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THE SATURDAY ESSAY

When the World Opened the Gates of China

Was it a mistake for the U.S. to allow China to join the World Trade Organization? Assessments of the 2001 deal often determine positions in today's bitter trade debate.

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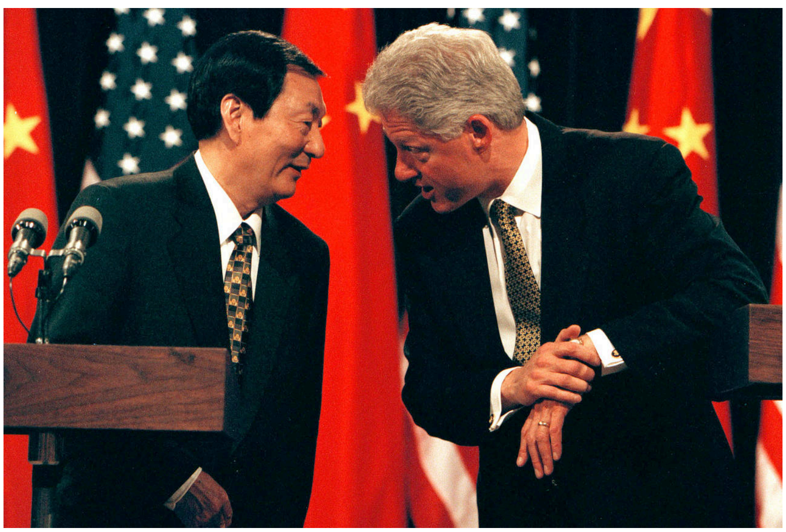
With a congressional vote looming in the spring of 2000, President Bill Clinton mustered his best arguments for why lawmakers should approve his proposed deal for China to join the World Trade Organization.

Adding China would link Beijing to Western economies and reduce the government's ability to control its vast population, he said in a speech that March at Johns Hopkins's School of Advanced International Studies. "By joining the WTO, China is not simply agreeing to import more of our products, it is agreeing to import one of democracy's most cherished values, economic freedom," Mr. Clinton said. "When individuals have the power not just to dream, but to realize their dreams, they will demand a greater say."

Mr. Clinton's idealistic rhetoric played well among most of Washington's elites, but a trade lawyer often dismissed as a protectionist, Robert Lighthizer, was skeptical. As he had warned in a New York Times op-ed a few years earlier, if admitted to the WTO, mercantilist China would become a "dominant" trading nation. "Virtually no manufacturing job in [the U.S.] will be safe," he wrote.

Mr. Lighthizer is now the U.S. Trade Representative, President Donald Trump's chief negotiator on global trade. In the administration's view, allowing China to enter the WTO in 2001 was a historic mistake that cost the U.S. millions of jobs and trillions of dollars in accumulated trade deficits. The U.S. is now bypassing WTO rules and threatening Beijing with tariffs on up to $500 billion of imported goods.

The moves against China are part of Mr. Trump's wider effort to upend longstanding U.S. policy on trade and also the international institutions and agreements that govern trade. Whether the administration's shift is a much-needed corrective or a disastrous reversal depends in large part on how one views the original decision to bring China into the international trade regime.



Left, Chinese Premier Zhu Rongji and President Bill Clinton conferred in April 1999, with trade a key topic. PHOTO: GETTY IMAGES

Given China's enormous presence in the world economy today, it's difficult to remember how economically backward the country was in the early 1990s. Inflation hit 24% in 1994. Nearly 60% of the population lived on less than $1.90 a day. Bicycles jammed the streets, not cars.

Chinese reformers saw their country's entry into the WTO as a way to modernize. To join, China would have to reduce sky-high trade barriers and allow a greater role for foreign firms. State-owned firms would finally face competition, and private enterprise, they hoped, would soar. "WTO membership works like a wrecking ball, smashing whatever is left in the old edifice of the planned economy," said Jin Liqun, China's vice minister of finance at the time.

The WTO is a membership organization. To get in, China had to cut deals with all the members but most importantly with the U.S., the world's dominant economy. U.S. officials thought they were driving a hard bargain. The deal forced Beijing to slash tariffs, permit foreign investment in Chinese industries and give foreign banks more freedom to do business. For a dozen years, Beijing also agreed, the U.S. could block Chinese imports that threatened specific American industries.

In exchange for the Chinese concessions, the U.S. just had to surrender its annual rite of deciding whether to grant China "most favored nation" status as a trading partner, ensuring full access to the American market. China's allies in Congress had succeeded each year in getting the measure through anyway, but by allowing China into the WTO, the annual reviews would end.

Mr. Clinton also linked China's WTO accession to the democratic vision of President Woodrow Wilson, who dreamed, he said, of "a world full of free markets, free elections and free peoples working together." The growth of the internet, in particular, would undermine Beijing's control and make China more like the U.S., Mr. Clinton argued. (He declined to comment for this article.)

Many shared this hopeful view, pointing to the examples of South Korea and Taiwan, which had shaken off dictatorships as they became more prosperous. Henry Rowen, chairman of the Reagan administration's National Intelligence Council, forecast in 1999 that China would "join the club of nations well along the road to democracy" in 2015, when he expected its per capita GDP to reach $7,000. As it turned out, China hit that mark two years sooner than he had predicted, but even now, it is far from being a democracy.

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A coalition of labor, environmental and human-rights groups opposed China's admission to the WTO. Robert Scott, an economist at the Economic Policy Institute, a labor-backed research group, cranked out alarming numbers. In 2000, he forecast that nearly a million U.S. manufacturing jobs would be lost to Chinese competition.

Donald Trump was absent from the debate. In 2000, he toyed with a run for president and wrote a campaign book, "The America We Deserve," which called China the U.S.'s "biggest long-term challenge." But he didn't mention the WTO decision. He did say he would appoint himself U.S. Trade Representative and negotiate better deals.

Truck carriers at the Port of Long Beach, Calif., loading and offloading cargo containers from China and other countr last March. PHOTO: BOB RIHA, JR./GETTY IMAGES

After the deal, foreign investment in Beijing mushroomed from $47 billion in 2001 to $124 billion a decade later. The lower investment and import restrictions required of China as part of its WTO entry also encouraged multinationals to rush in, as did the prospect of serving the vast Chinese market. China became the world's manufacturing floor, and Chinese imports to the U.S. soared.

Looking back now, whose expectations for the wider impact of the deal proved most accurate? On the issue of U.S. manufacturing jobs, critics made the right call. A study by the MIT economist David Autor and colleagues calculated that Chinese competition cost the U.S. some 2.4 million jobs between 1999 and 2011, battering factory towns that made labor-intensive goods.

That result haunts one of Mr. Clinton's senior China negotiators, Robert B. Cassidy, who believes that his work only helped big businesses, not ordinary workers. "When you retire you like to think that you accomplished a lot," he says now, at age 73. "What kind of benefit did I produce from working around the clock? I was incredibly disappointed."

Nor did China open up politically, as many WTO advocates had hoped. Beijing tamed the internet by limiting its use to commerce, technology and social media. It blocked political organizing by threatening and sometimes jailing those who posted critical comments. More recently, it has turned the internet itself into an instrument of the state by using it to identify and track dissidents. “It’s Orwellian,” says Jerome Cohen, a New York University law professor and China specialist.

Greater economic growth led to greater political control, said Mark Wu, a professor at Harvard Law School whose research focuses on China and the WTO. China’s leaders believed that they needed unchallenged authority to carry out economic reform in the face of opposition from entrenched interests. According to Mr. Wu, the point of freer markets, in their view, was to encourage competition and prevent the system from becoming sclerotic, not to bolster individual rights.

As for President Clinton and his allies in the WTO debate, they can point to real gains from integrating China into the global economy. According to the World Bank, some 400 million Chinese have been lifted from extreme poverty—that is, from living on less than $1.90 a day—since 1999. And during the global recession of 2008 and 2009, China was able to go on a spending spree that supported global demand. Chinese building projects sucked in iron ore, coal, oil and other commodities, boosting other developing nations.

Today, technology companies tap the Chinese market to boost profits and defray research costs. Last year, about 20% of Apple Inc.’s sales came from China, up from about 12% in 2011. The low inflation associated with cheap imports, together with Chinese purchases of U.S. government bonds, has also helped to hold down interest rates, making it cheaper for Americans to buy not only clothes and electronics but also homes and cars.

Economic reform has waxed and waned in China. The WTO deal was supposed to curb the power of China’s state-owned enterprises, which Beijing pledged would operate on commercial terms only. By some measures, that has occurred. Nicholas Lardy, a China expert at the Peterson Institute for International Economics, estimates that state-owned firms now account for just 20% of China’s industrial output, down from double that share in 2001.

But there has been a reversal in the past few years, according to Mr. Lardy. State investment in the economy is growing as much as three times faster than private investment, he says. State firms have once again become the heart of Chinese economic policy-making.

Mr. Trump touching a wheel loader made by Caterpillar while touring a Made in America product showcase with Vice President Mike Pence on the South Lawn of the White House in July 2017. PHOTO: CHIP SOMODEVILLA/GETTY IMAGES

Beijing is counting on such firms to become global leaders in semiconductors, electric vehicles, robotics and other high-technology sectors and is funding them through subsidies and financing from state banks. These initiatives have raised protests from U.S. companies that now find themselves competing with the Chinese state. In solar and wind power, for example, state investment created a glut that drove many foreign companies out of business.

China never fully followed through on its WTO pledge to allow foreign banks to operate in its local currency. It also pledged not to force foreign firms to transfer their technology, but today about one in five companies—many in aerospace and chemical industries—say that they've been pressured to do just that in order to do business in China, according to a July survey by the American Chamber of Commerce in Shanghai.

At a WTO session this month, China's vice minister of commerce, Wang Shouwen, denied that China twists arms to gain technology. Arrangements on technology are "absolutely contractual behavior based on voluntary business deals," Mr. Wang said in July, according to a Geneva trade official.

China has also maneuvered to its advantage within the WTO. In one case it blocked exports of scarce raw materials needed by high-tech industries, hurting foreign firms. When the WTO ruled against Beijing on one set of restrictions, it removed the barriers—but then blocked another set of raw materials. "The core issue isn't whether China lived up to the vast number of obligations, but whether it lived up to the spirit" of the deal, says Prof. Wu.

Other Chinese efforts to win an advantage in trade have happened outside the WTO's purview. For years after joining the international trade regime, Beijing kept its currency undervalued by 30%, boosting Chinese exports by making them cheaper abroad, says Brad Setser, a currency expert at the Council on Foreign Relations. Former U.S. officials say that China and other WTO members wouldn't have agreed to a provision punishing countries for such measures.

Charlene Barshefsky, who was Mr. Clinton's U.S. Trade Representative, says that her successors could have used the WTO to sue China to live up to its agreements. She points in particular to provisions that protected U.S. industries from escalating Chinese imports. President George W. Bush turned down all import-surge cases brought by American companies, and President Barack Obama approved just one. Neither brought any cases on their own.

A former senior Bush administration official said that "the national interest was not served by raising protectionist barriers." Growth in imports, the former official says, doesn't mean that China has acted improperly. Obama officials made similar arguments.

Mr. Lighthizer, who is now helping to call the shots on U.S. trade policy, says that if the WTO deal had failed in Congress, "uncertainty would have kept the trade deficit from growing and probably would have saved millions of manufacturing jobs."

But other WTO opponents believe that congressional rejection wouldn't have made much of a difference for the U.S. With its vast supply of industrious, low-wage workers, China would have continued to rise as an export powerhouse, they say. Indeed, in the 15 years before its WTO entry, U.S. imports from China grew at a faster rate than in the 15 years after, albeit from a much lower base.

Keeping China out of the WTO might have delayed by a few years the damage to U.S. communities from low-cost imports, though it's not clear that the extra time would have helped. In the 17 years since China's entry, the U.S. has poured few resources into worker retraining programs or other social safety net programs for laid-off workers. The programs in which it did invest had mixed results.

"I don't know that [a defeat for the Clinton WTO deal] would have made a difference," says David Bonior, a former Democratic House Minority Whip, who led the congressional fight against it.

Ms. Barshefsky still believes in a multilateral approach to China. She would revive the Trans-Pacific Partnership, a free-trade pact between the U.S. and 11 Pacific Rim nations, which Mr. Trump discarded on his first working day in office, and extend it to other Asian nations and Europe. The members could negotiate new rules of trade, cutting tariffs and covering state-owned enterprises, import surges, subsidies and other issues relevant to China. “Then China would need to make a decision,” she says. “It can come on board, or it can decide it doesn’t want full access to 60% of the global economy.”

Mr. Lighthizer has a different view. The U.S. should go it alone and threaten China with heavy tariffs, he says, largely leaving the WTO out of the mix as an adjudicator of U.S. grievances.

“The notion that our problems with China can be solved by bringing more cases at the WTO alone is naive at best and at worst distracts policy makers from facing the gravity of the challenge,” his agency said in a January 2018 report. Instead, the USTR said, the U.S. must rely on its own economic muscle.

“Ultimately, that’s all you have anyway,” Mr. Lighthizer says.