
“Trade Liberalization with Chinese Characteristics”: Few Notes on PRC’s WTO Membership

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There is a significant amount of published empirical studies that describe the relation of the People’s Republic of China with the World Trade Organization as the vehicle through which this country has reached the goal of opening further its domestic economy by freeing its foreign trade. If those ruling the Chinese people’s destiny saw in the WTO accession, along with the acceptance of its basic rules, a path that will lead them to the benefits and opportunities offered by some sectors’ liberalization, this judgment raises several concerns. An obvious one could be: Why not doing this unilaterally? Benefits might have been consistent. Not only that this would have been much easier, if the will of the Party, but the effects of opening market to other nations, within or outside the WTO, could have spurred earlier and stronger. Noteworthy is that many much economically freer countries are not yet members of the WTO. Then, if it is considered that the accession to this

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organization, by the values, rules and principles that it promotes, will allow any domestic economy to thrive, why do we assist to China's failure in fulfilling all the WTO membership criteria and in complying with all the rules? In our opinion, Chinese authorities tried to accommodate pragmatically some liberalization to inspire trustworthiness for FDI with a boost for national companies still benefiting from public support and newly opened markets, thus seeking not pure freedom, but wise access to the workings of managed world trade.

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Introduction. The big (ex)change: China at the WTO

The story of the People's Republic of China (PRC) accession to the World Trade Organization (WTO) began in July 1986, with the submission of the official application form at Geneva to the WTO's parent, the General Agreement on Tariffs and Trade (GATT), from which the country had withdrawn thirty-seven years earlier. The path towards the statute of official WTO member spans over a period of 15 years, in which negotiations were held regarding open market agreements with the United States of America, Europa, Canada, but also with other states. After this hurdle-race, the Chinese officials obtained on the 11th of November 2001, based on the votes of 142 member states in the Doha Ministerial Conference, approval for admission as an official member. Politically speaking, the entrance ticket was the agreement with the United States of America. Signed on the 15th of November 1999, this political breakthrough was the one that facilitated the accession: "This is a major step forward in China's accession to the WTO. I have said many times that we are not a World Trade Organization until China has joined" (WTO 1999), commented at that time Mike Moore, the General Director of the WTO, about the unprecedented trade agreement between these two countries.

The expectations were high, both from the PRC and the USA as well as from specialists around the world. The Chinese authorities saw the admission as a way to re-launch their own economy. The remnant central planning, despite Deng's mind-set revolution, still had led to reverse results to those expected by the planners, results, otherwise, quite predictable understanding the inner working of centralization. 50% of the 75,000 state enterprises incurred net loss and the total losses amounted over 83 billion USD (Groombridge 2000, 4). The US government saw an unprecedented opportunity for its companies, given the areas where the Chinese had pledged to allow market access: in the agricultural sector, the reduction of the main tariffs ranged from an average of 22% to 17.5%, doubled by the elimination of all export subsidies; in telecom, there was a market for foreign investment expected to open up to 50%; in matters of automobiles' imports, there were set tariff cuts between 100% to 25% until 2006; the US companies could invest in internet providers; in the movie industry, it was established that the annual export would be up to 50 American made movies. Also there had to be removed all import quotas until 2006, all the import duties on computers, semiconductors and related products until 2005, the import taxes for industrial products had to be reduced from 24% to 9.4%, allowing foreigners' access to services such as distribution, insurance, telecom (in these sectors, foreign ownership was allowed up to 50%) and bank services (with full market access for foreign banks in the first five years of WTO membership).

Some scientific studies (Ianchovichina and Martin 2004, 214) foresaw substantial changes in policies narrowing protectionism by removing the restrictions on trade and on market access of foreign companies, relying on the developments up to that date (the accession year): the decrease of the coverage degree of non-tariff barriers on the imports from 32.5% (1996) to 21.6% (2001), of import authorizations from 18.5% (1996) to 12.8% (2001), and of the coverage degree of state trading from 11% (1996) to 9.5% (2001), etc.

Most of these studies focused on the idea that, by fulfilling the assumed commitments, the Chinese communist state would continue to wide-open its markets to the 143 trading partners and provide for its 1,3 billion citizens access to goods and services from these new partners. But, arguably, there might be some matters improperly analysed preventing us from acknowledging the real state of affairs, they being mainly related to the persistence of nationalist-protectionist rationales from PRC authorities' "economic way of thinking".

Trade-offs between openness and national protection

In the judgment of the majority of the Chinese regulators and many mainstream economists, a lot of political fears were deeply encapsulated, preventing them from understanding the fact that opening the markets is still a beneficial process for PRC's consumers/citizens), whether the other countries kept their barriers for the Chinese goods or not. We could say that the trade negotiations were rather on the "*do ut des*" axis, where each political partner expected something in return for giving up its own restrictions, with, above all, the need for governmental protection being still presented as being inevitable in the context of other governments keeping subsidizing their domestic products. Next, we will refer to the most common of these.

a). The "infancy" logic

At that time persisted, in the mainstream (Chinese) vision, the assessment that implementing the established measures will determine imbalances in the industrial, agricultural, banking or insurances area, as they are poorly prepared to face the international competition. Chinese protective measures upon the above sectors were, in the logic of this assumptions, indispensable. But this fear was unjustified, in our view, it being tributary to the obsolete protectionist conception which implies the sheltering of certain industries (more or less "infant" or

“strategic”) by custom duties, quotas and prohibition over a “temporary” period, until that industry is considered prepared. We will later see that the mentioned sectors are not even today ready for an international competition, and the provisional character is ambiguous – given the politic objective of supporting state-owned companies, and not as strong the genuine development of market forces. Such non-exposure to foreign competition only deepen the problems of artificially supported companies through pumped government funds. In PRC’s banking sector, i.e., there is no such thing as competition, this being used as a tool for controlling and financing the state economy. Production in China is further heavily protected and supported by various kinds of barriers and subsidies. When felt necessary by the political authorities, consumption is stimulated through provision of grants, loans or facilities and, accordingly, the incentives thus developed have the predictable effect to mutually consolidate this attitude (of authorities and beneficiaries) favouring privilege preservation.

To mention only the paper industry, by some calculations (Haley and Haley 2013, 35; 115-118), the amount of various subsidies between 2002 and 2009 amounted 33,1 billion US dollars. An incursion into this industry reveals the existence of subsidies for interest charged for credits granted by state institutions – subsidies that are usually granted for a period of two or three years to so-called “leading companies” (if “leading”, why needing support?; or they “lead” precisely because of the support, thus the “leadership” being falsified by the special treatment). Of course, they can also be extended, as in the case of the Shandong Chenming Paper Group Co., Ltd. company, one of the biggest groups with activities in paper production from China, which gained a subsidized interest on loans for a period of five years. Other 43 projects from this sector have received this kind of grants from 2002 till 2010. Moreover, further extending the perspective, there is enough evidence for the expansion

of protection towards new sectors: steel, auto components, paper, glass, biofuel production, information technology, services such as video and news sites, audio-visual services and internet, etc. (Bin 2006).

b). *The “job loss” logic*

Another thesis specific to the mainstream current around accession was the vision about the pressures that will be generated on the labour market. The common opinion was that social insurance programs and regional development programs would be needed as a result of trade liberalization, there being estimated the re-qualification of 13 million Chinese workers from the rural area and 1,25 million from urban areas. Additionally, there are the fears related to this opinion, fears regarding temporary employment which would lead to new orientation and control measures³.

We notice that we are dealing with another unfounded argument that comes from the nationalist mentality and therefore from the misunderstanding of market functioning. As expected with the (incomplete) opening of some markets, employment in protected sectors, especially in agriculture, has decreased, being transferred to the textile and clothing sector, while other jobs were created (both by the market forces and by the state) in sectors now developing as a result of the new configuration, causing a rearrangement of job types. The creation of productive jobs is slowed down by maintaining protective measures. In market economies, a status towards which China claims to be heading, these rearrangements of labour are natural, being sustained and generated by the productive consumption at each stage of production. When consumption changes, people

³ “In the process of economic development in China, the transient employment of farmers will certainly be a long-term phenomenon. A large number of farmers will be transferred to non-farm employment but it is impossible for all of them to settle in towns at once. Therefore there will have to be a long period of transient employment. Conscientious research should be conducted and rational and effective policies should be adopted to guide and manage such a large scale and long-term population flow” (Chen 2002, 18).

choosing other goods, changes occur in the processes of production, distribution and sale of that good. Intervention in stimulating the consumption or the measures supporting local producers do not solve the problem, only add to it. The removal of institutional barriers between the Chinese employers and employees did not occur, and the administered growth of employment in the private sector was insufficient. People should realise the fact that a natural framework is needed for the consumer goods to be integrated in the logic of production process. Otherwise, if the jobs are managed by the state and the population is directed with plans and forecasts towards centrally created jobs, the economic (as well as ethical) and social costs are very high and will be paid by the whole society. And such a natural framework to facilitate development of (real) productive jobs does not fully exist nowadays in the PRC⁴.

c). *The “gap-rise” logic*

A similar argument claimed that the changes that will occur as a result of liberalization will be felt only by the rich (The Chinese University of Hong Kong 2000). Today, it's not hard to notice that this type of assumption is not supported by what followed on the Chinese market after the ascension (Sally 2010).

But even without these data, a question arises: from where it is derived that only the rich can engage in exchanges or that those with low incomes cannot cooperate, they being useless in the division of

⁴ It is suitable for this case the analogy drawn by Tom Palmer, between trade and a brilliant invention of mankind: “Imagine that someone created a machine that would allow you to push through one door things you can make cheaply and through the other door would come things you'd like to have but that cost you more to produce. Australians could herd sheep in one door and out the other door would come cars and photocopiers. And Japanese could push VCRs and stereos through one door and pull petroleum, wheat, and aircraft through the other. The inventor of that machine would be hailed as a benefactor of mankind – until Ralph Nader or Pat Buchanan showed that it was... a port! Then, instead of being hailed as a benefactor, the «inventor» would be vilified as a destroyer of jobs – and unpatriotic, to boot. But what's the difference between such a marvellous machine and trade?” (Palmer 2002, 5).

labour? For clear-minded economists, it is obvious that the free market process, through the benefits derived from every entity's comparative advantages and the free trade these harvest, is the most sincere way to increase citizens' revenues.

Such fears, as those sketched above, accompany trade liberalization not only in "special cases" such as China's, but became common language in trade negotiations. Moreover, in economies that still maintain a heavy governmental involvement, they tend to consolidate political habits that are departing from the logic of freeing commerce and of letting the market forces allocate (through the working of unhampered prices) the scarce resources, thus preventing the ("bureaucratically sophisticated") waste of nations' wealth.

Post-WTO-accession paternalistic policies in farming

The modern generalized still-sceptical attitude towards "free (production and) trade", inevitably in-built in WTO mind-set, and only exacerbated (because of the particular institutional setting) in PRC, might lead to the conclusion that WTO-type trade liberalization is, instead of a free-trade commitment, a cartel of paternalist-protectionists practices, with different degrees in disguise, among governments otherwise competing to secure own political agendas.

Stripped of purely rhetorical statements, WTO is the expression of internationalization of trade interventionism (Lal 2006): the transition from the national asymmetrical protectionism / interventionism to an international compatibilized and concerted interventionism. The privileged national companies got in the position of receiving their own governments' support also on the global markets once negotiated and agreed upon cross-sector and cross-country trade-offs.

The elements from the "preparation file" of the Chinese agricultural sector in the context of WTO accession is illustrative for both WTO exposed philosophy and the remnant paternalist habits of

Chinese authorities: e.g., in agriculture, the PRC considered readjustments that address WTO members' anxieties on this country's accession, while preserving the old habits of the Chinese government, in searching to dovetail markets to its understanding of them.

There will be quoted and briefly discussed some lines from the PRC's understanding of the adjustments of its own agricultural sector to WTO's exigencies (Chen 2002, 20-22).

a). *“Accelerate the establishment of market information system for agricultural products and provide farmers with comprehensive, accurate and on time information with respect to the agricultural products market”.*

Correct and equal information for farmers can be easily framed in a Marxist type policy, where the system delivers the necessary information and objectives, guiding investment decisions of entrepreneurs who do not own land. In a free system, farmers are the only ones able to discover and transform in entrepreneurial information the signals from the market (Hayek 1945). What for a farmer-owner means an entrepreneurial tip, to another may be of no use. This happens because each entrepreneurial act uniquely creates and interprets information. In other words, entrepreneurial information are available in the minds of those acting and can't be present or reproduced in government databases. An appropriate measure for this system would have been the creation of opportunities to generate and freely obtain information through agricultural privatization and market opening to consumers and investors worldwide.

b). *“Accelerate the establishment of quality, security and standards systems, and improve the means of inspection and testing for agricultural products, particularly food products, guiding the farmers to produce high quality, low-residue and safe farm products”.*

The government planning can't lead to the desired quality and backed by consumers. The product quality is determined by demand. We can have agricultural products without chemical fertilizers and pesticides, but which are not really required by the market for various reasons (always subjective). To whom the production in this case is addressing? Also, customers can gradually sacrifice quality in favour of a lower price. For example, in certain periods they prefer to purchase a product less bio, but cheaper. Safety and quality should be integrated in the structure of the market production and not replacing consumer subjective evaluation, by arbitrary cost-benefits analyses (Iacob 2011) and assessment with arbitrary tests performed by researchers.

c). *“Accelerate the innovation of agricultural management system, develop an integrated agricultural management system with «company plus farmer households» as the main form to improve farm organization and farmers' access to markets”.*

The farm organization will not be improved by such measures, and as a proof of that we have the State Planning Committee's decision in October 2008 that granted farmers the right to lease or sell the rights to use the land as an attempt to stimulate and revitalize Chinese farmers. But the problem is the lack of property rights over land in the Republic of China. The Chinese may use the agricultural land 30 years and they are not allowed to change its destination in the process of production. But users are not owners and collective ownership is a source of moral and allocational hazard. The management decisions in a market economy are related to property. Management without property is a counterfeit concept, some pale imitation of the market phenomena (Jora 2013a). Key decisions are always taken by the owner, the one who puts at stake both past income (wealth) and future ones. Responsible actions arise just from private property rights⁵. We say, but not only from this point of view,

⁵ The eminent French economist Pascal Salin, emphasizes the intrinsic relationship between ownership and responsibility: “Lorsque, dans une économie planifiée, deux directeurs d'usine

that this policy cannot fulfil its objectives. Economic calculation requires property and market prices to be realized. Inputs can be allocated in many directions, but it is fundamental to know the most desirable of these. It's the difference between bankruptcy and profitability. A management system without access to these essential elements is in allocational obscurity, being entirely wasteful. In a free market, this would mean loss of the business, or resigned managers if still maintained on the market at loss. But in this case the managers are actually public servants responsible for the implementation and rigorous obeying of the bureaucratic regulations politically outlined and not responsible for meeting the demand preferences. As the entrepreneur is removed from the market requirements with each restriction and prohibition and as long as resources are extracted from the private sector through protectionist instruments, then the system heads towards calculational chaos and allocative decisions tend to become erratic and erroneous (misallocations)⁶. Agricultural enterprises therefore were in need of an owner, and not of a statist implementation of a management system that is doomed to become a pure bureaucratic management without regard to the preferences of those who would pay for these products.

d). *“Issues concerning the comparative advantages of Chinese agricultural products. Labour costs give China a clear comparative advantage in many animal and aquatic products. However, given the aggravated «green barriers» in international agricultural trade, low labour costs are not enough to constitute international competitiveness. The key is to find ways to produce agricultural products that meet*

entrent en relations et décident une transaction quelconque, bénéfique pour certains des salariés de leurs usines ou pour eux-mêmes directement, ils n'agissent pas en personnes responsables ; car ils ne sont en rien responsables, n'étant pas sujets de droits ; ils agissent même éventuellement en prédateurs.” In other words, they cannot be affected by the consequences of their own actions since the responsibilities are collective rather than individual. For more, see Salin (2000, 94-107).

⁶ A case in point is the famous “ghost-cities” in China (McMahon 2013). Each year, over 20 such mega cities with huge malls are built, but are there people willing to populate them?

international quality and safety standards. At the same time, there is the question of other WTO members opening their markets to Chinese agricultural products”.

Not only that they are not sufficient, but low costs of the labour force are not automatically an advantage. It would mean that the price is based on the costs involved, when in fact the reverse is happening. Productivity matters. Animal and aquatic products identified as the sector's advantages can rapidly change. But any economist should be sceptical regarding the scientific determination of these advantages. Benefits are determined by entrepreneurs on the market and cannot be revealed to theoretical economists even in a thorough research of the sector, as commonly believed.

PRC-WTO: towards capitalism, back to subjectivism

Packed with political interests, divergent from those exposed by their constituents, and with flawed economic reasoning, the governments entering the WTO community defend their residual protectionist “liberalizing” policy options, in front of their citizens, using various sophisms. Since economic science defected from the revolutionary, at that time, subjectivist-marginalist revolution, most of the nowadays governments (including PRC) and their accompanying economists make recourse to at least two favourite neo-mercantilistic arguments shaped after their obviously reserved attitudes towards the genuine liberalization of their economies, both inward and outward: i). on one hand, they invoke the need to keep an open eye to the “unfair” practices such as the “dumping prices”, designing effective measures to retaliate against and protect their economies from “depredations” coming from unfair practices adopted by some of their foreign competitors; ii). on the other hand, they strive to push the “comparative advantages” of their own economies (regions, sectors, but, in fact, on particular economic agents) so as to skim the international markets and, in the same time, to pass undetected by

those who might denounce dishonest practices. With this kind of logic, the entire international trade system gets impregnated, instead of productive philosophy, by various ruinous “philo-sophisms”.

a). *(Anti-)dumping and the “price-cost” “chicken-egg” dilemma*

An objection maybe less assessed in the modern international-trade-dedicated literature, which we need to point out here, is related to the methodology of identifying the dumping from the findings in the products’ cost calculation of the producer subject to the accusation, or of similar producers from other countries. The problem originates in the misunderstanding of the cost concept in the neoclassical paradigm, which considers costs as being objectively determined and as the basis for the final price formation. We are accustomed to think that production costs have a significant role in influencing the prices. But these costs being in turn also prices, we find ourselves in circular situation – prices are formed by... prices. However, in the acceptance of the Austrian School of economics (Mises 1998; Rothbard 2004), to know from outside the costs of a business, regardless of its size, by measurement or mathematic operations, is highly unexpected, impossible. Cost is subjective and can only be known to the acting man, because it is inherent in the individual’s act of choosing and is a subjective experience that cannot be quantified by outsiders, be they persons or institutions. Costs must be discovered by the entrepreneur in a proactive manner, according to his subjective assessment: opportunity costs are especially important to him.

What should be noted is that in reality the opposite happens: the price determines costs. Consumer’s assessments in relation to the existing supply will determine the price. Not the fact that a toothpaste producer has a higher production cost than other competitors decides the price. If we were to assume that the cost would be automatically

reflected in the price, then our producer would be in a perpetual profitability, since he could transfer his costs, through price, to buyers. In fact, a genuine theory of prices must be able to explain all situations⁷.

b). *Comparative / relative advantages: the entrepreneurial view*

Another finding that deserves mentioning is that the role of an external observer in determining beforehand the relative advantages of an individual is superfluous, since only that person (with his own opportunity costs, understood as subjective values) can evaluate, based on the subjective, temporary information, filtered through his own economic calculation, where and if he can obtain comparative advantages. These subjective evaluations, made with the help of newer and newer information that has an individual-entrepreneurial relevance (i.e. for that individual, in that market, for that product and at that time), cannot be quantitatively expressed and cannot objectively serve for another entrepreneur or at macroeconomic level. Only in the context of a concrete market action a producer can find out what kind of product is required by consumers, this identification (because it is a subjective, entrepreneurial interpretation) being of a temporary nature (Mises 1998, 159 and ff.). The comparative advantages at wigs and plastic flowers in countries such as Hong Kong and South Korea after the World War II were not established by planning.

The “law of comparative advantage” advanced by the economist David Ricardo⁸ as a barrier against the criticism of free trade is considered today as one of the most relevant explanations for the

⁷ In the 29 million euro price that was paid for one of Brancusi’s sculptures it is obvious that the cost of production did not matter, but the subjective evaluations of art consumers. After a good is produced, the cost belongs to the past (are past prices) and cannot influence the present price. In favour of this arguments stands the formation of prices that do not have a memory of expenditures.

⁸ It was actually designed in a much more developed form by his mentor, James Mill.

rationale of opening the markets, where cooperation makes possible that even the weak or inefficient economic actors to be partners with well-known actors on the world economy stage, with benefits for both sides. It should be understood, however, as Topan (2009, 158 and ff.) emphasizes, that it has a dynamic, entrepreneurial and marginal character. Thus, the Ricardian law of association will “show” its virtues and could operate to the extent that individuals are allowed to appropriate their own capacities of entrepreneurial discovery of relative advantages, in the trade reality. And this will happen anytime trade is free, along with the benefits derived from the division of labour and economic-type competition.

The national export strategies and trade policy measures in general have “identified”, in regions, sectors and areas, the comparative advantage, considering them as being objective, a given which through a thorough research could be revealed by theory-type judgments; such information, thought as an entry into an information ministerial warehouse, is only of entrepreneurial relevance and cannot be useful in proposing any measures. The entrepreneur determines / evaluates his own comparative advantages; both resources from a sector as well as other information from that market are subjectively interpreted by entrepreneurs according to their capabilities and goals, thus, what for some would mean getting a relative advantage, to others would mean finding a simple comparative disadvantage or irrelevant invoice information⁹.

⁹ The mentioned author judges them in terms of firm theory implications: a series of observation appear downright hilarious: “Romania has a comparative advantage in agriculture”. The agricultural sector includes a huge nomenclature of products and it is extremely unlikely that Romania holds comparative advantages in all goods produced. Which is the relevant product? The one demanded by the market (and discovered, claimed as such by the entrepreneur). If people differentiate between egg-shaped yellow tomatoes and round yellow tomatoes (after having differentiated between red tomatoes and yellow tomatoes), it is appropriate to raise the issue of comparative advantage in egg-shaped yellow tomatoes. The problem must be raised with respect to the relevant good; or, more sophisticatedly said, to the relevant marginal unit (Topan 2009, 159).

Final remarks: free trade or a stake in “rule-setting”?

The free market seems to be neither a strong part of the Chinese state’s strategy towards WTO, as hastily stated, nor WTO member governments towards each other. The Communist Party’s interests straighten more to enhancing their own departments by ways different from the market-based ones (Coase and Wang 2012)¹⁰. China looked for access to global markets and to attract foreign investment, and in the meantime to control and regulate the essential foundations of the market, like private property, competition and currency. To these, there pertain reasons of national pride embodied in the well-known mega-projects in almost all sectors and interests to promote geopolitical and geostrategic targets. A member of China’s calibre can have an influent place in the global trading system, and, using the mechanisms of the organization, can more effectively defend its own companies’ stakes. The opportunity of joining could be translated as: “China would become an initiator of global trade community rules. It might be able to influence the debate and the new rules of global trade liberalization” (The Chinese University of Hong Kong 2000).

Moreover, the fundamental principles of the WTO and the promoted values do not resonate with the free market, and, calibrated on the trade policy, they somehow fit “naturally” in PRC’s goals. We primarily mention those relating to equality, trade and fair competition or undistorted trade. The latter is a principle that seems in harmony with the theory of free trade, but it allows member states to adopt protectionist measures against the so-called unfair trade. The member states are authorized to also take protective measures when “a sudden wave of imports” may affect domestic industries. But free trade theory shows that people engaged in trade require voluntary contracts that occur based on mutual respect for the rights of ownership of the

¹⁰ For a brief review of Coase and Wang (2012), see Jora (2014a; 2014b).

goods traded and nothing more. Even if China is often hurt by retaliations on behalf of its “unfair practices”, it can use, in turn, these “safeguards” (resulted from a corrupted perspective of “trade liberalization”) to defend its fragile economic sectors, when “realities” require that. Being part of the “international-trade-management” seems greater than simply freeing trade.

Therefore, by raising awareness regarding this hypotheses, the intentions and philosophy of the Chinese trade policy are revealed, thereby demolishing the myth that the Chinese policy had been one of free trade, with the abolition of monopoly privileges, the end of price fixing and real opening of markets. Such protection tools were hidden in the liberalization policy, serving more restricted markets: Chinese industrial groups and bureaucrats. Certainly, the substantial changes that have occurred in the trade policy in this country should not be minimized. But we cannot let the statistics (which still generate big doubts) to take the place of theory or economic logic. What we state is that not market liberalization constituted the characteristic of this policy, as stressed in the literature addressing this relationship. Under the cloak of sectors’ liberalization, there were strategically placed favours granted to domestic production, favours that took the form of subsidies, regulation or prohibition of market access, prices’ and national currency’s control and fixing – elements that will determine, in time, the failure of the aimed objectives.

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