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An Institutional perspective on China's Export – led Growth and its sustainability.

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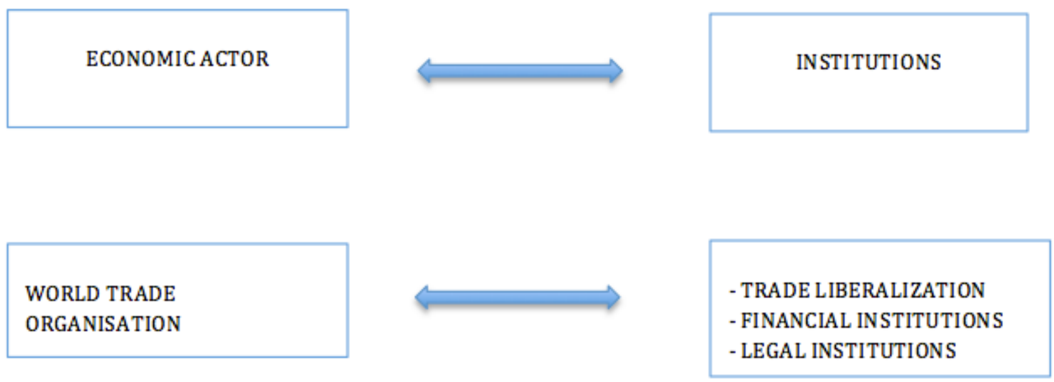
1.0 INTRODUCTION

After almost three decades of reforms and economic change, China has now become the second largest economy in the world. China's huge export surpluses have drawn massive attention in the latest years, particularly in the period from 2001-2007, after the accession to the world trade organization (WTO). In 2007, China's export surpluses reached a high of 8.9 % of the total GDP (Zhu and Kotz, 2010). This paper will have an institutional view on the export-led growth China has experienced after 2001.

WTO will be considered as an organization and the main economic actor in Chinese export patterns since 2001. The paper will have a look at what impacts the accession has made on the relevant institutions and economic growth. It will look at trade liberalization and analyze its effects on economic growth in the period. The paper will also introduce and discuss the role of the financial institutions in China, looking at the different reforms and financial support systems they have provided for Chinese enterprises. It has been widely discussed if the export-led growth is sustainable for the future, and it is found by most economists that it is not. Therefore, a short examination of sustainability will be conducted, and thereby it will provide some recommendations for future institutional development and changes to keep the Chinese economy growing.



2.0 FACTORS THAT CREATE ECONOMIC GROWTH

Economists have previously used both empirical and developed theory to explain what it is that creates economic growth in a country. Economists like Solow, Swan and Romer have provided solid theoretical frameworks that have been basis for further research (Upreti, 2015). Economic growth is key to greater national output, potential of increased living standards and sustained economic and social objectives. It is therefore important to understand which factors create economic growth. Previous studies saw the importance of increasing the exogenous amounts of physical resources a country possesses, such as land, labor, natural resources, capital formation, agriculture and trade. It could also be non-economic factors such as human resources, know-how and political freedom (Farr, Lord and Wolfenbarger, 1998). These are all basis for long-term growth. It is proved that long-term growth of developing countries is closely linked to openness to trade. Trade is understood to facilitate for specialization in the area of production where the country is best facilitated to create comparative advantage. Openness to trade can also open for transfer of technology between rich and poor countries (Frankel, 1998). This paper will further discuss trade as key to economic success.

When a developing country experiences rapid growth, usually the income of the population increases in line with the economic growth. These countries might end up in the middle-income trap that essentially characterizes those economies that achieve middle-income status and end up stagnating there and not move towards high-income status. This is usually because the factors that fostered rapid growth starts to fade (Johnston, 2015). As this paper will address, China is experiencing problems with sustainability of export-led growth, and the middle-income trap might be a future state of the Chinese population.

As for short-term growth, increased aggregate demand is the best tool for economic growth assessment (Appendix 1.0). This can be caused by lower interest rates, increased wages, increased government spending's, lower income taxes and increased consumer confidence, leading to higher consumption.

2.1 ECONOMIC GROWTH MODELS

Solow and Swan (1956) presented an exogenous growth model that looked at the long-term economic growth by examining capital accumulation, increases in productivity (ideas) and labor or population growth. This was an extension of Harrod and Domar's model that did not include labor as a factor of production and had fixed capital labor.

$Y = f(A, K, L)$

The above function shows that output is a function of ideas, capital and labor. The model is dependent on depreciation and savings ratio, and the model says that 'steady – state' can first be reached when investments equals the rate of depreciation (Kristiansen, 2016).

Paul M. Romer's work is known for being the origin of endogenous growth models. His model of economic growth emphasized that growth is an endogenous outcome of an economic system, not based on forces which come from outside. The work focused on the economy as a whole and looked at the public and private behavior as a reason to growth (Romer, 1994). One can say that his work was the start of the New Institutional Economics that started in the 1980s.

3.0 INSTITUTIONS AND DEVELOPMENT

Recent studies show that economic growth is dependent on more than the exogenous variables, namely the endogenous variables. Institutional factors have been mentioned in particular importance, focusing on the political, economic and cultural customs and practices that exist within different countries. North (1990) defines institutions as: "the rules of the game in a society, or more formally the humanly devised constraints that shape human interaction". After the rise of New Institutional Economics (NIE) in 1980, institutions have gotten intensified attention amongst different big players. Even the World Bank and the International Monetary fund got interested in the differences in economic development between countries (Chang, 2015).

In all countries, decisions are made based upon a given institutional structure. It is assumed that greater economic and political freedom acts as a catalyst for economic growth (Farr, Lord and Wolfenbarger, 1998). Thereby, countries with well-developed institutions tend to have higher growth rates than those without. The study of institutions is of particular importance in emerging economies such as China, Brazil, Tanzania and Indonesia, as to assess potential for economic growth.

Two types of institutions are required in emerging economies: (I) those who fosters exchange by lowering transaction costs and who encourages trust, and (II) those with the power to influence the state and powerful actors to protect property rights and individuals. The first set includes contracts, contract mechanisms, together with norms and rules and habits and beliefs. This set should favor shared values and human capital. The second set includes constitutions, electoral rules, laws on education and speech, and norms that contribute to peoples wish of keeping laws and contributing to good corporate governance (Menard and Shirley, 2008). Chang (2011) argues that the relationship between maximized market freedom and protected property rights are what create the best economical development. When securement of property rights is poor together with high transaction costs, investors will see rapid returns and resources will be tapped off like security or bribes (Menard and Shirley, 2008).

4.0 CHINAS DEPENDENCY ON EXPORT FOR ECONOMIC GROWTH

China joined the WTO in 2001, and started a period of export-led economic growth. Between 2001 and 2007 the export share of GDP increased remarkably from 22.7% to 38.6%. In fact, export contributed to a total of 57.4% of the total GDP of China in this seven years period. The domestic content of export totaled to 31.7% of the total GDP, leaving one-third of the rise in GDP to the demand of output from foreign countries (Zhu and Kotz, 2010). In 2001, Chinese economy had experienced that the average GDP was lower than it used to be since 1998. Alongside, consumer prices had experienced falls and the Chinese authorities felt pressure for dramatic improvements to speed up the economic growth. Figure 2 shows a dramatic rise in GDP from 2001 to 2004, displaying Chinese success after the accession.

	1980	1985	1990	1995	2000	2001	2002	2003	2004
Real GDP[a] (billion RMB)	1809	2999	3756	6458	9038	9791	10,667	11,765	13,203
Population (million)	987	1045	1143	1211	1267	1276	1285	1292	1300
Per capita income (RMB)	1833	2869	3286	5332	7128	7564	8274	9104	10,157
Primary energy supply (Mt sce)	621	783	970	1270	1156	1274	1452	1685	n.a.
PES/GDP (t SCE/1000 RMB)	0.343	0.261	0.258	0.197	0.128	0.132	0.137	0143	n.a.
CO_2-emissions (million ton)	1538	1939	2391	3100	2771	3036	3503	4150	n.a.
SO_2-emissions (millionton)	12	16	19	25	20	20	19	22	23

Figure 2: Development of selected variables in Chinese economy 1980 – 2004 (Li and Oberheitmann, 2009)

The WTO accession encouraged international trade, particularly export, and Chinese manufacturer businesses were drawn to export in the upcoming years. At the same time, the government tried to commercialize the education and healthcare offer as they believed that it would increase consumer spending. Instead, costs of these services saw massive increases, which somehow is believed to play an important factor in why China now experiences high saving ratio. National savings has exceeded total investments the recent years, and export has exceeded import. Therefore, China's large surplus has become an important factor in the global imbalances.

5.0 THE ROLE OF INSTITUTIONS IN CHINESE EXPORT-LED GROWTH

The institutional based view has become very important in the study of international business in emerging economies. Decisions are not only based upon capabilities and industry conditions, but also formal and informal constraints and institutional frameworks that managers must confront in day-to-day business activities. In China, the government has pursued a gradual approach into the institutional reform, and therefore has unequal levels of institutional quality across the regions (Lu, Xu and Liu, 2009). Some regions have governments that are not likely to intervene into the market than other regions. It is reasons to believe that a well developed institutional environment help reduce firm's agency and transaction costs when internationalizing, and thereby encourage for internationalizing strategies.

For Chinese economy, export has been the main driver of internationalization and growth since the 1990s, with a further boost after the WTO accession. Export business can in fact be risky compared to that of domestic business due to shipping risks, foreign exchange risks and political risks among others. Alongside, Chinese firms experienced differences in culture, customers, regulations and competitors. Export and internationalizing increases the number of processes and also information asymmetry amongst managers and shareholders, and thereby might cause serious principal-agent problems (Lu, Xu and Liu, 2009). In theory, one may believe that a high focus on exports does not create high performance. In China however, the authorities strongly believed in long-term growth as a result of export-led strategies. Due to the many problems of export focus, institutions played a major role in the economic growth after the WTO accession. The next sections will therefore look at WTOs influence on institutions contributing to economic growth.

5.1 TRADE LIBERALIZATION

The WTO membership opened up the Chinese market for more international trade and it opened up the world's economy to Chinese Export. Some saw this as a fantastic opportunity for the future development of the Chinese economy, but some economists feared that it would destroy the domestic enterprises in China. WTO is considered to be an active economic actor, not a passive repository of trade law. This paper will further explore China's accession to the WTO and how it has influenced some of the relevant Chinese institutions.

WTO opened for free trade, and was a new milestone in China's evolution within trade and enabled China to participate in the global economy. Chinas accession to WTO was clearly a strategic decision made by the government to enhance Chinas position in the world economy. With Chinas large political influence, giant economy and status as one of the world's top traders, the WTO accession strengthened the multilateral trading system and established an open international position. WTO accession has also contributed to the reduction of the technological gap between China and the developed countries, due to the provision of access to foreign equipment's for the domestic enterprises in China. China had to change rules and regulations as to fit with WTO's requirements. This was surely one of the main steps toward export led economic growth (Sun and Heshmati, 2010).

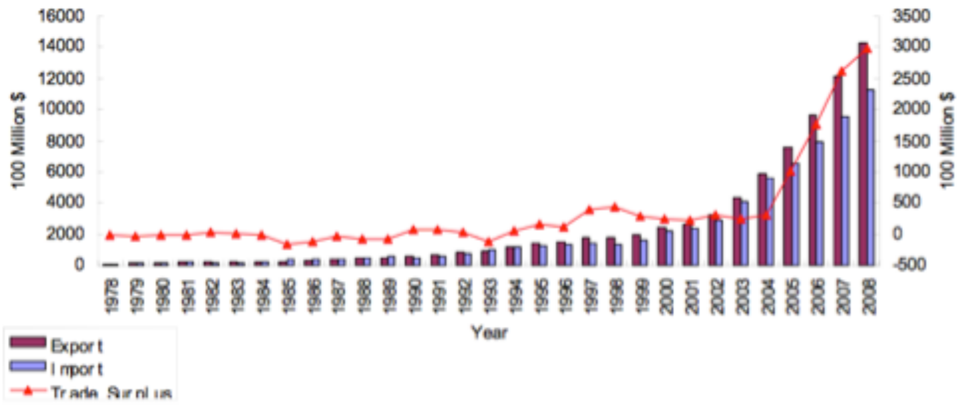


Figure 3: China's trade performance (Sun and Heshmati, 2010)

China has seen massive increases in trade, both import and export since the accession to WTO in 2001 (see figure 3). The WTO accession forced the Chinese Information Technology Agreement (ITA) to lower the taxes and tariffs for manufacturing and agriculture. This helped increasing the competition among Chinese manufacturers and farmers, and it opened for cheaper products for the Chinese consumers. Figure 4 shows China's tariff ceilings compared to other developing economies, and it is a clear difference. The U.S for instance has demonstrated dislike against the Chinese success after the accession, as it affects the U.S in greater extent that expected. This is mainly due the discussed currency regime, whereby China keeps the exchange rates down. This has created a substitute against the mercantilist's measures they gave up by joining the WTO (The Economist, 2011).

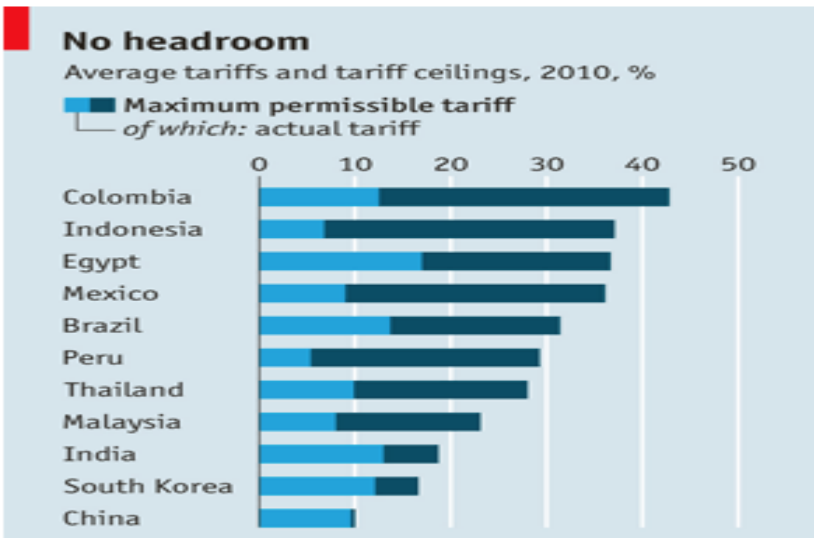


Figure 4: Average tariffs and tariff ceilings, 2010 % (The Economist, 2011)

An important factor that came as a result of the accession was the lowering of input tariffs. Trade liberalization in China has seen close links to export prices and economic success from 2001-2007. Firms in China that benefitted from the cost decrease also increased their export prices. Input tariffs saw a 10% decrease and exports a 5.8% increase in prices between 2000 and 2006. These results shows that trade liberalization allow for firms to upgrade their input costs alongside with upgrading their exported products. In general, a raise in export prices often reflects a raise in quality or an increase in the mark-up. It is almost impossible to distinguish these to two, but Chinese manufacturers may increase their mark-up by a limited pass through of cost reductions to consumers. However, the export markets experiences fierce competition and therefore firms may experience limits against increased mark-ups (Bas and Strauss-Kahn, 2012).

As an example of the success, the textile, apparel and furniture exports saw a incredible growth after the accession to WTO, with a total of 220% from 2001-2007. This was mainly affected by the new trade policy introduced by WTO. The membership made sure that tariffs and constraining quotas was liberated. China has got one of the worlds largest proportions of un-skilled labor force, and was therefore a great candidate to precede with textile related exports. In 2005, different constraining institutions, such as the 'Multifiber-Agreement' and the 'Agreement on Textiles and Clothing' were put down. Hence, the export coming from textile and apparel grew rapidly, and became a very important industry for China's economic growth (Berger and Martin, 2011).

After the accession, trade-liberalization has had an effect on export prices, which has been important to economic growth. One usually divides between ordinary and processing trade. Processing trade involves importing the inputs and materials for assembly and re-exports it to foreign markets, whilst ordinary is based upon own materials (Wang and Yu, 2012). For ordinary firms, tariff cuts will lead to lowered input costs and thereby decreased export prices. Increased export prices might happen if the firm takes advantage of the lowered tariffs by upgrading input quality, hence improving export quality (Bas and Strauss-Kahn, 2012). Usually, a change in export prices reflects a variation in quality or mark-up, but distinguishing these effects is almost impossible. However, the fierce competition in the export market limits a firm's chance of raising the mark-up significantly. For processing firms, the effect from trade liberalization is more complex and indirect. Processing firms loose their cost advantage and will compete with ordinary firms on export markets. Increased product quality may be an option to increase export prices, or they may try to reduce prices by reducing their mark-up, which again would contribute decreased export prices (Bas and Strauss-Kahn, 2012).

5.3 THE ROLE OF FINANCIAL INSTITUTIONS

Export-activities have been central in the "going-global" strategy China has pursued the past decades. Fortunately, China has well-functioning financial institutions, which has been key to support the export-activities and economic success since 2001. The financial institutions support domestic enterprises in foreign activities by mitigating the political and commercial risks associated with such operations. Chinese enterprises have seen this as a safety and have helped in becoming the world's second largest economy (Massa, 2011).

Since 2001, the export credit financing systems have seen massive increases and the values are well above those of developed countries. The national governments provide export credits through an institution called "Export Credit Agencies" (ECA), which can be state owned, mixed or private. In fact, they can provide export credits directly to foreign buyers of national exports, or it can happen indirectly through private financial institutions (Massa, 2011). When comparing the ECAs of China to other big economies, figure 4 shows that China's financial institutions perform very well.

Country	Average 2005 – 2008
China	3.2
Italy	2.2
United States	1.0
Germany	1.0
Japan	0.7
United Kingdom	0.7

Figure 4: Medium and long–term export credit financing as a share of merchandising exports (%) (Massa, 2011).

Through export credit-financing China has an aim to promote three core objectives: Diplomacy, ideological values and business opportunities. China's own development experience has led to their engagement in other countries and their development process. For example, the natural resource backed loans one can find in Africa (employed by the Chinese) reflects the long-term agreement China has got with Japan since 1978. Japan exported industrial technology and materials worth USD 10 billion in return of Chinese coal and oil. The provision of ECA is also closely linked to China's promotion of their own economic interests. China's huge interest in African development is mostly for their own benefits, as that will make Africa afford Chinese exports in the future (Massa, 2011).

Most of the financial institutions that provide ECA were created in the 1990s, before the WTO accession. There are five policy oriented financial institutions that cooperates and have the mandate to promote Chinese export abroad. These consist of China Export-Import Bank, China Export and Credit Insurance Corporation, China development Bank and China Agricultural Development Bank. They are all fully owned by the Chinese Government and they all report to the state council (Massa, 2011). There are several reasons why the financial institutions are important for economic growth. First, the financial institutions promote savings and investments by reducing the need of self-financing. It allows savers to earn higher rates of return than normal by lending their funds to others whilst still allowing firms to borrow at a low rate. Secondly, the financial institutions allow for risk sharing and bearing functions that permits the implementation of high risk and high return investment projects. Third, the presence of the financial institutions and banking systems allows for the accumulation of large sums of capital. Finally, the development of a market-oriented financial institution system allows for that investments can be done more efficiently (Frankel, 1998).

5.3.2 SPECIAL ECONOMIC ZONES

Special Economic Zones (SEZ) were developed by the Chinese government to promote export and attract foreign investments. The SEZs experience autonomy in administrative tasks such as investment, taxation, labor and other economic areas. They offer better inducements for economic growth and all inputs are free of taxes and duties. As a part of the "going-global" plan, the government established around fifty new SEZs in 2006, supported by the WTO. The zones regulate all internal activities and provide incentives for Chinese development. A total of 93% of all exports came from SEZs in 2005 (Massa, 2011). The SEZs has made China become the country in the world with the largest trade surplus. Among all Chinese reforms, the SEZ development is said to be the one with the largest influence on Chinese export success and the global economy. The reform was introduced by the sub-national governments, and was not heavily supported by central government. The regional experimentation played a key role in dealing with uncertainties and difficulties (Xu, 2011). Thanks to the state council who approved small scale testing, this reform became one of the most successful in Chinese history.

WTO introduced several influential rules and regulations for the SEZs in China. (I) Different investment incentives were forbidden, (II) The policies within the SEZs should be made in line with other parts of China, (III) China may sustain preferential arrangements for organizations within the SEZs, but these should be introduced in a non-discriminating way, and finally (IV) China must notify WTO about changes within the SEZs (Belser, 2003). After the accession, WTO suddenly required a certain level of control and thereby became an important economic actor in the SEZs. From China's massive growth in the period after the accession, one can say that in terms of SEZs, China passed the WTO "test".

Clearly, ECAs and SEZs have played an important strategic role in the work of building up economic relations between China and other emerging economies. This has in particular been important concerning China's work in Africa. This is key for China to gain access to natural resources to build on its growing economy; to take advantage of new markets; and to influence its chance of becoming a future economic superpower in a global perspective (Massa, 2011).

5.3.3 EXPORT PROCESSING ZONES

One explanation for China's success within export after the accession to WTO was the opening of numerous Export Processing Zones (EPZs), which was a further expansion of the SEZs. One of the requirements for the WTO accession was to fully regulate the process trade, hence concentrating it within these zones. When China is exporting within these zones, the economy benefits from different advantages such as duty free imports; no import quotas; no taxes on utilities and a preferential corporate tax limit of 15% (Feenstra et.al, 2012). In 2008, export processing accounted for 7.1% within these zones, an increase of 7% since 2001. It is incorrect to say that the EPZs were alone in creating export growth as much of it had the potential to be diverted from other zones. Nevertheless, EPZs can be seen as a major institutional innovation in China, precipitated to the accession to the WTO (Feenstra et.al, 2013). Studies shows that when the EPZs interacted with ownership and type of trade the export from foreign firms was highly increased, both in ordinary and processing trade. One explanation for this could be that the EPZs have attracted firms that earlier have contributed in export outside of these zones. The EPZs increased the engagement of foreign firms by one-half as much as for fully owned firms, thereby reducing the total exports of domestic firms. So in fact, the introduction of the EPZs in 2001 drew resources away from the domestic firms. For the small to medium enterprises in China this was very bad news, but it definitely brought extensive economic benefits for China as a whole (Feenstra et.al, 2013). For provinces with a high number of EPZs, the EPZs actually acts as a substitute to the court system, so it is believed that a change in the court system would only have modest impacts here. However, in provinces with small numbers of EPZs, the court system will have a much higher impact on trade patterns.

5.4 THE ROLE OF LEGAL INSTITUTIONS

The quality of institutions is key to determine transaction and production costs for exporters. Institutions also might affect the feasibility and profitability of participating in export activities. There are several studies that have provided evidence that legal institutions of the home country will play an important role in the facilitation of foreign trade in a country (Li, Vertinsky and Zhang, 2013). Known economists have found that domestic legal institutions can explain patterns of export better than the combination of physical capital and skilled labor. China is known for having big differences in the quality of legal institutions between the different regions. The laws and regulations set by the government tend to be the same for all regions, but those decided by local judges reduces the degree of protection and hinders law efficiency in the provinces. For example, the regions of South East and Bohai have a tendency to have stronger protection of property and contract rights than all other regions. The activities reflected in these differences are mainly focusing on law enforcement by local governments, corruption and the quality of judges. The development of legal institutions has therefore been crucial in regional export performances (Li, Vertinsky and Zhang, 2013).

5.4.1 FOREIGN TRADE LAW 2004

The new foreign trade law that was approved in 2004, only three years into the accession to WTO, has had clear impacts on China's export performance. The new law had three major changes from the previous law set in 1994. (I) Not only companies, but also individuals was given the permission to participate in global trade, (II) foreign traders that were legally registered did not need to get administrative approval for individual activities related to trade anymore, and (III) State Owned Enterprises (SOEs) monopoly on trade in petroleum, cotton, chemicals, sugar and edible oil were partially withdrawn (Breslin, no date).

The foreign trade law has played an important role in three major aspects of the Chinese economy. First, China obtains more goods now than by domestic production alone and the international specialization each country provides benefits China. Secondly, export is a part of the aggregate demand and the notices increase in aggregate demand has increased the national output of China. Third, export has enhanced foreign investments and has brought in technology and methods of management that has resulted in massive increases in China's productivity (Sun and Heshmati, 2010). Alongside, enhanced trade patterns resulted in better market access, added security of market access and stability in relationships with foreign countries (Shafaeddin, 2002). The 2004 trade law itself generated a need for the bureaucratic agencies to change their reforms as to fit with the new requirements. It will take a long time for all the legal administrative reforms to be fully completed and implemented but there is reason to believe that there will be a shift in the power balance of China as a result. As China is mainly focusing on a law-based system, the power will shift from the party as an institution to the state.

6.0 SUSTAINABILITY PROBLEMS

China has experienced great economic success by being export led, and institutions and reforms has contributed in facilitating for this success since 1978, with a major boost since 2001 with the accession to the WTO. Economists find the success remarkable, but are unsure about the sustainability of this type of economic growth. Chinas economic growth has seen negative influences in form of environmental impact, rising inequality, high degrees of abuse of labor force and poor product safety (Zhu and Kotz, 2010). It is known that economic growth result in institutional changes, as seen from China where each set of policies and institutional reforms was changed from 2001-2008. Marketization, for example, made it hard for SOEs to compete with privately held as they had too expensive social obligations, leading to growing state subsidies, again creating pressure for privatizing (Zhu and Kotz, 2010). By the end of 2007, China's economy had changed from an economy based on state and collective property and central planning to an economy based on private property and market forces. It was therefore totally dependent on exports and investments, rather than domestic consumption like it was before. By the end of 2007, export and fixed investments constituted 78.7% of the total GDP, which is remarkable (Zhu and Kotz, 2010). It should give a danger signal when the growth of China has been 10% annually compared to 2-3% for those receiving the export items. However, if the imports equaled the exports, it should not be a problem. As seen from figure 3 (page 9), this is not the case; it actually differs with several hundreds of millions.

The high-growth numbers imposes both short-term and long-term problems for China. The short-run problems can be seen when economic recessions are present, as demand for China's exports drops quite significantly. Evidence can be found from the year of 2009, when China's export plummeted by 15.8% in November due to the heavy global recession. Being that heavily dependent on one sector of industry only can be very dangerous in the short-run if one experiences sudden changes in the economy (Zhu and Kotz, 2010).

There are also long-term problems stemming from the following conditions. (I) Rapidly growing economy, (II) the world economy grows at a far lower rate, (III) economic and political differences between China and developed countries, and (IV) as an exporter mainly of manufactured goods, China poses threats towards the interests of the dominant capitalist powers. China's export is now totaling about 2% of the worlds GDP, and if China continues the high levels of export, China will have a GDP relative to exports much higher than the rest of the world. If political and economic institutions were equal, this would maybe not have been a problem. In China, the communists control the state, and the state plays an important role in controlling the economy. There are institutional differences between the Chinese system and the leading capitalist countries. A second problem is that China mainly exports manufactured products, whilst importing raw materials and less technologically sophisticated goods. This configuration of export and import is likely to be threatening to the interests of the capital of leading capitalist powers (Zhu and Kotz, 2010).

6.1 RECOMMENDATIONS

To inform, this section provides educated recommendations, not conclusions. Given the constraints to export, consumption must increase to play an important role in the aggregate demand. If not, China will experience a slow-down in its rapid growth or even a future full stop. Therefore, it is believed that the Chinese economic growth model must be slowly turned towards domestic consumption. In order to encourage consumption, wages must be increased and become more equal among the population. Private and foreign firms should be nationalized and rationalized by the government, and labor should have stricter regulations. This can prevent surpluses to fall in the hands of a few individuals, and secure decent benefits and wages for the worker. It would increase the worker's bargaining power and also increase their income. The government should also increase taxes so as it have enough revenues to transfer to people. The GDP of Chinese government is low compared to international standards; therefore this step would leave room for it to grow (Zhu and Kotz, 2010).

The government should also focus on lowering the savings ratio, as this would make people more confident about consuming. Educational and welfare systems must be improved to accomplish this. Additionally, the system for providing housing should be much less profit oriented. These are the three things that Chinese people see most concern with, as they have to save much money for this. The institutions working with this have not been effective enough to this date, and the Chinese people is longing for a "harmonious society" (Zhu and Kotz, 2010). Resolving these problems is essential for further economic growth.

As this paper discusses, institutions has played an important role in the rapid export -led economic growth of China, but it now seems like there need to be a change in the political and institutional systems if this growth shall be sustained. Especially those institutions working for a better society for the Chines population must re-structure. A more democratic political, economic and cultural system is required (Zhu and Kotz, 2010).

7.0 COMPARISON: CHINA AND INDIA

India and China both have huge economies with major reliance on exports. India is in the same way as China credited with turning the corner since the adoption of reforms, but its export performance is either way in another league than that of China. This has much to do with the timing of liberalization (Wignaraja, 2011). For China, the accession to WTO was a major milestone for economic growth where the multilateral trading system and the country was forced to change and develop different reforms to fit with WTO's requirements. As a result, China became one of the most open economies in the developed world.

	CHINA				INDIA			
	1996	2001	2008	2009	1996	2001	2008	2009
All	23.7	15.9	*9.6*	*9.6*	38.7	31.9	13	12.9
Agricultural products	34.1	20.3	15.6	15.6	23.1	36.3	32.2	31.8
Nonagricultural products	22.8	15.5	8.7	8.7	40.1	31.4	10.1	10.1

Figure 5: Applied tariffs by broad sectors (Wignaraja, 2011)

As figure 5 suggest, the tariffs in China have been lower than for India since 1996, with major differences particularly in 2001. This shows the importance of WTO as an economic actor for China. India has also had different important reforms since the 1990s, and introduced SEZs in 2005. These turned out to be as important for India as for China, but in a different field, the Foreign Direct Investments (FDI). In China, the SEZs were mainly important for the export pattern. Even though India benefitted from the SEZs, China actually performed six times better than India within FDI and export in the period 1978-2010. In fact, only 10% of the multinational enterprises in India are working within export, compared to 54% in China. An important factor in why India cannot compete with China on exports is due to the high import tariffs that India experiences. Despite significant reductions since 1990, the Indian tariffs are still much higher than the Chinese (Wignaraja, 2011). China and India have both pursued distinctive styles of reforms as they shifted from inward-oriented central planned policies to a more outward oriented market based policy. China and India differ in their reforms; however, they both adopted a gradual approach to reforms. As a result, differences in trade and policies have influenced China's progress to become a global leader as exporter of manufactures and India has expanded into high-skill service exports alongside with manufactures (Wignaraja, 2011). Economists still mean that China had a more coordinated and credible process in reforms than India did.

8.0 CONCLUSION

From the above discussion, it is clear that WTO has played an important role as an economic actor in Chinese economic development and growth in the period from 2001-2007. It has opened for more international trade, and it has also opened up the world economy for Chinese exports. The impact of the institutions discussed above has been key to Chinese export success and China is now considered as the most open economy of all developing countries. As a result of the WTO accession, different institutions had to change and others were established to fit with the requirements. Economists feared that the accession would uproot SOEs, and to some extent it did. However, China has enjoyed one of the best decades in economic history with quadrupled GDP and quintupled exports.

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10.0 APPENDICES

10.1 APPENDIX 1.0

Aggregate demand is defined as the demand for gross domestic product (GDP) of a country, and is expressed through the following formula:

Aggregate demand (AG) = C + I + G (X – M)

C = Consumer expenditures
I = Investment spending's by companies on capital goods
G = Government expenditure on goods and services provided by the public
X = Exports
I = Imports

(Investopedia, no date)