

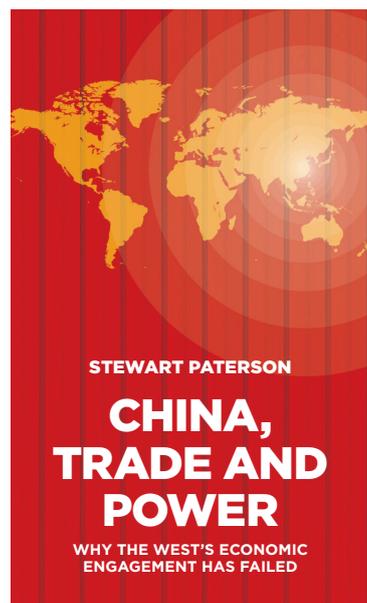
# China, Trade and Power:

## Why the West's Economic Engagement Has Failed

A book by Stewart Paterson

An insightful new book on the impacts of China's accession to the WTO, sponsored by the Hinrich Foundation. As the trading nations of the world embark on a change of direction in their policies toward trade, the Hinrich Foundation believes it is of the utmost importance that we understand the true and full extent of how past policies of engagement with China have impacted Western societies.

The book describes the consequences of the West's policy of engagement with China that enabled China's accession to the WTO without requiring and subsequently enforcing appropriate economic reforms. The aim of this book is to promote reasoned and informed debate on the economic relationship between the West and China.



### Impact on Western economies

China floods global markets with cheap labour and goods



Supply side shock triggers deflation



Central banks try to augment demand with inflation-targeting policies



Asset price inflation



Widening wealth gap and inequality



Social disruption in the West

### Impact on its own economy



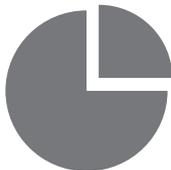
China's GDP accelerated rapidly post-WTO accession

**10%** from 1992 to 2000 | **15%** from 2000 to 2008



The value of China's exports exploded from

**\$250 billion** in 2001 | **\$1.2 trillion** in 2007



China's global manufacturing market share quadrupled in 12 years from

**6%** in 2001 | **24%** in 2013



Foreign direct investment (FDI) flows into China tripled within a decade

**\$300 billion** from 1990 to 2000 | **\$1 trillion** from 2000 to 2010



China's foreign exchange reserves grew from

**\$170 billion** in 2000 | **\$3.8 trillion** in 2014

## Paving the way for China's WTO accession

On 11 December 2001, China entered the global trading system without prior commitments such as a **floating exchange rate and capital account convertibility**. China's WTO accession allowed:

**750 million** workers to enter the global trade system



**Wages 10%** of 'first world' workforce



## Impact on Western workers



Employment in the US manufacturing industry dropped by **one-third** between 2001-2011



Manufacturing employment fell by **roughly a third** between 2001-2011



In the EU, manufacturing industry employment fell from 30% in 2000 to **25%** in 2010.

Trade with China has led to falling living standards for the majority in the West. In the first decade after China's accession to the WTO, the US median household income **growth rate slowed from 5.3% to 1% in nominal terms**. In real terms the median household **income actually fell 10%** during that decade.

## Key book takeaways



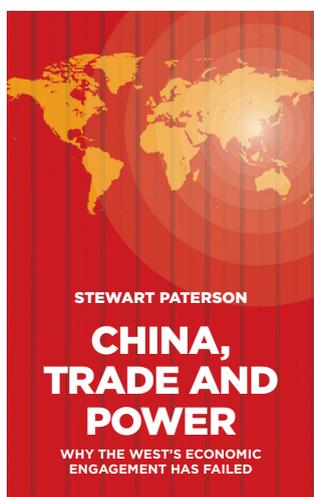
Policy makers in the US and Europe who supported China's accession to the WTO did not adequately forecast the likely impacts. Multinationals promoted China's WTO accession in anticipation of the labour cost arbitrage and access to China's enormous domestic market.



China was admitted into the WTO without important commitments such as a floating exchange rate, which prevented the supply-side shock of their exported deflation from properly rebalancing within the global economy. The West's counteracting policy of inflation targeting by central banks led to falling real incomes for the many, and rising asset prices that have benefited the few.



The policy of economic engagement with China has been a resounding success for the Communist Party of China. A rapid rise in living standards in China has helped legitimise and strengthen the Communist party's power. On the other hand, the impact of China's entry into the global economy has had a debilitating effect on Western economies and liberal values.



### "China, Trade and Power: Why the West's Economic Engagement has Failed" by Stewart Paterson

The book contains the research and analysis of the author. The Hinrich Foundation assisted with the production and distribution of the book, with the aim of assisting all nations' policy makers, business leaders and civil societies to contribute to the design of mutually beneficial approaches for sustainable global trade.

For more information about the book, please visit our website: <http://hinrichfoundation.com/trade-research/china-trade-and-power/>

Join us in promoting sustainable global trade

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