China’s Economic Integration into Global Regulatory Frameworks: A Study of Government Procurement

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Abstract

China’s accession to the World Trade Organization (WTO) reflects Chinese government’s desire to pursue deep integration with world economy and harmonize its regulatory regime over foreign trade and investment with a global framework under the auspice of the WTO. Chinese government is now held accountable to the WTO on major matters concerning foreign trade and investment. It has to standardize its regulatory framework across the country on the basis of its commitment to the WTO to ensure uniform enforcement of foreign trade and investment policies. This paper seeks to evaluate to what extent the Chinese economy is integrated to the WTO requirements by using government procurement as a case study. This paper argues that the domestic framework of government procurement has been gradually integrated with the WTO requirements. However, further integration is impeded by limited political commitment: central government takes government procurement as a means to pursue a value of economy more than a vehicle to spur trade liberalization. Local governments are more concerned about regional development than the interests of foreign investors and harmonization with the WTO requirements. Moreover, the structural problems of the administration undermine Chinese government’s capacity in enforcing international agreements.

Key words: China’s economic integration, government procurement
Introduction

China’s accession to the World Trade Organization (WTO) reflects Chinese government’s desire to pursue deep integration with world economy and harmonize its regulatory regime over foreign trade and investment with a global framework under the auspice of the WTO. To qualify for WTO membership, Chinese government has to abide by a set of rules for liberalizing the economy and relaxing state control over foreign trade and investment. The commitment has an implication on several important issues of governance: Chinese government is now held accountable to the WTO on major matters concerning foreign trade and investment. It has to standardize its regulatory framework across the country on the basis of its commitment to the WTO to ensure uniform enforcement of foreign trade and investment policies. This commitment obliges local governments to relinquish parts of its economic autonomy to central government and increases local governments’ accountability to central government. In addition, the obligation of publishing all the laws and regulations on foreign trade and investment involves increasing the transparency and predictability of Chinese business environment.

This paper seeks to evaluate to what extent the Chinese economy is integrated to the WTO requirements. The outcome of the negotiation for Chinese WTO membership will set an important precedent for the WTO to deal with other
transitional economies such as Russia in future (Barfield and Groombridge, 2002, 42).

An analysis of all dimensions of integration in one paper is impossible. This paper focuses on government procurement, an endeavor of Chinese government to increase transparency in procurement laws and regulations, expand the use of market principles in government’s purchasing activities, and remove discrimination on foreign suppliers and supplies. Government procurement is used as a case study because this case can illustrate the success of both the WTO implementation in China and a reform measure that has a direct impact on the pursuit of efficiency value, the core value of post-Mao economic reform. This paper argues that the domestic framework of government procurement has been gradually integrated with the WTO requirements, largely represented by the Agreement of Government Procurement (GPA). However, further integration is impeded by limited political commitment: central government takes government procurement as a means to pursue a value of economy more than a vehicle to spur trade liberalization. Local governments are more concerned about regional development than the interests of foreign investors and harmonization with the WTO requirements. Moreover, the structural problems of the administration undermine Chinese government’s capacity in enforcing international agreements.
Economic Integration in China

Haggard defined economic integration as a process of policy coordination and adjustment aimed at fostering closer economic interdependence and managing the consequential externalities. He classified economic integration into two big categories: Shallow integration is to relax border restrictions on trade and investment through removing import tariffs and quota. Deep integration involves the adjustment and coordination of “behind-the-border” policies regulating foreign trade and investment such as intellectual property right and transparency issues. Two major activities of deep integration may be identified: The first is to extend international rules to foreign trade and investment. The second is to resolve the questions how and whether to address differences in national regulatory regimes that have discriminatory effects on trade and investment or generate “unfair” competition (Haggard, 1995, 2-3). Deep integration is usually resisted by the political elites of authoritative regime. The reason is such that domestic institutions in countries with central planning or heavy state intervention can block price signals emanating from the international environment. The political elites who controlled foreign trade and investment may then reap the huge profits generated from the difference between domestic and international prices (Milner and Keohane, 1996, 21).

Accession to the WTO may be regarded as Chinese government’s response to the
increasing demand for formal coordination and the need for deep integration at a time when China has reached a certain stage of development and the regime could hardly afford the opportunity cost of autarchy, that is, high bureaucratic control on foreign trade and low trade volume. Zweig explained the desire of Chinese leaders to seek for deeper integration by public choice theory. He argued that economic integration occurred because members of the bureaucracy, local governments, individuals, and corporate entities gradually discovered that deep integration could advance their interests: At the beginning, bureaucrats monitoring transnational exchanges and the localities pioneering in trade liberalization benefited from deeper economic integration and global transactions through expanding their resources, rent seeking, corruption, or doing business. Noticing the gain through granting preferential policies to foreign investors and lowering transaction costs, bureaucratic units and localities in highly regulated context asked the central government to grant them autonomy in liberalizing their economic activities and integrating themselves with the world economy (Zweig, 2002, 18).

Similar logic can be applied to the reform of government procurement. Regulators of government procurement may benefit from a regulatory regime lacking in transparency because both domestic and foreign suppliers have to depend on them for business opportunities. Gradually, members in other functional bureaucracies
discover that they can benefit from the power of government procurement in improving the control on public expenditure, combating corruption, and pursuing efficiency and integrity values. The potential saving of a well-organized procurement system in China may be up to 82 billion yuan\(^1\), or a saving of 10 – 14% of Chinese government’s procurement cost (Chou, forthcoming). The contribution to cost saving, together with the increasing openness of the economy to foreign trade and investment, caused China to harmonize its regulatory framework on government procurement with international practices.

**Government Procurement in China**

Government procurement refers to acquisition through purchase, lease, rental, and hire purchase of goods, services, and construction for public consumption. It is through public procurement that the State, or its territorial or functional subdivisions, undertakes public works, build roads and cares for health, education and public order (Erridge and McIlroy, 2002, 53). In both developing and industrial nations, a combination of the influence of international development institutions, the growth of international trade agreements on procurement, and domestic imperatives such as shrinking budgets and fighting corruption have led to the reform. Examples of the reform effort include the signing of the GPA aimed at spreading “good” practices of

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\(^1\) In 2005, US$1 = 8.1yuan
government procurement, and OECD’s strengthening of the rules regarding the procurement practices of EU Member States (Arrowsmith and Trybus, 2003, ix; Evenett and Hoekman, 2003, 269).

The essence of the reform of government procurement in China is to introduce greater degree of transparency and competition in the acquisition process so as to achieve the objectives of fairness, efficiency, and equity. The “Temporary Provisions on the Initiation and Protection of Socialist Competition of October 1980” was the first official document in post-Mao China signaled ideological liberalization of competition and permitted using bidding on a trial basis. At the initial stage, competitive bidding was used narrowly for purchasing vehicles and office supplies. Later on the bidding was extended to the acquisition of engineering service, convention and exhibition, insurance for government-related activities, and management information system (Wang, 2000, 73). The mid-1990s saw the Chinese government seek policy convergence with international practices. It received modern Western techniques, like the World Bank Guidelines for Procurement from such international organizations as the World Bank and Asian Development Bank in preparing the initial drafts of procurement regulations. In 1999, Chinese government promised to treat foreign suppliers on par with domestic suppliers, consider the feasibility of opening the government procurement market to other APEC member
countries during 2011-2020, and sign the GPA in the wake of entry into the WTO (Asian Development Bank, 2001, 1-2). In the same year, the National People’s Congress passed the Tendering and Bidding Law regulating certain procedures of procurement activities. In 1999 and 2000, the Minister of Finance issued a series of administrative decrees to regulate departmental budgetary requirements and centralized systems for publishing procurement notices (Cao, 2003, 68-69). Upon the accession to the WTO, China has agreed to work towards GPA through conducting government procurement in a transparent and non-discriminatory manner, and opening up the domestic market of government procurement for foreign suppliers by 2020.

Transparency of government procurement was necessary for reducing the possibility of collusion between spending units and suppliers. To increase transparency, the Ministry of Finance launched its Government Procurement Website (http://www.ccgp.gov.cn) to collect and disseminate the information regarding business opportunities of government procurement. All the 31 provincial-level governments set up their own websites. On 1 July 2000, the State Development and Planning Commission appointed the Website, along with three newspapers, as the official media for posting public tender notices. In 2003, the Website registered more than 1,000 tendering notices daily and subscribers may freely browse tender notices.
(Economic and Social Affairs, the United Nations, 2003, 45). Chinese Financial and Economic Post (a mouthpiece of the Ministry of Finance) and a professional journal China Logistic and Purchasing have introduced special pages for disseminating the latest development about government procurement. The value of government procurement also expanded from 13 billion yuan in 1999 to 32.8 billion yuan in 2000, 65.3 billion yuan in 2001, 101.0 billion yuan in 2002, and 165.0 billion yuan in 2003 respectively. In 2002, Vice Minister of Finance Xiao Jie expected that after the reform of government procurement was completed, the value of total government procurement would rise from less than 1% of the GDP in 2001 to 10% ultimately, roughly on a par of international norms. Yet he did not explicitly state the timetable for completion (http://www.mof.gov.cn/wwwroot/C40-20020612145047369/news/20021111123250.html; http://www.ccgp.gov.cn/web/tongji/2002fifth.htm).

The reform initiatives in the turn of this century were primarily aimed at promoting government efficiency and integrity. The objectives of integrating domestic procurement market with global economy and living up with the requirements of GPA were not yet on agenda (Yu, 2002, 6; http://www.mof.gov.cn/wwwroot/C40-20020612145047369/news/20021111123250.html). Accordingly, many aspects of the Interim Method of Government Procurement, the first national decree regulating government procurements of goods, construction, and services issued in 1999, was substantially
divergent from GPA.\textsuperscript{2} For example, GPA states that no countries, except developing
countries which depend on protectionism to protect domestic industries, keep
balance-of payments position, and maintain a level of reserves adequate for national
development, should discriminate foreign suppliers and supplies. China’s
export-oriented industries had an edge over many of their competitors in developed
countries and enabled China to enjoy great trade surplus. Certain domestic supplies
should be required to compete head-on with foreign supplies. Nevertheless, the
Article 9 of Interim Method of Government Procurement prohibited government
departments from purchasing imported supplies without prior approval.\textsuperscript{3} Article 18
prohibited foreign companies, except those granted the right of participating in
China’s government procurement under international treaties and agreements, from
being government suppliers without the approval of the Ministry of Finance or
provincial governments.

Another area of divergence from GPA occurred in the issue of transparency. GPA
requires high transparency in government procurement. This means, first, to make
announcement in at least official languages of the WTO. Second, related regulations
in local governments should be kept consistent with the national ones. Third, the
regulations and procedures should be clearly spelt out and easily accessible. However,

\textsuperscript{2} A copy of GPA can be found in \textit{Agreement on Government Procurement},
\textsuperscript{3} A copy of Interim Method of Government Procurement can be obtained in Meng, 2001.
the three criteria were not respected. All the tender notices only had Chinese version.

Governments at all levels and their subordinate departments, like many developing countries, may devise their own procurement regulations. Central government did not keep procurement activities in local governments in line with a single procedure, and therefore provincial procurement regulations were inconsistent with each other. For instance, the procurement regulations of Shenzhen City specified that the period for receipt of tenders should not be less than 20 days from the date of publication. The regulations of Beijing and Shanghai Municipalities as well as the Interim Method did not specify the period. Some government purchasers shortened the period of time the bidders had to prepare bids so that bidders from a distant place were in an unfavourable position from the very beginning (Tian, 2003, 86-87, 94-96). The irregularities over the period for receipt was in conflict with the Article XI of GPA, stating that in open procedures, the period for the receipt of tenders shall not be less than 40 days. Last but not the least, many regulations and measures were classified internal and restricted from circulation. Consequently, a lot of foreign companies complained about the difficulty in obtaining the documents and understanding the restrictions on their investment (Lubman, 2000, 53).

Meanwhile, the equity principle enshrined by GPA was not institutionalized. GPA

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4 The government procurement regulations of the three cities can be found in Yu, 2002, pp.140-146; 152-163; 164-170.
emphasizes the necessity “to establish … surveillance and dispute settlement with a
view to ensuring a fair, prompt and effective enforcement of the international
provisions on government procurement”. Signatory states must provide bidders with a
legal basis to challenge the actions of procurement officials when they breached the
rules (Hunja, 2003, 15). The Interim Method was silent on establishing mechanism of
dispute settlement. Local governments like Guangdong Province, Anhui Province, and
Shenzhen City did not confer the right of judicial reviews to aggrieved suppliers if
they were dissatisfied with the procurement outcome and direct consultation with the
government purchasers could not resolve the disputes (Kong, 2002, 195-196).

Owing to the low priority of free trade value, the protection of fair procurement
by the Interim Method was insecure. The Article 4 of the Interim Method authorized
the Ministry of Finance and provincial governments to ignore the Interim Method
“when necessary”. Moreover, the Interim Method had no stipulations on the types of
goods, construction, and services which government purchasers should purchase
through open procurement. Therefore government purchasers may keep using old
method of acquisition and solicit substantial favour from suppliers in exchange for
government contract. As a result of too much discretionary power to the
administration, it was reported in March 2000 that only 4% of the 78 tender projects
investigated by the State Development and Planning Commission were undertaken in
an unbiased way (Tian, 2003, 86-87; 94-96).

In the wake of China’s accession to WTO, further harmonization of domestic procurement practices with GPA was evident, marked by the Law of Government Procurement which came into effect on 1 January 2003. The Law moved closer to international practices than the Interim Method did in several ways: The Law removed the limitation on foreign suppliers’ participation in government procurement and lived up with WTO’s spirit of prohibiting discrimination on the basis of suppliers’ country of origin. Article 71 prohibited unreasonable discrimination against any suppliers. The Law also removed the authority of the Ministry of Finance and provincial governments in withholding the application of the law.

Two provisions were noteworthy for their contribution to increasing transparency and responsiveness of the administration. Article 51 obliged government purchasers to reply suppliers’ complaints within seven days upon receipt of the complaints. Article 58 aligned the Law with the Article XX of GPA which guaranteed the right of aggrieved suppliers to file their complaints to courts. The two Articles represented a breakthrough in protecting suppliers’ right: Before the Law came into effect, aggrieved suppliers had no way to seek redress. Appeal procedures were never well developed; therefore it was impossible to expeditiously verify the codified

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procedures and decision that formed a significant component of transparency.

**Evaluation**

Friedman and Rogowski argued that non-democratic regimes are less ready to liberalize their foreign trade regime than democratic ones because politicians are less likely to internalize aggregate welfare and thus to minimize deadweight costs of the whole society to which they are unaccountable (Friedman and Rogowski, 1996, 43). Haggard argued that since many influential domestic players either had their own policy agenda or profited from the policy status quo, developing countries seldom embraced deep integration in their macro-economic policies (Haggard, 1995, 4). Assuming that these notions hold, we can expect that government procurement system in China is at most only partially integrated with the global regime, and the primary reasons for that lay in bureaucratic obstruction.

Thiers identified four criteria to evaluate the integration of a country into an international regime: a) Whether a nation-state agrees to join a regime and harmonize its own policies with that regime; b) Whether formal harmonization of written standards and regulations takes place; c) Whether newly harmonized standards are implemented; d) Whether an effective ongoing system of monitoring and verifying compliance with the agreement (or a redress system) is present (Thier, 2002, 414-415). The signing of the WTO Accession Protocol is indicative of meeting the first criterion.
Evidences suggested that the second and third criteria are merely partially met. In comparison to the Interim Method of Government Procurement, the Law of Government Procurement came closer to the GPA. The value of regulated government procurement, as indicated above, is increasing. The scope of government procurement, also discussed before, is expanding. The number of tender notices on designated mass media increased from 5,000 in 2002 to 10,238 in 2003 (http://www.ccgp.gov.cn/web/zyywxdetail.asp?condition=000000000042). Nevertheless, the commitment to transparency is also only partially realized. The WTO Accession Protocol obliges China to publish laws and directives related to foreign trade and investment in one or more WTO official languages (English, Spanish, and French) (World Trade Organization, 2001, 69-71). However, all tender notices have Chinese version only. All the information in procurement web-pages is Chinese-only, and therefore foreign suppliers unfamiliar with the language are discriminated. Some of the procurement web-pages, like those of Guizhou, Tibet, and Heilongjiang provinces are empty. Suppliers outside these provinces can hardly access their procurement regulations and searching for business opportunities.

Besides, GPA, like most of the World Intellectual Property Organization conventions, lacks enforcement provisions. The Law of Government Procurement modeled on this Agreement has the same weakness. The implementation plan of the
Law of Government Procurement only obliges the procurement entities in central government but not those in local governments to follow the Law (Editorial Board of the Yearbook of People’s Republic of China, 2003, 541). Due to the sheer geographical size and diverse business environment, effective enforcement of any law in China requires the cooperation of local governments to adapt national legislation to local uniqueness. This has led to a decentralization of decision-making power on economic issues from central to local governments (Moore, 2002). Central government has attempted to recentralize part of the delegated authority essential for economic reform since the late 1990s. Nevertheless, it is the provincial-level governments but not central government holding the recentralized the authority out of the consideration that provincial-level governments understand local conditions better than central government does. Furthermore, the control departments responsible for overseeing government procurement, that is, financial bureaus have still to report to the local governments at corresponding levels instead of financial bureaus at immediate higher level (Mertha and Zeng, 2005, 331-332). As financial bureaus cannot effectively control the expenditure of their supervisory governments, local governments can preserve extensive discretionary authority on procurement activities.

With decentralized authority, local governments may choose to ignore the central policies that they dislike. A senior official of the Ministry of Finance claimed in
October 2003, ten months after the Law of Government Procurement came into effect that irregularities in government procurement process were still common, particularly at county level. At this level, trade monopolies and protectionism among regions were prevalent (http://www2.chinadaily.com.cn/en/doc/2003-10/16/content_272565.htm). Until mid 2004, only five provincial-level governments (Hubei, Jilin, Ningxia, Xichuan, and Anhui) had their own administrative decrees based on the Law. Jilin province instructed its departments and subsidiary entities to purchase more from suppliers registered in the province but less from other suppliers in order to raise the provincial gross demand and bolster economic growth (Hao, 2000, 286; Bu, 2000, 242).

Local governments may also run counter with central policies in reforming the regulatory framework of government procurement out of several motives: Many local governments have close connection with domestic firms and share with them the same commercial interests. Besides that, suppliers provide employment opportunities and generate tax revenue. Jobs and tax income are crucial for social stability and economic development which form core performance indicators of local leaders (Edin, 2003; Bo, 2002; Blecher and Shue, 2001, 368-393). Therefore local governments are eager to fend off competition through trade protectionism. A manager of a Singaporean corporation’s Beijing branch office said that in 2004, Beijing
Municipality required all the local branches of foreign investors to register a capitalization of 10 million yuan in order to gain the qualification of bidding government construction contracts. This practice discriminated the foreign suppliers unable or reluctant to commit large capital in one local branch. Moreover, discriminatory practice may take the form of administrative approval. Procuring entities planning to purchase imported products and services had to first gain import permits from several economic departments. The time involved in applying for the permits may last for over half a year. The long time and possible disruption in administration forced some purchasers to buy from local suppliers (Han, 2004, 10).

Another motive to undercut the reform is to protect the opportunities of rent-seeking. Without well-regulated process of government procurement, local governments may form closed markets by awarding contracts to the suppliers offering them bribery. A manager, for example, was pressured to buy help from advisors to the provincial director of health in order to get his firm’s product on the list of approved hospital purchases (OECD, 2002, 402). Procuring entities may manipulate the pre-qualification procedure and screened out almost all but one or two bidders. With less than three bidders, procuring entities may then bypass open tendering procedures and offer tenders to their friends. The implication of transparency goes against the

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6 Interview with a contractor in Beijing Municipality in June 2004.
7 Interview with a government supplier in Beijing Municipality in July 2004.
interests of the local leaders who used to take bribery and make illicit profit from suppliers.

Last but not the least, some local governments do not have the technical competence to implement certain central policies. Provincial governments like Tibet and Qinghai have done badly in terms of the value and the saving rate of regulated procurement. The capacities of these local governments in enforcing procurement reform are constrained by several factors, such as their small procurement expenditure and the consequential failure to ask for big discount from suppliers, high administrative expense entailed in procurement relative to the procurement value, few potential suppliers to choose from, and few qualified procurement officers available to assure fair and transparent tendering process (Chou, forthcoming).

Further integration with the WTO requirements is constrained by the passivity of domestic political actors in using procurement reform for spurring liberalization. In 2004, Chinese State Councilor Hua Jianmin indicated that to implement the Law of Government Procurement was one of the measures of the government for establishing a public financial system, setting up a rule-based administration, regularizing government behavior, stepping up supervision over administration, and building a clean government (http://service.china.org.cn/link/wcm/Show_Text?info_id=93149&pqry=government%20and%20procurement). Promotion of service trade liberalization
was not on his agenda. The Ministry of Finance is another important actor. It is authorized to formulate policies over government procurement and coordinate the reform of government procurement. The major duty of the Ministry as government’s cost controller determines the nature of the reform as a measure of pursuing financial prudence but not free trade. In the Report on the Implementation of the Central and Local Budgets for 2003 and on the Draft Central and Local Budgets for 2004, Minister of Finance Jin Renqing emphasized the contribution of government procurement reform to financial control. Widening the access of foreign suppliers to domestic market was not mentioned (http://www.chinadaily.com.cn/english/doc/2004-03/17/content_315646.htm). In 2004, the Vice-Minister of Finance Xiao Jie said that procurement entities should not purchase from foreign suppliers unless “under special circumstances” (http://www.ccgp.gov.cn/web/tongji/2002fifth.htm).

As a result of the low priority on trade liberalization, Article 1 of the Law of Government Procurement stated that the objective of the Law was to “regulate government procurement activities, economize the use of public fund, protect public interest, protect the rights of the parties involved in government procurement, and promote integrity.” It did not mention the significance of the Law in promoting the integration with world economy and liberalization of the trade in service. Article 2 of the Law stated that the Law was only applied to government agencies, service units
and mass organizations. This Article conflicted with the China’s WTO commitment of ensuring that all state-owned and state-invested enterprises would make purchases and sales solely on commercial considerations (World Trade Organization, 2001, 69-71).

Fragmentation of authority further limits the integration. In China, the political power is concentrated at the apex of the Chinese Communist Party. In policy implementation process, usually no departments have the highest authority and the lines of command among them are unclear (Lieberthal, 1992, 1-31). The implementation of any policy which entails several departments easily engenders intractable coordination problems. There is no powerful entity charged with formulating of procurement policy and ensuring proper functioning of the procurement system. The Ministry of Finance is the spearhead of the reform, but it has no authority to dictate to the procurement activities of other ministries or provincial-level governments which share with it the same bureaucratic level. Procurement offices established under finance bureaus at various levels and specialized in processing procurement requests from other departments are so low in administrative rank that they are not insulated from the influence of other government departments. They are vulnerable to pressure if they rebuke departments’ requests for exempting from proper procurement procedures (Tian, 2003, 97-99).

To alleviate the problem, by the end of 2003, eleven provincial-level governments
separated their procurement offices from finance bureaus, transformed them into service units (shiye danwei), and made them more independent from the intrusions of government agencies. Finance bureaus were relieved from the duty of procurement administration but focused on supervising procurement offices (http://www.ccgp.gov.cn/web/zywxdetail.asp?condition=00000000042). One should remain cautious when evaluating the effectiveness of the reform measure. Since no authoritative arbitrators are available to settle disputes among finance bureaus, procurement offices and government purchasers, it is possible that finance bureaus and procurement offices are forced to give in on certain occasions for the purpose of avoiding too many confrontations. Furthermore, procuring entities are the clients of procurement offices and therefore in a relation of pressuring procurement offices to follow their instructions. Procurement offices may be difficult to observe procurement regulations in offering contract for fear that they may antagonize procuring entities and lose future business opportunity.8

Thiers’ fourth criterion of successful integration, the availability of an effective system of monitoring and verifying compliance with the agreement, is also absent in the regulatory framework over government procurement. An effective system is characterized by its insulation from the administration so that the system can rein the

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8 An interview with a contractor of government construction project in Beijing in June 2004.
law-breaking administration. Though the Article 58 of the Law of Government Procurement seeks to protect the rights of individuals and enterprises through the Administrative Litigation Law (ALL), a law aimed at protecting citizens from the administration’s unlawful administrative acts, the ALL’s power in restricting administrative authority is only modest (O’Brien and Li, 2004; Pei, 1997). The ALL only entitles plaintiff to sue the government on infringement of property and personal rights. On the contrary, in European countries like France and Germany, access to the administrative courts is accorded to all disputes between plaintiffs and the government, as long as the plaintiffs claims that the contested administrative act unlawfully infringes their rights (Heuser, 2003, 18). The courts in China also lack adequate independence to rule impartially. Financially and logistically, courts are dependent on Party branches and local governments and vulnerable to the intimidation from Party and government officials. Unlike the judges in many Western countries which attempts to guarantee the judiciary stability and impartiality through such methods as life employment, Chinese judges’ terms of office are decided by Party branches. Thus Chinese judges are reluctant to challenge the officials closely associated with Party branches. More importantly, the political leaders of China reject the liberal notion of a neutral state. Courts are inclined to decide cases according to a substantive normative agenda determined by the regime itself (Peerenboom, 2001,
The limitation of existing laws and judiciary makes one difficult to challenge administrative decisions and safeguard suppliers’ right.

**Conclusion**

The integration of China’s government procurement framework with the WTO regime coincides with the concept of segmented deregulation used by Zweig to characterize China’s internationalization process in the reform era. Instead of using shock therapy and swiftly dismantling bureaucratic controls on global transactions, reform leaders have incrementally deregulated exchanges between the international system and domestic industrial sectors (Zweig, 2002, 33). The paper has illustrated that domestic regulatory framework over government procurement is converging to the WTO requirements. The change is largely due to the fact that regulatory bureaucracy represented by Ministry of Finance recognizes the power of the reform of government procurement in promoting cost saving.

But the integration is compromised by the policy priority of both central and local governments: In the reform of government procurement, central government places higher priority on financial control than trade liberalization. Without adequate emphasis on liberalization, the Law of Government Procurement fails to fully live up with the GPA. The Law is not binding to state-owned and collective-owned enterprises. Discrimination of suppliers based on their origins is still existent.
Transparency in the domestic regulatory regime is insufficient. The information about procurement regulations and opportunities are in Chinese only. Many procurement opportunities are not widely advertised. Furthermore, the enforcement capacity of Chinese government is undermined by local governments. Out of the desire to protect regional development, their political careers and rent-seeking opportunities, local leaders are likely to compromise interests of foreign businesses and the WTO requirements. The authority fragmentation and poor coordination among departments have further watered down the success of the reform. The redress system for aggrieved suppliers is plagued by inadequacy in the legal system, and the monitoring and verifying system is incomplete. The limited success reflects Chinese reformers’ inadequate political will and capacity in enforcing this part of international commitment.

However, caution is necessary before local bureaucrats are blamed for their stubborn resistance to the economic integration. Haggard pointed out that although the positive welfare benefits from shallow integration have long been proved, whether regulatory convergence resulting from deep integration can augment welfare benefits to a country or the world as a whole remains unclear. Developing countries may suffer if they are required to harmonize their regulatory policies over environment protection and labour standards around the norms of developed countries (Haggard, 1995, 4).
Moreover, due to decentralization of fiscal authority to provincial governments, the capacity of Chinese governments in redistributing resources to buffer the effects of greater openness is very weak (Wang and Hu, 2001; Wang, 1999). Therefore, whether deeper integration to the world economy is desirable to China requires further investigation.

Furthermore, the experience in reform era evidenced that local governments do not always oppose to open up domestic markets to foreign investors. Since the early 1980s, Guangdong province and some local governments bent the national laws and regulations and authorized foreign retailers to operate far beyond the restrictive parameters of central government (Lardy, 2002, 149). As discussed above, bureaucrats will embrace a more open economy once they benefit from deeper economic integration. In the case of government procurement, the potential benefits include cheaper goods of higher quality and greater cost saving. Last and not the least, China will have become a signatory country of GPA by 2020 and the domestic market of government procurement will become more integrated to the world economy. Thus one should remain cautiously optimistic when it comes to evaluating the future of China’s integration with global regulatory framework over government procurement.
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