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When the disciple becomes the master

China, once the target of Western hopes for liberal change through trade, is now reshaping the global order by exporting its own policies

The doctrine of *Wandel durch Handel*, or 'change through trade', shaped international trade and geopolitics for several decades. It holds that deepening commercial ties between nations will lead to the gradual spread of ideas and values — chiefly Western democratic values. The doctrine has served as a rationale for Germany's stance towards authoritarian countries, and successive US presidents have used it to make the case for appeasement and trade with authoritarian regimes.

The doctrine has come under increasing scrutiny, however. Opponents discard 'change through trade' as a naive fairy tale. Their prime example is China, which has not liberalised but actually reinforced its authoritarian system after decades of intense economic engagement with Western countries. As the country grows more ideologically strict under Xi Jinping, exchange with Western ideas, even in the scientific domain, is actively discouraged.

With a certainty that only hindsight can provide, these opponents claim that China's case shows that 'change through trade' has failed, and that globalisation has not succeeded in aligning developing countries around the same set of (Western) values. Some go even further, claiming that it was military deterrence – rather than trade – that drove the global expansion of democracy in the 20th century.

In fact, however, trade continues to spread ideas. The difference is that China is now an active participant in this process rather than merely a recipient. As Europe and the rest of the world change as a consequence, understanding China becomes more crucial than ever.

Conceptual inconsistencies

Even if 'change through trade' was not naïve in itself, at least the certainty with which it was championed was. After all, the strategy is

fundamentally self-defeating.

If we expect economic and market forces to produce the incentives for authoritarian governments to liberalise, then ultimately these market forces come down to consumer choices. But the more widely accepted the doctrine becomes, the less consumers care about the political regime of the trade partner, and the weaker these market forces grow. Taking this logic to its extreme, the doctrine would prompt consumers to only buy products from countries with the regimes they oppose the most, in the hope of creating change where it is needed most. Ironically, however, an improving trade balance would remove any incentive for reform in these countries.

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If we expect political pressure to drive change rather than relying on market forces alone, the doctrine falls flat as well. The more broadly accepted the doctrine becomes, the less incentive politicians have to pursue the goals promised. This is consistent with observations that German politicians seem to lack any actual commitment to influencing their trade partner's political regimes. Since, according to the doctrine, democratic values would spread to authoritarian systems by themselves, politicians avoided direct confrontation about issues like human rights.

The opponents of the doctrine are right to point out that it was not the philosophical integrity that made the concept popular, but the fact that it was good for business. In Germany, it conveniently supported the interests of export-driven industries. It is only natural then, that the doctrine is now being widely questioned, as German exporters face harsh competition from China.

Policy diffusion through trade

However, it would be overly simplistic to argue that greed alone propped up the belief in an inconsistent and naïve 'fairy tale'. Policy transfer and policy diffusion are indeed well-recorded phenomena worldwide. To pick one of countless examples, public sector downsizing spread from the US to other countries throughout the 1980s and 90s, and faster between those countries that traded more.

The same is true for China. Early reform policies combined Western ideas with homegrown experimentation, paving the way for a thorough

reorganisation of Chinese society and the economy.. In the following decades, as China strove to catch up with the West, it acquired many policies from Western market societies. For example, crucial institutions like contract law were transplanted from various Western legal codes.

Many Chinese who would later gain power within the Chinese Communist Party were educated at Western universities. For example, Liu He, who until 2023 served as the top economic advisor to President Xi, is a Harvard alumni. Although they were apparently not convinced by more abstract ideas such as democracy or wholesale economic liberalism, they did import managerial styles and ideas about city planning to China.

So, if we interpret 'change through trade' not as ideological conversion, but as the adoption of concrete policies, institutions and habits of thought, then the core logic of the concept is undeniably true.

China as a policy exporter

This aspect of 'change through trade' – namely policy diffusion and transfer – remains intact even though the Trump administration doing its utmost to destroy the post-war global trade system. The core difference is that China is now not only a receiver, but also an exporter of such change.

The Chinese ruling party unquestionably sees itself, its economic success, as well as Xi's reforms as a model for the world. When politicians in Tanzania consolidated their personal power, Chinese state outlets perceived these Tanzanian reforms as directly inspired by the internal reforms that cemented Xi's power in China. Although officially, China subscribes to a strict policy of not interfering in other countries' internal affairs, foreign propaganda is a core concern of the Chinese leadership. While this Chinese foreign propaganda is easily dismissed in the West, it proves surprisingly effective in many countries in the Global South, especially in Africa.

The effects are already visible. Even if no country perfectly copies the Chinese system, they strategically adopt policies if it helps them. Chinese investment often transfers know-how to local firms. Meanwhile, Chinese ministries are organising training programmes for foreign government officials, focusing specifically on governance practices.

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Europe and the US also take inspiration from Chinese policy. The Biden administration followed up on the protectionist policies of the first Trump administration with an industrial

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policy designed to improve the manufacturing sector. This resembles the industrial policy pursued by Beijing in its bid to upgrade China's manufacturing sector. Essentially, both rely on heavy subsidies for new technologies and local champions. The second Trump administration also aims to revive the US manufacturing sector, albeit hoping that massive tariff barriers will be enough to do the job.

The EU is similarly adopting protectionist measures. It has introduced tariff barriers to protect its carmakers and tightened its exceptionally liberal public procurement rules for non-EU firms. Moreover, top EU officials are openly considering a policy tool to facilitate technology transfer from Chinese to European businesses. This essentially copies the Chinese strategy that allowed Chinese companies to catch up with European ones. Proponents of this strategy argue that the EU should even adopt China's approach of forced joint ventures in future trade deals.

In this sense, China has already remade the international trade system, with the US merely following its lead. The success of protectionism and state involvement came as a surprise, as mainstream economics predicted that exactly these policies were doomed to fail. Now, due to their unexpected success, other governments are copying these policies, albeit often without considering the crucial differences in political systems.

Given that it is now Europe that is changing through trade, it should recognise the source of these changes and understand exactly what it is copying. Fortunately, Europe can draw lessons from the Chinese experience and avoid the worst pitfalls when implementing these policies. Only by understanding the Chinese policy environment and its idiosyncrasies can solid policy choices be ensured. An in-depth analysis of China's political system and economic policy is therefore an essential task for the future European project.



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