeltal, the chol…who have inhabited Mexico since before the arrival of the Spanish. I was a marxist, influenced by the maoist tradition, and at the beginning, I saw them as exploited people who we had to organize and show the way. But they had their own way of understanding the world, and we had to learn to listen to them. In the end, we made the adjustment from our orthodox way of seeing the world in terms of ‘bourgeois and proletarians’ to the communities’ collective democratic conceptions and their world view. From their own social organizations and village life, they sought the construction of a guerrilla army, at first defend themselves against the paramilitary squads of the local ruling elites. This was the origin of the Zapatista Army of National Liberation (EZLN), named after Emiliano Zapata, who fought for land and liberty during the Mexican Revolution. We also wanted land, liberty, and democracy. On January 1, 1994, we attacked the town halls of several towns in Chiapas, to demand our rights. We have been fighting ever since, though now more with words and information than with guns.

Mao: So the EZLN rebelled because the people were poor?

SM: In part. Chiapas is extremely poor, even compared to the rest of Mexico. GDP per capita in Mexico City is more than five times as high as GDP per capita in Chiapas.18 In addition, people in Chiapas had to live without health care or electricity or clean water. For example, 21% of homes in Mexico have no drinking water, but 42% of homes in Chiapas lack this service.19 In some municipalities in Chiapas, nearly three fourths of the homes have no drinking water service. Before the rebellion, the United Nations Development Program issued a report on the state of Human Development in Mexico—as they do for many countries each year. This report warned that regional disparities threatened the political stability of 17 countries. One region specifically listed as a future source of trouble was Chiapas. Again, this was before they knew of our organization—simply chosen because such extreme levels of inequality are cause for political
concern. In 1994, the UNDP listed China as another country where the risk of such instability had increased due to excessively large regional gaps.\textsuperscript{20}

But poverty alone was not the only reason for our rebellion. Chiapas has been poor for hundreds of years: neglected by Spain, abandoned during the turbulent and unstable times after Independence, mostly left out of the Mexican Revolution of 1910, and neglected by the ruling party in Mexico for seventy years. The people rebelled often and resisted, but for many years, we had tried through peaceful organization to achieve our goals of land, work housing, food, health, education, independence, liberty, democracy, justice, and peace.

And then things got worse. During the 1980s, the ruling party began a series of neoliberal reforms—what you call market-oriented reforms. The land reform process was officially ended. Constitutional protection of collectively owned land was eliminated, promoting the reprivatization and reconcentration of land. In 1986, Mexico entered GATT, committing to lower tariff barriers immediately. Then, in 1993, the traitors who run Mexico signed the North American Free Trade Agreement. The new laws attacked collective property, that they permitted the sale of our rich resources to foreign capital. These laws were produced by evil governments that run this country like an hacienda they put up for sale with all the peons—that is to say, the Mexicans—included.\textsuperscript{21} To all these things, we said, “Enough!” No more. We rose up in arms on the very day NAFTA went into effect, calling on the rulers of Mexico to stop the genocidal policies they imposed upon our people. I guess you might say we spoiled the party.

Mao: How did Mexico’s trade opening affect the Mexican people, and Chiapas in particular?

SM: To begin with, inequality increased. Inequality in Mexico has historically been high by world standards, much higher than in China. But this level of inequality increased between 1984 and 1994, from a GINI of .46 to a GINI of .51.\textsuperscript{22} While Mexico boasted 24 new billionaires, the income share of the poorest 20% of the population actually shrank. The number of poor reached alarming proportions. According to the World Bank, close to 60 percent of the Mexican population live below the poverty line. Since the beginning of market reforms, real wages have deteriorated. Minimum wages have fallen by about two-thirds since 1980.\textsuperscript{23}

Open unemployment rose, and we have had recurrent problems with inflation. In addition, our economy has become highly vulnerable to shifts in foreign investor confidence. In December 1994, the Mexican stock market crashed. The value of our currency fell by more than 50% in six months. Ordinary Mexicans suffered greatly. For example, devaluations increase the cost of inputs for producing corn, and force the farmers to sell their crops quickly, at lower prices.

At the same time, government budgets have gradually reduced subsidies and services. From 1980-1990, social spending in Mexico declined both as a share of GDP, and as a share of total government expenditures.\textsuperscript{24} Of course, this partly reflected Mexico’s problems with external debt. But once you open yourself up to foreign banks, foreign capital, this is not unusual. Before you know it, you find yourself vulnerable to dictates from the IMF.
In Chiapas itself, there were three main problems. First, the end of land reform ended people’s hope for a better future for themselves by getting land.

Second, one of the major crops in Chiapas is corn. Corn originated in this hemisphere, and it is the symbol of life, of culture, to the indigenous people. But we cannot hope to compete, with our technology and poor soil, against the efficient corn producers in the United States. NAFTA commits Mexico to eliminate all protection and subsidies of corn within fifteen years. What will happen to our corn farmers then? The government has already cut back on credit and support of corn prices. In just one year, from 1987-1988, the number of corn producers operating at a loss jumped from 43% to 65%. And this was before NAFTA!

Third, there is the coffee sector. More than half of all coffee producers in Chiapas have less than two hectares of land. They are small producers. Yet coffee is a major export crop. In the past, the Mexican government assisted coffee producers with credit, gave them help processing and storing coffee crops, and offered price supports. With the reforms, the government stopped providing many services and left producers open to the fluctuations in world market prices. This had a terrible effect on local incomes. On average, small producers suffered nearly a 70% drop in income from 1898-1993.

We saw no hope that anything would change unless we took drastic action to remind the government that we existed. That is what the rebellion did. It made modern Mexico remember us. However, we still see the same things going on today. Globalization of markets erases borders for speculation and crime, and multiplies them for human beings. Nations are forced to erase their borders to the outside world as far as the circulation of money but fragments them internally. Instead of one Mexico, there must be two. Or three. The Mexico of the attic, of the elites, and the Mexico of the basement, where the indigenous people live. The end of the ‘cold war’ did not stop the arms race. It just changed the nature of the weapons. National governments become the lieutenants in a new world war against humanity. Neoliberalism counts the value of a human being by his capacity for consumption, for sale, for commerce, and begins to forget about all those who cannot buy, who cannot sell. It creates a stock market of the forgotten.

Then, this stock market of the forgotten becomes a stock market of resistance. Some will simply accept enslavement. There are those who sell themselves, who surrender. Everywhere, there are slaves who say they are happy to be slaves. But there are some who will not sell themselves, who will not be enslaved. There are some who decide to resist, and they will seek each other out, to fight for a better world. As Old Antonio used to say: ‘struggle is like a circle. You can begin at any point, but the struggle never ends.’

Mao: Indeed. No further questions.

Deng: If I might, could I ask you to tell us how trade has affected the Mexican economy as a whole? What has happened to national wealth, and growth rates?
SM: If you look at national statistics, exports and imports have grown substantially, but have been mostly focused on the United States, especially since NAFTA gave greater trade concessions to trade with the U.S. In 1980, Mexico exported $12.5 billion to the United States and imported $15.1 billion. By 1993, the last pre-NAFTA year, exports to U.S. had increased to $43.1 billion. We also see a more diversified export portfolio. Once, Mexico mostly exported oil. Now, manufactured goods are far more important than oil to export earnings.

Growth rates reached around 3-4% under President Salinas, from 1988-1994, though national production has not fully recovered from the economic crises of the 1980s.

However, at the same time, our dependence on the United States has grown. We always depended heavily on the U.S. markets, for about 2/3 of our export sales. Today, it is virtually our only significant outlet, at 75% or more of sales. We are quite vulnerable to outside conditions. In the last ten years, growth rates have varied wildly, from strongly positive, to negative—years when the economy actually shrank.

Deng: But overall, would the Mexican economy have been better off without trade? Or would it simply have sunk into the pit it was in for four years prior to trade liberalization?

SM: Obviously, I cannot answer that. I can only tell you what I know: that trade has made a few Mexicans and foreign companies very rich, and reduced other Mexicans to abject poverty.

Deng: Yet Mexico was not equal, or prosperous prior to these changes? Was Chiapas ever wealthy?

SM: The wealth of Chiapas is her people. Bad government explains her neglect. And inequality has increased since these policies were implemented.

Mao: I think Subcomandante Marcos’s testimony has been more than clear. I have no further questions for him. The prosecution calls Mikhail Gorbachev. You were the leader of the Communist Party of the Soviet Union, were you not?

MG: I became General Secretary of the CPSU in 1985, and governed Russia until I was deposed in 1991. I made it possible for Eastern Europe to reform, and opened arms reduction talks with the United States, for which I received the Nobel Peace Prize…

Mao: Yes, well never mind all that now. I didn’t call you to talk about military strategy. I would like you to explain to the court your policies of perestroika.

MG: Perestroika means ‘restructuring’ in Russian. Primarily, it involved decentralization of economic decision-making in order to permit individual firms to increase efficiency and take initiative. They were still state-owned firms of course. It was never my intention to dismantle central planning and the state sector. I did not want to endanger the authority of the Communist Party or open up to the West completely, although I did encourage more foreign investment and reduce barriers to foreign contacts. I simply wanted to improve efficiency and improve the output of consumer products by reducing the burden of military expenditure. That’s why the arms talks…
Mao: I know about the arms talks. What were the results of your economic reforms? Things did not go as planned, did they?

MG: Well that was not my fault. I wanted gradual reform, not radical dismantling of the Communist state. That was the idea of that arrogant, ambitious, ungrateful, vodka-soaked son of a

Mao: Careful.

MG: Yeltsin. Boris Yeltsin. I brought him into my government in 1985, and he rewarded me by taking advantage of the new openness to criticize my government for moving too slowly. I couldn’t defend him. But he just wouldn’t go away. He maneuvered himself into a position as president of the Russian Republic, according to an innovative procedure that I created. Meanwhile, opposition to my political and economic reforms was growing among the hardline communists, and in August 1991, treasonous military plotters attempted a coup and held me prisoner. Yeltsin seized that moment to make himself look like a big hero by climbing up on that tank and defying the plotters, while I was captive and couldn’t speak for myself. The coup failed, but after that, it was all over for me. By December of 1991, Yeltsin had negotiated the dissolution of the Soviet Union, and took over in 1992 as president of the reduced Russian state.

Once in power, he bought into everything the capitalist economists from the U.S. told him. He started a radical program of ‘shock therapy’ on their advice. He opened up Russia’s markets much more aggressively than I did, privatized state-owned industries, and accepted foreign loans. He also made the ruble freely convertible into other currencies on the open market, exposing us to the risk of massive and unpredictable devaluations. There is a Russian riddle you can hear on any street these days: what’s the difference between a dollar and a ruble? The answer is, exactly one dollar. If we do not control our currency, we do not control our fate. It was all too fast.

Mao: What happened to the Russian economy?

MG: It fell apart. GDP shrank by an average of 3.6% per year from 1992-1996. In four out of five years, industrial production fell, and the overall economy shrank. Agricultural production fell every single year. Consumer price inflation averaged almost 600% per year, although I have to admit it finally went into double digits in 1996. Unemployment went from almost nothing in 1991 to 9.3% last year.29 Real wages fell by more than half. Sometimes the government could not even pay the army officers in charge of nuclear weapons.

This economic crisis has been so serious that from 1990 to 1994, the average life expectancy of a Russian man fell by FIVE YEARS. At 57 years, the Russian man had a lower life expectancy than the average Mexican, Chinese, or Indian man. A male teenager has less chance of reaching the age of 60 than a teenage boy under the Russian czar, a hundred years ago. Infant mortality has gone up. The state health care system has collapsed. Malnutrition, rising crime and murder rates, alcoholism—in other words, massive social disintegration. It’s disgraceful.

Mao: I can’t disagree with you there. No further questions.
Deng: It seems to me that you may have left out just a few things in your testimony, Mr. Gorbachev. Tell me, what was the growth rate of the economy in 1990—before Yeltsin took over?

MG: The economy shrank that year by about 5%.

Deng: So, Russia’s economic difficulties were not exclusively the fault of Yeltsin’s impatient opening. Indeed, weren’t they the reason you felt you had to initiate perestroika in the first place? Compared to China, didn’t the Soviet Union face bigger obstacles to market reforms?

MG: China’s economy was unlike ours in many respects. The Soviet economy was much more centralized. I believe Chairman Mao experimented with our type of centralized command economy in the 1950s, but preferred a more decentralized system. We also had a larger system of state-owned heavy industry, and a more extensive welfare plan to cover social needs.

In part because of this, it was politically very difficult to make any reforms. There were a lot of people, especially within the Communist Party, whose status depended on their control of state industries, for example, and who resisted reforms.

Deng: So this wasn’t all about trade policy. You also opened up politically, a mistake I avoided in China, and one that probably cost you your position.

MG: You mean glasnost. I explained all that to you back in 1989, shortly after your Tiananmen incident. I had no choice. I started with an attempt at economic reform. But the entrenched and dogmatic nomenklatura stood in the way of any such attempt and thwarted the economic changes we proposed in 1987. I had to open up the political system in order to use public demand for consumer goods, and public support for my reforms, as a lever against the hardliners who wanted no change at all. Even Yeltsin once was useful to me in this role. I could threaten them that if they did not accept my modest reforms, they would have to deal with his more radical ones. I did not know, and they did not guess, how strong public pressure would become. But even now, looking back, I think one cannot democratize the economy while leaving all the rest as it was before. Even within a one-party system, greater pluralism is necessary. Your actions at Tiananmen Square only postponed these political reforms.  

Deng: Well, we shall see about that. No further questions.

Mao: One final question. The breakup of the Soviet Union into many independent states—to what extent did that reflect your policies of perestroika and glasnost?

MG: The Soviet Union was many nations in one, from its foundation. But it was united under the Communist Party. What endangered that unity was the internal division and weakness of the Communist Party itself. It was never my intention to harm the Communist Party, but I must confess that both perestroika and glasnost probably contributed to that.

Mao: Thank you. The prosecution now calls its final witness, Yang Shangkun.
(Yang takes the stand, glaring angrily at Jiang Zemin)

Mao: We have heard testimony regarding the demonstrations at Tiananmen Square. That happened long after my death, of course. You were head of the Military Commission at that time, and so had a major part in the affair. Could you tell us what happened, and what connection—if any—it had to market reforms?

Yang: The Tiananmen incident began in April 1989, when university students gathered to protest in favor of greater political liberties in China. For several months, they occupied the Square, attracting much foreign attention. They even built a statue copying the American statue of ‘Lady Liberty’, which they called the “Goddess of Democracy.” Many claimed that with greater economic freedom and responsibility should come greater political freedom and responsibility as well. They criticized the Communist Party’s hold on power, and alleged corruption. At one point, there were more than a million people gathered around the square. Not all of them were students. Some were unemployed rural workers displaced from the countryside. The demonstrations had become too dangerous. They had to be stopped. The Communist leadership warned the students repeatedly to stop, but they would not listen. Eventually, it was decided to use the People’s Liberation Army to clear the public square. Some demonstrators were killed in the process of breaking it up. Many thousands more were arrested and corrected for their role in the demonstrations.

Mao: Every Communist must grasp the truth that political power grows out of the barrel of a gun. But the Party commands the gun, and the gun must never be allowed to command the Party. How did the People’s Liberation Army react to the orders to use force against the students?

Yang: That was one reason why the leaders waited several months to strike, because a number of high-ranking party and PLA officials objected to using the PLA against the students. The PLA is a people’s army. It should not be used against the people. In the end, the PLA accepted Party authority, but it was decided to use troops from the farther provinces—not stationed in Beijing itself—to handle the removal of the students.

Mao: So the market reforms opened up a dangerous chasm among the people that threatened to distort the proper relationship between the Party and the People’s Army. We must also consider, of course, the risk of even deeper conflicts, threatening to tear apart the vast Chinese nation. How worried is the People’s Liberation Army about this threat?

Yang: Many of our provinces are the size of a medium-sized nation. Some also contain substantial ethnic minorities, as in the case of Tibet. The People’s Liberation Army would not like to see a situation evolve like the one in Chechnya, where rebel separatists continue to wage an impossible war against the Russian military, with heavy losses.

Mao: Thank you.
Deng: About this ethnic conflict—isn’t China more ethnically homogenous than the Soviet Union?

Yang: Yes, I suppose. More than 90% of China’s population is ethnic Han. Even in provinces with substantial ethnic minorities, the Han typically outnumber them. The problem may be that some of the poor provinces also have large ethnic populations—as in Chiapas. Of course, they have not succeeded in achieving autonomy.

Deng: Were you personally opposed to the use of force at Tiananmen?

Yang: As you know, I supported your decision. China is not ready for democracy. We cannot do without our Communist Party leadership. It dangerous to permit such political challenges to the Party’s authority in the midst of a process of reform. Even then, we could see risks in what was happening to Gorbachev in Russia. Then you betrayed me, forced me out to make room for HIM [gesturing to Jiang Zemin], your pathetic puppet. I still have influence, connections…

Deng: Perhaps less than you think. Tell me, what economic interests does the PLA have?

Yang: The PLA has substantial economic investment in state-owned enterprises.

Deng: So the PLA could benefit if trade and production increases?

Yang: Perhaps. But many military enterprises would also face increased scrutiny and competition. Industrial production in the state-owned sector has grown more slowly than in the private sector. That is partly because we maintain a commitment to our employees, to their jobs and welfare, which private companies do not. They get rid of people to keep their profits high. State-owned companies protect the workers.

Deng: What about the PLA’s interest in obtaining foreign military technology?

Yang: The capitalists won’t give us that technology anyway, even under the WTO. National security, they say. We have other ways of getting that technology that don’t depend on buying it.

Deng: That is all for me.

Mao: And for me too. The Prosecution rests.

The Defense calls its first witness: Zhu Rong-ji.

Deng: You have been a staunch defender of the economic reforms I launched in 1978, and in the last few years, you have been a valuable manager of the reform process, in the banking system particularly. Please summarize for the court the principal features of our process of reform.

Zhu: The court already knows…

Deng: Indulge me.
Zhu: Very well. As you know, the reform process has followed the principle of ‘feeling the stones to cross the river.’ Economic reform is tricky, and dangerous, like the slippery rocks of the river. It is necessary to proceed with caution. So we tried out reforms in one area, before extending them to others. The first steps were taken in the agricultural sector, where the vast majority of Chinese people live. The Household Reponsibility System, for example, lets peasants make production and marketing decisions instead of the central bureaucracy—and the result has been a substantial increase in agricultural production.

When this worked, rural governments were encouraged to set up “Township and Village Enterprises,” which produce non-agricultural goods, like bricks. Some of these are now owned privately as well. These businesses contribute significantly to national industrial output.32

The Special Economic Zones are another example. Certain coastal areas and islands were designated for this purpose, and opened up to greater foreign investment and trade. In these zones, import and export did not have to go through central planning bureaucracies. Overseas investors received tax breaks. There was less red tape all around. In a similar way, we set up two stock exchanges, in Shanghai and Shenzhen in 1990. That was difficult, but we worked out the problems. And the banking system, as you know—I managed the People’s Bank of China from 1993 to 1995, overseeing reforms in the foreign exchange system among other things.

The basic idea was to isolate the effects of reforms, so that if things went wrong, we could learn from our mistakes on a small scale. Mistakes are inevitable, but we can make them minor mistakes instead of major ones. We learned from the Great Leap Forward, and the Cultural Revolution, how terrible the results of massive reform projects could be.33 Many of our people starved to death during those times.

But things did not go wrong. We opened up domestically, and then we opened up internationally.

Deng: How has China’s trade policy affected its national growth rate?

Zhu: Overall, China’s GDP has grown by an average of nearly 10% from 1979-1995, an impressive rate of growth even among the most successful economies.34 But annual exports from China have grown even more quickly, at nearly 17% per year.35 By way of comparison, world trade grew on average about 7.7% per year.36 Trade and exports have led China’s growth spurt. Today, two out of every three toys sold in America were made in China.37
China has also benefited significantly from increased foreign investment. Utilized foreign investment grew at an annual compound rate of 32% from 1983-1994 alone. Approved investment projects totaled 245,400 by September 1995, with over 100,000 foreign companies already in operation in China. The share of foreign investment in China’s total investment in fixed assets rose from 4% in 1981 to 11% in 1994. This investment produces growth. It is not an accident that the Special Economic Zones have grown more quickly than other regions in China. Foreign invested firms produced about 28% of export earnings in 1993.

Deng: Has trade benefited only foreign companies, as Chairman Mao suggested?

Zhu: I am sure that they have benefited, but so have the Chinese people. In the first place, they have jobs. We also own and operate many successful export businesses ourselves. Some Chinese have become rich. Township and Village Enterprises contribute even more than foreign invested firms to national export earnings. In 1985, TVEs produced about 4% of total exports. By 1993, they produced about 1/3 of the total. This money benefits peasants directly, because collective ownership—often by local governments—is common.

Deng: If China has done this well without belonging to GATT or the WTO—why should China join the WTO now?

Zhu: The main reason is that as China’s success has grown, so has resistance from other nations, to letting China trade with them. We have been accused of dumping products on the market, or producing them with coerced labor. We have also seen political manipulation by people who argue that their nations should not trade with a country they claim abuses human rights. The United States in particular has threatened repeatedly to raise punitive tariffs. In the United States, after Tiananmen, there was a self-righteous reaction that hurt our exports for a time. Personally, I think they are mostly afraid of competing with China’s cheap and abundant labor. The United States runs a large trade deficit with China every year.

Entry into the WTO would probably mean that the United States had to extend China automatic most-favored-nation status. No more would the United States have the right to hold humiliating annual reviews to consider extending most-favored-nation status. And all other countries would also be prevented from raising barriers against China.

Deng: Your witness.

Mao: I am curious—in these reactions against China, has any country—even the United States—revoked China’s most favored nation status?

Zhu: No.

Mao: And why do you suppose that is?

Zhu: They say that it is better to involve China in the world system than to exclude it. That this makes the world more secure against a belligerent China.
Mao: So they are afraid of China. Afraid of China’s size, its military force—the largest in the world—its nuclear weapons. Or are they attracted to China as a way of getting even richer, by exploiting China’s cheap labor and selling imports to its potentially vast internal market?

Zhu: I suppose that might be true too.

Mao: I submit that it IS true. What’s more, this same size, this same labor market, this same position in the world system means that China more than most other developing nations can afford to say no to the capitalists without totally losing access. What’s more, by entering the WTO, China gives up the advantage of its relative power and submits itself to international rules and arbitration. I refer you to a recent article by Robert Ross, in the American journal Foreign Policy. This American, who wants the United States to offer more concessions to get China into the WTO, says that “If this process is delayed, China will develop sufficient economic power to resist pressures for reform...while it is in the interest of the United States and other industrial countries that China establish a liberal economic system as soon as possible, it is in China’s interest to prolong its current policies. Although China has succeeded in expanding exports, the long-term expansion of its industrialist base requires the use of the protectionist measures that Indonesia, Japan, South Korea, and Taiwan employed to assist their nascent industrial systems prior to liberalization.”

What our enemy supports, we should oppose. We should build up our own strength first, before seeking to compete with the West. The risk is small if we delay but huge if we act prematurely.

Zhu: The analogy is faulty. Indonesia, Japan, South Korea, Taiwan—they were all capitalist countries. China is not. We have much more internal reform to do, and we need the WTO rule structure to force deeper reforms on those in China who object to change, in areas where internal resistance prevents us from making progress. Otherwise, our reform process will lose steam, and collapse.

Mao: You want the WTO to force reform on an unwilling Chinese population? I think that says it all.

Deng: I believe the witness said SOME within China oppose reform. If you recall, some also opposed YOUR reforms in the 1950s and 1960s. That is the nature of reform. Some lose, some disagree. I have one further question for this witness. Is China subject to the same rules within the WTO as other nations?

Zhu: China may be able to demand special status and extra time for adjustment to WTO rules. That will be a matter for negotiation. China’s size should be an advantage, as it was for India.

Deng: Thank you for your candor. Since the issue of other nations’ experience has been brought up, the defense would like to call Kim Young Sam, President of South Korea. President Kim, could you describe for us the Korean development strategy?
In 1961, General Park Chung Hee came to power in a military coup. There was dissatisfaction with the results of the previous democratic government, especially its ability to manage economic policy. Under General Park, the Korean economy experienced its dramatic takeoff.

Essentially, Korea entered a phase of import substitution, followed by export promotion.

Deng: What does that mean, exactly?

KYS: At first, Korea had no industry. We had to create industry. So we protected our new industries from foreign competition. Tariffs on foreign imports made it possible for new industries to sell to the domestic market, even if they were not yet competitive with international industries.

However, Korea’s domestic market is not very large. In 1970, Korea had only 31 million people, compared to 94 million in Japan at a comparable stage of its development. China, of course, has over 1 billion. In part as a result, at a relatively early stage Korea’s leaders felt it was important to seek out external markets for Korean goods. Trade became an important part of Korea’s growth. This is the export-promotion phase. Some estimates suggest that exports account for over half of all growth from 1970-1975, compared to a little less than 25% for Japan at a similar stage.

Deng: And what have been the results of strategy, for Korea as a whole?

KYS: Between 1962 and 1995, the Korean economy grew at an average rate of 8.8% per year. Even faster during the first fifteen years—at 9.6% per year.

In 1961, GNP per capita in Korea was less than $100. By 1995, GNP per capita had grown to over $10,000. Korea now ranks essentially as a middle-income nation. In fact, in 1996, the OECD admitted Korea as a member. This is the world’s leading group of industrialized states.

Since I became president in 1992, I have promoted further liberalization to the outside world, a strategy of segyehwa, or globalization. My idea was that Korea was ready to meet the standards of excellence in all fields, including political economic and social activities. Korea has achieved success by pursuing an open economy and an open society.

Deng: Thank you. Korea’s example certainly is encouraging.

Mao: So Korea began to industrialize in the 1960s. Under what conditions?

KYS: I’m sorry?

Mao: Under what conditions? Was Korea part of GATT? Did it receive outside aid?

KYS: No, Korea was not a member of GATT until the 1980s. But it did receive outside aid. From the capitalist democracies, including the United States. This was the height of the Cold War, and we needed this aid to prevail against the hostility of Communist North Korea. As I told you, we
protected our industries at first. Even when we began to encourage export promotion, we continued to maintain fairly high levels of selective protection, in certain sectors. Some of this had to be changed in the 1980s, as part of our liberalization drive and entry into GATT. I then continued and expanded this policy.

Mao: What role did the government play in the economy? Was it a strictly private, free-market system?

KYS: As in Japan, the government played a major role in selectively encouraging growth in certain sectors. Providing subsidies, credit, the usual sort of things. The government used tax credits and regular devaluations to encourage companies to export. Some exports were even subsidized. Also, the Korean economy, like the Japanese economy, functioned in part according to large industrial groups (the chaebol) which maintained a close relationship to the government. Quite different from Taiwan, where ownership has been more decentralized and private.

Mao: How important were foreign companies?

KYS: It was important, of course. But it was always regulated. The Korean government encouraged private Korean firms to borrow money abroad. Direct foreign investment as a share of total capital inflow was usually less than 10%, at least until the liberalization measures of the 1980s.50 Foreign firms account for a greater share of Chinese export production than in Japan, Taiwan, or South Korea.51

Mao: One last question. How have Korean politics changed since 1961?

KYS: The main difference is that we have become much more democratic. The old series of military rulers have been reduced to defendants in an anti-corruption trial. And I—who was once jailed for my political activities—was elected president in a clean race. My successor will be too. You may think this is a bad thing, but I think it is a good one. Though we have some problems, such as the slowing of economic growth last year, and a troubling foreign debt, overall, we have prospered.


Deng: I have only a few questions for this witness. India was a member of GATT, correct? And is currently a member of the WTO?

NR: Yes, that is correct.

Deng: So India follows exactly the same trade rules as, say, the United States?

NR: As a developing country, India qualifies for special concessions to protect its infant industries. Ironically, average tariff rates in India are lower than they are in China today. I suppose you can say that although China is not legally a member of the world trading regime, China is in some ways more integrated into the global economy than India.52
Deng: Concessions are possible then. Why did India receive such concessions?

NR: A combination of things, really. Like China, we are one of the largest nations on earth. Today, we have nearly a billion people. We are also the largest democracy. I suppose the industrialized nations felt some pressure to try to help India survive as a democracy. Of course, we also negotiated skillfully—threatening to ally ourselves with Soviet Russia, for example.

Deng: Yet despite these concessions, India under your leadership began to open up its markets and reduce state intervention in economic decisions, just as we have?

NR: Yes. The result has been a period of stronger growth rates and an expansion of trade. From 1982-88, India’s trade grew about 3.4% per year. From 1991-1993, our exports grew by an average of over 17%—even higher than China’s exports during those years. If India had opened up its markets sooner, perhaps our growth would not lag behind that of China.

Mao: But your growth does lag behind that of China, is that right?

NR: Yes. Growth rates and GDP per capita are now lower in India than in China. However, you must consider that India is not China. Our population growth rates, for example, are considerably higher than yours. This alone slows per capita GDP increases and reduces savings rates. China has one of the highest savings rates in the world. India cannot duplicate that. As a democracy, we cannot implement the kind of drastic birth control program that China did—one child per family, no, our people would never stand for that. And other reform measures too. We must consider the opinions and wishes of our people, and this has resulted in a slower program of reform.

Mao: Why did India begin a reform process at all?

NR: At that point, we had little choice. The Gulf War in 1990 resulted in a dramatic rise in oil prices, which affected our industries strongly. In addition, we got into some debt trouble. In 1991, we had to appeal to the IMF. Among the reforms they encouraged, we had to cut government subsidies, reduce waste in the state sector, and consider opening our economy up to trade and foreign investment. Under the pressure of debt, our government could not continue to fund unproductive enterprises. Your own state-owned sector will face similar pressures, sooner or later.

India and China have about the same amount of debt, but India’s export base is smaller, which makes it harder for us to continue payments when our balance of payments situation turns negative. China has done so well lately that its debt service to export ratio does not give as much cause for concern. Of course, if exports fall, China may eventually find itself running short of the foreign exchange needed to repay debts.

Mao: Precisely my point. China should not become dependent on external markets when she has such a vast internal market to develop. One more thing. Has India had any difficulty with rising ethnic
violence, unemployment, and inequality?

NR: Unemployment, inequality, and inflation—yes, those are problems that accompany many experiences of market opening. Our hope is that we will grow quickly enough to supply even better jobs for those who currently have been displaced as uncompetitive industries go out of business. The other thing—the ethnic violence—I don’t think you can really blame that on trade. India is one of the most ethnically diverse countries in the world. India itself was born amidst religious violence—the conflict that ended in the partition of the British territories into India and Pakistan. Trade is not responsible for every problem, nor can free trade cure every problem.

Deng: I couldn’t have put it better myself. This witness is excused. I now call Renato Ruggiero, Director General of the WTO—the defendant. Mr. Ruggiero, you are on record as saying you think China should join the World Trade Organization. Why?

RR: China is one of the few nations that does not participate in the WTO. The WTO has 125 members, and WTO rules apply to over 90% of international trade. Compare this to just 23 countries who negotiated the GATT in 1948.

If we reflect a moment, we are participating in an immense revolution: the Chinese and the Russians are only a part of those 3 or 4 billion people who are passing from state-organized economies to market economies, from poverty to the first stage of production and consumption. This revolution has only one outlet: the liberalization of markets. This must be guaranteed. And that is the purpose of the WTO: to regulate trade at worldwide levels in order to guarantee the absence of barriers, and to establish discipline by assigning to an arbitrator—in this case, the WTO mechanism—the duty of ensuring that those rules are respected.

We need the WTO to include China, with its enormous market of more than 1 billion people. But China needs us too. The world economy is heading toward total globalization. The production of a commodity or of a service is no longer strictly anchored to a single country, but rather it can be produced independently of its location. The novelty is the fact that the true locomotive for worldwide economic growth is the exchanges between industrialized and developing countries.

Up until just a few years ago, market liberalization was, in fact, a request of the rich and industrialized economies. The developing countries didn’t trust it, they considered it almost an instrument for conquering their markets. Today, everything is different. The developing countries are the ones which insist on the liberalization of trade while public opinion in a few industrialized countries expresses preoccupation and some resistance. On the whole, at the end of the 1980s, 20% of industrialized country exports were directed toward developing countries. Today, it is 25%. And by the year 2000, it will be 30-33%. This is confirmation of the developing countries’ integration in the system of world commerce and their decisive role in the growth of both industrialized countries and in world economics in general.

Deng: Why does China need to join the WTO at this particular point in time?

RR: Well, the conditions for Beijing’s joining and the persistence of its ties with the statist concept of
economics must be monitored. They still have a long way to go.

At the same time, we see that new foreign investment, for example, seems to be slowing down. Entry into the WTO would give investors and foreign governments an accepted structure for resolving trade disputes and ensuring that China plays by the rules it agrees to. Instead of decisions being made by Chinese bureaucrats, subject to conflict within the domestic political system, WTO rules give investors more predictability and stability. They know what they will face. This should help revive flagging investment, and further stimulate trade with China.

Deng: The first witness this morning, Dr. Anderson, accused the WTO in effect of acting as a kind of world government. Is this true?

RR: The WTO’s mandate is to enforce mutually agreed upon trading rules—not to invent new ones without the consent of member governments. The WTO will be able to and will have to resolve controversies between member countries. In fact there is an automatic mechanism concerning decision-making time periods: 16 months at the most to present a dispute of a definitive appeal decision. Everyone will be obliged to respect the agreements and the provisions. It will only be possible to appeal, but I repeat, the final decisions will be binding for member states, against whom monetary sanctions may be applied. I accepted this nomination with one clear concept in mind: the director-general of the WTO must not hesitate to pound his fist on the table. And, if necessary, he will have to denounce, privately and publicly, every country that does not accept the undersigned obligations.49

On the other hand, the WTO is not a world government, a global policeman, or an agent for corporate interests. It has no authority to tell countries what trade policies—or any other policies—they should adopt. It does not overrule national laws. It does not force countries to kill turtles or lower wages or employ children in factories. Put simply, the WTO is not a supranational government and no one has any intention of making it one.

Globalization is not a policy choice, it’s a fact. Globalization is being driven above all by the power of technology—by faster and cheaper transportation, by financial services, telecommunications, entertainment, and e-commerce. The real question we should ask ourselves is whether globalization is best left unfettered—dominated by the strongest and most powerful, the rule of the jungle—or managed by an agreed system of international rules, ratified by sovereign governments. Trade is not the answer to all our problems, but it provides part of the solution.60

Deng: Thank you. The defense rests.

Mao: You say that the WTO ‘does not overrule national laws.’ Yet isn’t it true that when the WTO decides that national laws violate WTO rules, the WTO can impose sanctions?

RR: Yes, of course. Monetary sanctions, trade sanctions, and so forth. But that is not the same thing as overruling national laws. A country can choose to pay the price of keeping a law that violates WTO rules.
Mao: Why not include things like environmental protection, or labor rights, among WTO rules?

RR: Environmental standards in the WTO are doomed to fail, and could only damage the global trading system. When governments decide to protect the environment, that’s one thing. But it could easily become an excuse to protect unproductive industries. The negotiating costs would be huge. And the WTO should not force countries to protect the environment if they don’t want to.

Mao: One further question. You mentioned that China’s entry would have to be ‘monitored.’ What are the main ways in which the Chinese economy would have to adjust?

RR: Some of this would be subject to negotiation, of course. But our areas of concern include the reform of the state-owned enterprise sector, which still accounts for about 30% of the economy. China would have to reduce subsidies of this sector to comply with WTO rules. Many enterprises in the state sector are inefficient, or employ too many people, and they would have to adjust. The auto sector, for example, would have trouble competing. The telecommunications sector is another major problem. Multinational companies are very anxious to get into the potentially huge market in China. I don’t think China can expect to win entry into the WTO without liberalizing this sector. But the state communications ministry—also its propaganda ministry—is one of the sources of most resistance to further opening.

There are many other trade barriers, which tend to protect Chinese business. Government planning continues. The Chinese government sets import levels in many sectors and approves import/export permits. There are also technology transfer requirements favorable to the Chinese. WTO rules permit none of this.

Intellectual property rights are another problem. As you recall, the WTO—unlike GATT—covers these issues. And the Chinese government appears quite unable—or unwilling—to stop widespread piracy of everything from computer programs to music recordings.

In general, China needs to make more progress toward being able to enforce the rule of law.

Mao: Would these reforms be difficult?

RR: If they were easy, China would already have made them.

Mao: No further questions.

Jiang Zemin watched as Mao Zedong and Renato Ruggiero took their seats. “So, comrades. If you have no other witnesses, it is time for each of you to make your closing arguments.”

Deng rose slowly to face the bench.
“Your honor,” he began, “the issue we have before us is quite simple. As Mr. Ruggiero explained, trade is the future of the world economy. No country can develop in isolation. It would be impossible for China to shake off poverty, or to reach the level of the developed countries if it didn’t open its doors to other countries, increase international contacts, introduce advanced methods, science and technology from developed countries and use their capital. Keeping its doors closed won’t work.\textsuperscript{63}

Does this mean that we have abandoned the goals of the revolution? By no means. I support a socialist market economy. What does this mean? First of all, we must understand: what is socialism? Comrade Mao Zedong was a great leader, and it was under his leadership that the Chinese revolution triumphed. But he made the grave mistake of neglecting the development of the productive forces. I do not mean he didn’t want to develop them. The point is, not all of the methods he used were correct. For instance, the people’s communes were established in defiance of the laws governing socioeconomic development. The fundamental principle of Marxism is that the productive forces must be developed. Poverty is not socialism. Socialism means eliminating poverty.\textsuperscript{64} At the same time, although we allow the development of individual economy, of joint ventures with both Chinese and foreign investment, and of enterprises wholly owned by foreign businessmen, socialist public ownership will always remain predominant.

What would happen to China if we let slip this opportunity to join the World Trade Organization? We suffered too much from taking a narrow road. If we turned back, where would we be headed? We would only be returning to backwardness and poverty.\textsuperscript{65} We do not need to fear some inequality, but we do need to fear a return to poverty. Political instability becomes a real danger when we do not satisfy the material aspirations of our people.

On the other hand, if we enter the World Trade Organization, we can confirm policies that have reduced absolute poverty, doubled per capita GNP, and created growth. We can extend these reforms even further, and provide greater stability to our productive enterprises. China should seek terms as favorable as possible, but we—or rather, YOU—must act quickly to seize this opportunity. Declare the WTO innocent, and pursue membership with all possible speed.”

Mao then stood up to respond.

“There is an ancient Chinese fable called ‘The Foolish Old Man who Removed the Mountains.’ It tells of an old man who lived in northern China long, long ago. His house faced south, and beyond his doorway stood the two great peaks, Taihang and Wangwu, obstructing the way. With great determination, he led his sons in digging up these mountains hoe in hand. Another greybeard, known as the Wise Old Man, saw them and said derisively, “How silly of you to do this! It is quite impossible for you few to dig up these two huge mountains.” The Foolish Old Man replied, ‘when I die, my sons will carry on; when they die, there will be my grandsons, and then their sons and grandsons, and so on to infinity. High as they are, the mountains cannot grow any higher, and with every bit we dig, they will be that much lower. Why can’t we clear them away?’ He went on digging every day, unshaken in his conviction. God was moved by this, and he sent down two angels, who carried the mountains away on their backs. Today, two big mountains lie like a dead weight on the Chinese people. One is imperialism, the other is feudalism. The Chinese Communist Party long ago made up its mind to dig them up. We must persevere and work unceasingly, and we, too, will touch God’s heart. Our God is none other than the masses of the Chinese people. If they stand up and dig together with us, why can’t these two mountains be cleared away?\textsuperscript{66}
I first told this story in 1945, when our people were fighting a bitter war against the Japanese, and the Nationalist traitors who had sold our cause to the warlords and the capitalists. But it is no less true today. Comrade Deng would have you believe that it is impossible for China to stand up against the imperialists. Therefore, he says that we must join them, must sell our national resources to them, must put our workers in bondage to them, must agree to let them tell us how to run Chinese affairs in some office in Switzerland. We must accept the mountains. I tell you that THIS is the foolish response. We are risking our political unity, our sovereignty, our national destiny. But more than all this, we are risking the goals for which our revolution fought. What is development? Is it wealth, riches? The right to oppress another? The right to have more than another? I say NO. My whole life, I have fought for equality, justice and equal treatment for all Chinese. There are values more important than efficiency, goals more important than a color television set. I do not entirely oppose the idea of trading with the rest of the world. I simply insist that it must be on terms that benefit China, and this means which benefit all of China’s people. The WTO is the tool of the foreign capitalist powers. It is the tool of imperialism—wearing a velvet glove, but still with the purpose of making trouble for us and crushing our spirit. To enter the WTO now would hand China’s people over to foreign interests. We must wait until our own industries have reached a more solid footing, and the inequalities generated during the past period of development have been addressed. I ask you to declare the WTO guilty, and to reject the policy of submission to its dictates.

Jiang nodded. “Thank you both. You have helped clarify my options. I will now consider my decision.”
Selected Bibliography
(for optional further reading)

On China:


Chong-pin Lin, editor. *PRC Tomorrow: Development under the Ninth Five-Year Plan*. Kaohsiung, Taiwan, Graduate Institute of Political Science, National Sun Yat-sen University, 1996.


Ross, Robert. “Enter the Dragon,” Foreign Policy, No. 104 (Fall 1996).


**On India:**


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On Russia:


Gorbachev, Mikhail “Our Different Paths.” Newsweek, 3 March 1997, p. 34.
On South Korea:


On the WTO:


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2. This paragraph mostly paraphrased from *Quotations from Chairman Mao Tse-Tung*, pp. 36-37, 65, 95.
14. Dr. Anderson’s ‘testimony’ is mostly paraphrased from “In Focus: World Trade Organization,” by Sarah Anderson and John Cavanagh. For further information about differences between WTO and GATT, see www.wto.org/about/facts6.htm.
15. Chu, “China’s WTO entry may Leave Farmers in the Dust.”
The 'testimony' of Subcomandante Marcos draws heavily from published interviews and his own writings. In particular, see Cuentos para una soledad desvelada; Crónicas intergalácticas; Subcomandante Marcos: El sueño zapatista; EZLN: Documentos y Comunicados; and Relatos de El Viejo Antonio.


Harvey, The Chiapas Rebellion, p 184.
The Political Economy of Uneven Development, p. 10.

Haciendas were a common form of landholding in Latin America. The hacendado held large tracts of land, as well as the rights to tributary labor of the peasants who lived on the land. Statement from Cuentos para una soledad desvelada, p. 210.


Levy, “La pobreza en Mexico.” This wage estimate adjusts for inflation. If 1980 is indexed at 100, the value of the minimum wage in 1995 would be 34.8 (that is, 34.8% of the value of the 1980 wage); for comparison, the 1970 minimum wage was worth 91.9% of the 1980 wage. See SALA, pp. 362, 268. For real average wages, see SALA p. 356.

The Post-NAFTA Political Economy, p. 71.
The Chiapas Rebellion, p. 179.
The Chiapas Rebellion, p. 178.

Most of these comments were made by Marcos at the First Intercontinental Encounter for Humanity and Against Neoliberalism, held in Chiapas in August 1996. Crónicas intergalácticas, esp. pp. 65-7; 265-271.

Relatos de El Viejo Antonio, p. 93. Old Antonio was (allegedly) an indigenous peasant who befriended Marcos. Marcos uses the figure of ‘Old Antonio’ symbolically, to explain the indigenous perspective.

DeBardeleben, Introduction to Comparative Politics, p. 442.

The fourth, fifth, tenth, eleventh, and twelfth sentences of this paragraph are taken or paraphrased from Mikhail Gorbachev, “Our Different Paths.” The nomenklatura system refers to a system of personnel selection in which the Communist Party maintains control over the appointment of all important officials in social, economic and political life. The same word is used to refer to people who obtained their positions in this way. A version of nomenklatura operates in China. See Introduction to Comparative Politics, p. A10.

Paraphrased from Quotations from Chairman Mao Tse-Tung, pp. 33, 55.

Township and Village Enterprises are non-agricultural businesses and factories owned and run by local governments and private entrepreneurs in China’s rural areas. TVEs operate largely according to market forces and outside of the state plan. TVEs employ 30% of rural labor, and produce 75% of total rural non-agricultural production. (Definition from Introduction to Comparative Politics, p. A15; statistics from China’s New Political Economy, p. 144.)

The Great Leap Forward was a maoist policy to industrialize China very rapidly. One characteristic feature was the creation of small-scale steel plants throughout rural China. These plants were inefficient, produced poor-quality steel, and disrupted agricultural production. Launched in 1958, the Great Leap Forward ended in 1960 in total economic disaster, contributing to “one of the worst famines in human history.” The Cultural Revolution (1966-1976) was another maoist policy, this time to stop what Mao saw as a dangerous trend toward capitalist thought. Thousands were persecuted or purged from the Communist Party. While mostly an ideological campaign, the impact on economic policy was significant, due mostly to the singling out of those who promoted (or could be alleged to promote) ‘capitalist’ market mechanisms. See Joseph, Introduction to Comparative Politics, 493-494; see also p. A7.

Chong-pin, PRC Tomorrow, p. 200; for a similar estimate, Cheng, China in the Post-Deng Era, p. 273.

This appears to be a fairly standard estimate. For representative cites, see Economic Reform in Three Giants, p. 8; China’s New Political Economy, p. 231; China in the Post-Deng Era, p. 365.

This figure refers to the 1982-1988 period. However, China’s trade growth during this period is still estimated at 16.7%. See Economic Reform in Three Giants, p. 8.

“China and the WTO.” p. 25.

China in the Post-Deng Era, p. 375.

China in the Post-Deng Era, p. 390.

Wall, et. al, China’s Opening Door, p. 118.

China’s Opening Door, p. 118.

Most-favored-nation status grants market access under the best conditions available to all nations (outside of specific regional trading blocs, such as the European Union). Under U.S. law, the Congress must review MFN status annually for non-market economies. This subjects China to annual review. While it is not clear that WTO rules require the U.S. to revoke this law, it would probably be a condition for China’s accession.

Ross, “Enter the Dragon,” p. 20.
Later, General Park reproduced his rule through a series of rather limited presidential elections. However, there is no doubt that whatever the reaction to his authoritarian political style, his economic successes brought him some real popularity.


The Economic Development of Japan and Korea, p. xxvi.

*China’s New Political Economy*, p. 54.

Oh, *Korean Politics*, p. 62

Kim Young Sam, quoted in *Korean Politics*, p. 147.

The Economic Development of Japan and Korea, p. 90.

Lardy, *China in the World Economy*, p. 112.


*China and India*, p. 43.

“In Focus: World Trade Organization.”


This part of Renato Ruggiero’s testimony, as well as the first sentence below, is taken mostly verbatim from a 1995 interview with Ruggiero, by Niccolo d’Aquino.

d’Aquino, interview with Renato Ruggiero.

The last two paragraphs in this section are taken from the comments of Mike Moore, the second director of the WTO, made in November 1999. See www.wto.org/wto/press/press155.htm.

Quoted in “The MAI Shell Game: The World Trade Organization.”

Much of this testimony is from Greg Mastel, “The WTO and Non-market Economics.”


*Quotations from Chairman Mao Tse-Tung*, pp. 113-114.