China’s accession to the World Trade Organization: issues and implications

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Abbreviations

APEC  Asia Pacific Economic Cooperation
EU  European Union
GATT  General Agreement on Tariffs and Trade
MFN  most favoured nation
NIE  newly industrialised economy
NTB  non-tariff barrier
RCA  revealed comparative advantage
SEZ  Special Economic Zone
SITC  Standard International Trade Classification
SOE  state-owned enterprise
UNCTAD  United Nations Conference on Trade and Development
US  United States of America
WCIT  Washington Council on International Trade
WTO  World Trade Organization
Motivation for accession

The drive for accession has many motivations. Kudos is one important intangible motivating factor. Second, other than political recognition and national prestige, accession to the World Trade Organization provides China with tangible gains by way of assurance that, as its economy and trade grow, it will not suffer unfair discrimination in global markets. Accession will bring the benefits of the market access commitments of the 140 WTO members. Their WTO obligations will immediately become China’s rights in the area of trade. Third, in a rapidly integrating global economy, not being a member of a pivotal supra-national trade institution can mean both harm and a barrier to capitalising on the opportunities presented by globalisation. Newly industrialised economies (NIEs) are known to benefit more from globalisation than other developing economies because they are better integrated with the global economy. Fourth, accession to the WTO will enable China to participate in the next round of multilateral negotiations. By participating in these negotiations, China can influence the formulation of global trade regulations. Fifth, the United States is an important market for Chinese exports. In 1998, Chinese exports to the United States and Japan were almost equal, but in 1999 the United States (US$42 billion) became a larger market than Japan (US$37 billion). The United States has also been the second largest source of imports during the 1990s. Thus, the China–US trade relationship is an important one. After the accession, the United States will, under the WTO rules, have to lift its Jackson-Vanik prohibition and grant China permanent unconditional most-favoured nation (MFN) status.

To an extent, China’s eagerness for WTO accession may reflect a domestic push to use the accession process to spur domestic reforms or overcome resistance to structural and policy reforms. Top policy mandarins considered international influence a useful instrument for pressuring SOEs to adopt the necessary reforms, break up monopolies, become efficient and competitive and, failing that, go out of business (Wang 1999). A recent survey of Chinese economists found that they strongly believed that preparation for WTO accession would provide an impetus to further economic reforms (Wonacott 2001). These reforms are expected to address areas of the economy that have thus far been considered too difficult to face, including declining rural incomes, overgrown government bureaucracies, and the problems in the banking sector. Chinese economists generally expect the state to withdraw even further from direct economic activity, opening up more room for market forces to operate. Accession is also expected to spur reforms in important areas like the legal system and corporate governance. It is widely expected that endeavours will be made to bring China’s legal system and corporate governance norms up to international standards. The expectations and needs of trading partners are likely to influence the pace of these reforms.

The reform measures suggested above will go a long way to making the economy more efficient. An efficient SOE sector would reduce the heavy burden of subsidies currently provided by the government. Increasing domestic and foreign competition has
correctly been seen as a means of promoting economic and systemic efficiency and rapid growth. Competition is known to spur productivity and promote technology upgrades. It boosts profits, promotes investment, and provides clear signals to investors how and where to deploy capital. Competition is also known to weed out inefficient, high-cost producers. This growth strategy has come to be known as the ‘fourth way’. Membership of the WTO is an integral part of this growth strategy. The present corps of political leaders, particularly Premier Zhu Rongji, has been eager to promote the strategy of competition-led growth in China. They believe that, if they successfully implement this strategy, competitive pressures will stimulate Chinese and foreign firms alike. This will help boost foreign investors’ confidence in the economy. This strategy is far-sighted and political commitment to it has remained strong.

China’s accession is good news for Asian and other developing economies, not only because it will open a large potential market but also because it is likely to become a member of the Quad. Being an Asian and a developing economy, China could potentially represent the viewpoint of both these country groups. Thus, China would provide better representation for the developing economies in decisions affecting the global trading system. By 2000, China’s share of global trade was the largest of any developing country. Thus, it is logical for China to be a member of the WTO. Without China, the representativeness of the WTO as an international body remains open to question.

The accession

China was one of the original signatories and founding members of the General Agreement of Tariffs and Trade (GATT) in 1948, but abandoned its status as a contracting party in 1950. In July 1986, China sent a delegation to Geneva to submit a formal request to rejoin GATT. This began the most protracted process ever seen in international trade diplomacy. Negotiations were quite advanced by the late 1990s, and the conclusion of accession negotiations was not entirely impossible in 2001. Upon accession, a country that discouraged foreigners from its markets for centuries will open its economy according to the rules laid down by the global trading system. Barriers to trade in goods and services will decline. This will include barriers against imports of the so-called ‘strategic’ commodities—cereals, oil, gas. China’s reliance on the outside world will increase. Domestic stock markets will begin to channel foreign investment in a routine manner, and large Chinese firms will be allowed to list on prominent bourses in the principal capital markets. Although the foreign exchange rate system was restructured in 1994, in the post-accession period the renminbi yuan will gradually move towards convertibility.

If it decides to do so, any state or separate ‘customs territory’ having full autonomy in the conduct of its trade policies is entitled to join the WTO on terms agreed with the members. Here, the qualifier ‘having full autonomy in the conduct of its trade policies’ is of some significance. Article XII of the WTO Agreement states that accession to the WTO will be ‘on terms to be agreed’ between the acceding government and the WTO. Accession
to the WTO is a process of negotiation. All the members must be in agreement that their individual concerns have been addressed and that outstanding issues have been resolved in the course of their bilateral or multilateral negotiations. In the first quarter of 2001, China was one of 29 countries seeking accession to the WTO.

The accession process entails three steps. It commences with a memorandum from the applicant country describing all of its laws, regulations, and policies in the area of trade and investment. The next step is that the WTO General Council, having considered the request, appoints an accession working party made up of trade negotiators from WTO member countries. This working party examines all aspects of the trade and economic policies of the applicant. It negotiates with the applicant over bringing the applicant’s domestic laws and regulations into harmony with the WTO regulations. The rules and regulations of the WTO are treated as a standard against which all the domestic laws and regulations are examined. Documentation examined by the working party during the process of negotiation remains restricted until the process is complete. Finally, interested individual members negotiate bilaterally with the applicant country. These negotiations usually focus on reciprocal tariff reductions. Of late, other market access issues, including agricultural trade, industrial subsidies and services, have become equally important.

Once the series of bilateral negotiations is successfully completed, the WTO working party consolidates them into a document which is a part of the ‘accession package’. This package comprises three documents which represent the results of both the multilateral and bilateral phases of negotiations. The three documents are

(a) a report of the working party containing a summary proceedings and conditions of entry
(b) a Protocol of Accession
(c) schedules of market access commitments in goods and services agreed between the acceding governments and the WTO members.

The accession package is finally adopted at the final formal meeting of the working party. These documents are then presented to the General Council or the Ministerial Conference for adoption. The WTO generally operates on the basis of consensus, but a vote is taken over accession applications—one of the few occasions when the WTO system allows for a vote. To succeed, the accession application must be supported by two-thirds of the WTO membership.

A working party has been guiding the accession process of China. This was established under the aegis of the GATT in 1987 and was essentially concerned with China’s trade regime for goods. In 1995, it was converted to a WTO working party. In keeping with the widened scope of the WTO, the operations of the working party were broadened to include trade in services, new rules on non-tariff measures and rules relating to intellectual property rights. Discussions and negotiations with the working party have continued. The majority of activity on China’s accession, however, now involves bilateral negotiations between China and the WTO members.
At the time of writing, China’s accession bid was almost 15 years old. Progress in negotiations has been slow. Negotiations were interrupted by the Tiananmen Square massacre in 1989 and subsequent disagreements over market access, intellectual property rights, domestic trading rights and other small issues. In this context, the European Union, Japan and the United States, have insisted that China’s accession must be accomplished on ‘commercially viable terms’. This implies that China must agree to adhere to all WTO rules governing trade and investment within a reasonably short period of time. This approach also seeks a degree of market openness for imported goods and services comparable at least to other NIEs such as Brazil and Korea. The justification for this is that, since the Chinese economy has developed swiftly in a short period and has arguably almost reached the standard and maturity of the NIEs, such an expectation is fair. Some of the larger WTO members insisted in the past that China should only be admitted as a developed country. This was a difficult proposition because, by any set of statistics, China cannot be called a developed country and could only undertake obligations compatible with those of a large middle-income developing country or a NIE. Trade in agricultural commodities was another area which has proved to be particularly difficult. While bilateral negotiators expect deeper cuts in tariffs, the Chinese government believes that these will not be in the interest of domestic farmers.

Negotiations were slow and dragged on with few major breakthroughs until the weeks leading up to Chinese premier Zhu Rongji’s April 1999 visit to the United States. Soon after his visit, the two negotiating teams intensified efforts, and agreements were reached in many important areas, including significant concessions on market access and protocol issues. Greater flexibility and pragmatism in negotiations helped the process. During 1999 and 2000, China intensified its bilateral negotiations with WTO member governments. At the end of the first quarter of 2001, China had concluded negotiations with 36 WTO members, including the United States (on 15 December 1999) and the 15-member European Union (on 19 May 2000). Thus, China had completed all of its bilateral negotiations except those with Mexico.

Stipulations designed to increase the transparency of the trade regime as well as provisions regarding judicial review of administrative decisions are an important part of the Accession Protocol. The fifteenth session of the WTO working party was held in January 2001. During this session, the Chairman, members of the WTO working party and the government of China continued to focus on drafting texts for the Accession Protocol as well as the report of the working party. The working party’s progress is encouraging in several areas. For instance, progress has been substantial on issues like transparency, judicial review of administrative decisions, product-specific safeguards, non-tariff measures and anti-dumping, tariff rates, quota administration and a transitional review mechanism. As opposed to this, in areas like agricultural reforms, industrial subsidies, technical barriers to trade, trading rights of foreign-invested firms, and trade in services, negotiations were incomplete but still in progress.
The sixteenth session of the working party was scheduled for 28 June 2001. The Asia Pacific Economic Cooperation (APEC) forum met in June 2001 and supported China’s bid for accession, which was a favourable development. Support from the 21 members of APEC, which accounted for over 47 per cent of world exports in 1997, should help the negotiations (Financial Times, 4 June 2001:6).

**Difficulties in the review process**

The working party examination and review process was rendered more complex in China’s case than for other applicants because it is difficult to apply traditional trade rules based on neoclassical economics to a command or socialist economy. During the last two decades China has made impressive and unequivocal strides toward a market-oriented system. Although this transformation has been impressive, economic transition to a market economy is far from complete. Though it has been reduced considerably, the size of the state-owned sector is still substantial. While the central planning apparatus has undoubtedly weakened, some elements continue to appear in different parts of the economy. State controls are frequent and true market institutions are woefully underdeveloped.

In its present state, the economic structure is still hybrid—large sections of the economy operate as a market economy; equally large sections are still subject to state control (see Xia 2000). This hybrid economic structure made the examination and review process difficult and slow for the WTO working party. One large hurdle was presented by the state-owned enterprises (SOEs), where state subsidies are an important and ongoing element of the production system. For the SOE sector to abide by international economic standards, these subsidies have to be scaled down, if not eliminated. In addition, tariff barriers need to be reduced. Sanitary and phytosanitary measures and other technical standards that can potentially be used to protect domestic industries need to be brought into conformity with WTO norms.

Pre-accession reforms must include reductions in trade barriers and scaling down or elimination of subsidies. This process is sure to create problems for the SOE sector. A large number of SOEs will be forced to shut down, causing massive unemployment, particularly in the rural areas. These unemployed workers will have few immediate prospects of finding new jobs, a fact which has disconcerted the Chinese political leadership (Washington Council on International Trade 1999). Another knotty issue associated with the pre-accession liberalisation is that China is insisting that certain sectors of its economy be granted ‘developing country’ status. The benefit to China is that, after being granted ‘developing country’ status, these sectors will receive an extended period to comply with WTO norms and obligations, while they will immediately begin benefiting from the privileges provided by WTO membership.

Agricultural reforms and farm subsidies remain a key sticking point in negotiations. Farm subsidies were the most politically sensitive issue still unresolved at mid 2001.
China sought farm subsidies equivalent to 10 per cent of the value of national agricultural production, but many WTO members insisted China maintain a level closer to the 5 per cent permissible to industrial economies. It was expected that small differences with the United States, the European Union and the Latin American countries would be taken up for discussion in the May 2001 session of the working party. To be WTO consistent, China needs to constrain government and bureaucratic powers with a proper legal framework. Therefore, modernisation of commercial law, judicial independence and replacing the arbitrary powers of the bureaucracy with a rule-based system were also taken up for discussion (Wong 2001). In June 2001, it was clear that China must clear the following hurdles

(i) differences remain over rules for opening chain stores
(ii) WTO members demanded that China end different testing and certification methods for imports and domestic products
(iii) China had differences with the key WTO members about how many insurance companies should be granted license to operate in the domestic market. Disagreement on this issue continued for a long time
(iv) China also differed on how to monitor its compliance with WTO rules (Phillips 2001).

A compromise was reached in June 2001 regarding the level of farm subsidies—they would be limited to 8.5 per cent of national agricultural production.

Although final details of the accession package will have to be worked out during the sixteenth session of the working party, it is likely that the final accession package will be fairly close to what was agreed in China’s bilateral negotiations with the European Union and the United States. The negotiation process has been complicated by the perception that China holds a different notion of what exactly has been agreed (The Economist, 16 June 2001:77–78).

**Status of the trade regime**

During the prolonged negotiation process, policymakers have continued reforming the trade regime with the WTO norms in mind. The Chinese economy has a great deal to gain from opening its economy to the global economy. This process needs to go further. Several researchers have recently assessed the depth of trade policy reforms (Fan and Zheng 2000; Fan and Li 2000; Ianchovichina, Martin and Fukase 2000a, 2000b). They stress that, in spite of a good deal of progress in reform and decentralisation, the trade regime still has some characteristics of the pre-reform era. Decentralisation of the trade regime involved a negative list—enterprises could trade in any good other than those on the negative list. A positive list approach was adopted for the trading firms, which meant that firms on the list were allowed to trade in goods that were on the negative list. As the reform process progressed, the number of firms allowed to trade increased. Processing trade was given
special privileges, such as access imports of intermediate inputs and capital goods, to stimulate export production. This enabled China to access recent developments in global production processes. Pre-reform controls were replaced by licensing. A two-tier exchange rate and a two-tier pricing system were adopted as a transitional step towards full liberalisation.

The transparency of the agricultural trade regime has been called into question because it is heavily controlled by state trading corporations. State trading can potentially work as a non-tariff barrier (NTB). Its average protective impact when trade in both agricultural and manufacturing goods is considered has been measured at 9.3 per cent (World Bank 1997). Thus, it seems that state trading has worked as a minor tool of trade protection. Traditionally, NTBs have been high in manufacturing and highest in the automobile and textiles sectors. Ianchovichina, Martin and Fukase (2000a) have reported a declining trend in NTBs in China. Over the period 1992–99, the number of products subject to quotas and licenses fell from 1,247 to 261. The number of tariff lines subject to quotas and licenses fell from 384 in 1997 to 261 in 1999. The Law of Foreign Trade of the People’s Republic of China, a landmark in liberalisation, was promulgated in 1994. It accelerated the elimination of license requirements and import quotas. A lax automatic import licensing system was also introduced. In addition, China has committed not to increase the NTBs and their restrictiveness in the future. Within five years of accession, NTBs on 358 major industrial products will be removed. Within the same time span, wholesale and retail markets for several commodities will be opened to WTO members (Lu 2000; Zhigang 2000).

Like NTBs, tariffs have traditionally been high in manufacturing and highest in automobile and textiles. They have traditionally been lowest in services trade. Steady tariff reduction has taken place, particularly since 1992. Statistics compiled by the World Bank (World Development Indicators) show that tariffs on all products were brought down from 43.2 per cent on average in 1992 to 16.5 per cent in 1999 (Fan and Zheng 2000). During the recent period, significant tariff reforms were implemented first in October 1997 and then in January 1999. Further reforms will follow accession, and foreign enterprises can reasonably expect to gain ‘national treatment’ once accession is complete. Political commitment to liberalisation and market opening seems to be strong and widespread. In March 2000, a blueprint was drawn up for economic development in the twenty-first century.7 Further economic reforms and acceleration of market-opening measures are to be adopted to ensure rapid growth in a globally integrated economy. One of the objectives is to develop a number of internationally competitive enterprises and business groups—conglomerates along the lines of Samsung, Sony and Toshiba. Enhancing commercialisation and increasing the tertiary sector’s role in the economy are the other important objectives.
Accession and the implications for the domestic economy

Some economists believe that accession will have little impact. This group believes that accession will merely set a deadline for Chinese agriculture, industries and services to adjust to the new set of WTO regulations, a process that should have taken place anyway. But WTO accession has further implications for the domestic economy. To begin with, the rust-belt factories will close down in the medium term. Trade theory suggests that when trade barriers are removed the sectors with comparative advantage benefit and those without languish. It is reasonable to expect this to happen in China. Therefore, accession will have different impacts in different industries, depending upon how competitive they are. Zhigang (2000) conducted a study of the competitiveness of a number of industries: textiles, light engineering, coal, metallurgy, machinery, automotive, construction material, non-ferrous metals, tobacco, and pharmaceuticals. These industrial sub-sectors were divided into those sectors that had strong and weak comparative advantage. Those sectors with strong comparative advantage included textiles, light industry, coal, building material, and non-ferrous metals. In terms of sub-sectors, products like silk, down clothing, travel goods, electrical household appliances, some whitegoods, general mechanical products, small machinery, leather products, shoes, and toys have strong comparative advantage. They are competitive industries, with substantial market shares in the global marketplace. These industries will capitalise on China’s entry to the WTO and expand their shares in the global market.

Zhigang (2000) listed the following sub-sectors as having weak comparative advantage. This category included the metallurgical industry, petrochemicals, and machinery. Important products emanating from these sub-sectors are steel, petroleum, synthetic materials, chemicals, chemical fertilisers, tyres, pesticides, heavy and large machinery (power generation, mining, metallurgical equipment) and agricultural machinery. None of these sub-sectors are new; they are all at least two decades old and have a great deal of investment in them. Overall standards and quality of production in these industries are below world standard. They are not highly competitive in the global market. These industries are largely still poorly organised and scattered—that is, they suffer from a low level of production concentration. These industries are likely to suffer as a result of WTO accession because they will have to compete with high and middle grade imported products. Unless they consolidate, undertake enterprise reforms and become more efficient, they will not be able to compete with cost-efficient and better quality imports. They need not only to upgrade their technology but also their product mix.

The automobile industry is considered an important industry in industrial economies as well as NIEs. The Chinese automobile industry, particularly car manufacturing, is not competitive. In mid 2001, China had over 100 companies manufacturing and assembling cars. A large number of these companies were producing several thousand cars annually. High tariff and investment barriers traditionally protected the fragmented industry. Consequently, the industry suffers from a lack of scale economies, lower levels of
technology than competitors, limited research and development, and low levels of production concentration. These weaknesses are responsible for low production efficiency and high costs. China needs to bridge the gap between domestic and foreign production capabilities. Policymakers are aware that, in the short term, the automobile industry will certainly find it difficult to compete with the other regional and global automobile manufacturers. In an attempt to prepare the auto sector for greater competition in the post-accession period, the State Economic and Trade Commission established a strategy for consolidation of the auto industry in June 2001.

China has agreed to liberalise its financial sector—banking, insurance, securities, fund management, and other financial services—substantially as part of its accession conditions. This is a turn around in strategy because, in the past, China has either precluded or severely restricted the activity of foreign firms in the financial sector. The restrictions were most severe in case of banking. The Bank of Tokyo (in 1979) and the Nanyang Commercial Bank (1981) were the first banks to be allowed to enter the Chinese market. The number of foreign banks has increased slowly, and by 2000 there were 154 branches of foreign banks and an additional 23 foreign-funded and joint venture banks and finance companies operating in China. The assets of these banks grew rapidly but remained quite limited at $34.6 billion at the end of 2000 (Lardy 2001). Financial market liberalisation currently being undertaken in China is expected to be of the same order as that taking place in Korea and Thailand. China has negotiated to match the liberalisation measures of these NIEs in the medium term.

Taxation is another important area where the domestic economy needs to be realigned before accession. The WTO requires ‘national treatment’ for foreign firms. Therefore, tax regimes for both the domestic firms and foreign enterprises need to be unified. The tax rate for SOEs is 33 per cent while that for foreign corporations is approximately 15 per cent, depending upon which part of China these firms are operating in. The lower rates for foreign enterprises are part of a longstanding policy designed to attract foreign investment. Plans to unify tax rates at 25 per cent were being developed in mid 2001. This new rate would also apply to Special Economic Zones.

**Accession and the implications for the Asian economy**

China’s accession will have a significant impact on the global economy. Exporters of manufactures and/or services will benefit from the substantial tariff reductions and elimination of NTBs. Exporters of financial and legal services, and insurance companies, will benefit more than most. This in turn will boost the confidence of foreign investors for two reasons. First, the Chinese trade regime will be made more transparent and, second, it will be WTO-consistent.

Few generalisations can be made regarding the impact on the Asian economies. The impact of China’s WTO accession will depend upon (i) the intensity and structure of each
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economy’s trade with China, and (ii) the revealed comparative advantage (RCA) of different industrial sectors vis-à-vis China. This impact will necessarily vary from country to country. The trade ties of different Asian economies with China are understandably of different intensity. For instance, India’s trade volume with the European Union (1.39 per cent of market share) and the United States (0.94 per cent of market share) is far greater than with China (0.64 per cent of market share). The same is true of several other Asian economies, that is, they trade far more intensely with the major world economies than with China. The two exceptions to this generalisation are Korea (10.7 per cent of China’s market share) and Taiwan (11.85 per cent of China’s market share), for which China is a more important trading partner than the large trading economies (UNCTAD 2000). The impact of China’s accession will largely be determined by this pattern of bilateral trade between China and the Asian economies. Asian economies that presently account for small proportions of the Chinese market are likely to benefit from lowering of tariffs and elimination of NTBs in China. These measures should make exports from small Asian exporters more price competitive. Price elasticity will play a decisive role here. Small exporting economies should be able to outcompete the domestic producers and are expected to increase their share of Chinese market.

In a comprehensive study, Chae (2000) analysed product-specific performance of the Asian economies in the Chinese market and inferred that South Asian economies, particularly India, did not export many industrial products (SITC 6 through 8) to China. Their market share in these industrial products was substantial in other major trading economies such as the European Union and the United States. Conversely, these economies exported far more primary products to China than to other trading economies. Therefore, the South Asian economies should benefit from liberalisation of Chinese markets in both primary and industrial products. Conversely, as South Asian economies, India in particular, progress on their liberalisation path and eliminate tariffs and NTBs on imports, Chinese exports of cheap consumer goods (batteries, fans, toys, tyres, shoes, and textiles) will rise rapidly. In fact, in mid 2001 these industries in India were already feeling the threat of Chinese exports (Slater and Chanda 2001). Indian manufacturers were too small and inefficient to compete with imports from China. They could not match the scale economies of Chinese exporters. In addition, their persistent infrastructure problems acted as a drag on production.

The trade structure of Southeast Asian economies is different from that of the South Asian economies. Chae (2000) found that, for most SITC categories, Indonesia, Malaysia, Philippines and Thailand had higher market shares in China than in the United States. Industrial products of categories of SITC 7 and 8, machinery and other manufactured goods, were an exception to this generalisation. Malaysian exports seem to be a typical case. In 2000, its exports of machinery and other manufactured goods (SITC 7 and 8) to the US market were higher than those to the Chinese market. In all the other SITC categories, China’s market was a larger draw. Southeast Asian economies have increased their presence in China’s market in all the SITC categories except SITC 7 and 8.

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A useful way of identifying which Asian economies and products will do well in China after the WTO accession is by calculating RCA in the Chinese market. Chae (2000) has done this with 1998 statistics and found that both the country groups, South and Southeast Asia, had RCA in some similar product groups, namely SITC 0 (foods), SITC 1 (crude materials) and SITC 4 (animal and vegetable oils). There were differences in RCA in other products. While Indonesia and the Philippines showed clear RCA in mineral fuels, the South Asian countries had clear RCA in manufactured goods which included large range of products from textiles and clothing to iron and steel. Korea and Taiwan RCA calculations provided counter-intuitive conclusions. They showed higher RCA in categories SITC 5 (chemicals) and 6 (basic manufactures), while they showed far lower RCAs for SITC 7 and 8. Apparently, they have not fully exploited their export potential in these two categories in the Chinese market.

**Conclusion**

As the largest developing-country trader, China will derive many benefits from WTO accession beyond political recognition and national prestige. China’s economy will benefit from the accession commitments of 140 WTO members and will be in a position to capitalise on globalisation. Preparation for accession will also provide an impetus to domestic reforms, which, in turn, will make the economy more competitive. Negotiations for WTO accession have been underway since July 1986. Progress has been slowed by the 1989 Tiananmen Square incident, disagreements over market access, intellectual property rights, and the domestic trading rights of foreign-invested firms. Trade in agricultural commodities was another difficult area. In addition, some of the largest trading countries in the world wanted accession negotiations to be done on ‘commercially viable terms’, which would mean that Chinese markets would be as open as those of other NIEs. Despite the delays, the negotiations are now at an advanced stage and there is a strong possibility of accession being completed in 2001. The legacy of central planning has made the process difficult. The size of the state-owned sector remains substantial, despite the general shift towards a market-based economic system.

During the last decade and a half, trade reforms have continuously been made with WTO accession in mind. Substantial reductions in tariff rates have taken place during the 1990s, and particularly during the late 1990s. This process needs to go further. Domestically, WTO accession will benefit the most competitive industries (textiles, light industry, coal, building material, and non-ferrous metals), while uncompetitive industries (the metallurgical industry, petrochemicals, and machinery) will suffer. The implications for other Asian economies cannot be generalised. The impact of WTO accession will depend upon (i) the intensity and structure of trade of each economy with China, and (ii) the revealed comparative advantage (RCA) of different industrial sectors vis-à-vis China.
Notes

1. The first three ways were the export-led, investment-led and consumption-led growth strategies.
2. Early in May 2001, at a business forum in Hong Kong, President Jiang Zemin reiterated that WTO membership will bring long-term economic benefits for China, and that their internal preparations for accession will not be affected by external considerations.
3. Canada, the European Union, Japan and the United States are the four members of the Quad. According to the WTO annual report for 2000, the members of the Quad accounted for 33.4 per cent of global merchandise exports in 1999. The members of the Quad have a good deal of influence over the global decisionmaking process in the arena of trade.
4. Zhu Rongji is widely known as the most pro-reform leader in China.
5. China held APEC chairmanship for 2001. This APEC meeting was held on 3 June 2001 in Zhenzhen, China.
6. In 2001, the farm subsidy level was between 2 and 3 per cent of the value of China’s output (Lo 2001). It would be hard-pressed to afford more. Thus, the disagreement was partly symbolic.
7. This was approved by the 4th session of People’s Republic of China’s 8th National Congress in March 2000.
8. Various standard international trade classification (SITC) categories are as follows: 0-Food and live animals; 01-Beverage and tobacco; 02-Crude materials excluding fuels; 03-Mineral fuels; 04-Animal, vegetable oil and fats; 05-Chemicals; 06-Basic manufactures; 07-Machines, transport equipment; 08-Miscellaneous manufactured goods; 09- Unclassified goods.

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