China's WTO accession: how close is it now?

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China's WTO accession has entered a critical stage. At the Seattle Ministerial Meeting to be held in late November a new round (the Millenium Round) of WTO multilateral trade talks is expected to be launched. It is also widely expected that this round will be short (probably about three years). If China does not enter the WTO soon, it may miss out on the opportunity to participate in the negotiations. On the domestic front, China's SOE reform has also entered a critical stage. While SOE reform has its own logic and underlining driving forces, timely WTO accession would provide a much needed boost to the now lingering SOE reform.

Current state of negotiations

This is perhaps why Zhu Rongji went to the US with unprecedented 'concessions' on China's WTO offer in April this year. Of course, that bold move by Zhu did not lead to the conclusion of the Sino-US bilateral negotiations, which are critical to the final conclusion of the accession negotiations. Nevertheless, the visit and offer have put further negotiations on a positive and momentous basis.

Tariff reductions in Zhu's offer are substantial.[1] Average tariff levels will be brought down from the current level of 25 per cent to 9 per cent. China has also pledged to phase out all quotas on industrial products, most within a couple of years and a few within 5 years. Sensitive agricultural commodities (mainly grain) will be subject to tariff-rate quotas. In-quota tariff rates are minimal (1-3 percent), and initial quotas are generally well above the current levels of imports and they will grow at generous rates. Overall, the USTR claims that China's market access offer is comparable with or better than those of major US trading partners, including developed country partners (Tariffs on US exports will be 7 per cent after the reductions).

Most of the remaining stumbling blocks seem to be in service industries, although even there substantial progress has been made in distribution, telecommunications, professional services, travel and tourism. In general, China has agreed to lift its restrictions on the scope, location and extent of foreign equity participation in China's service industries. Foreign firms will be free to enter most service industries wherever they want to locate. Majority and wholly foreign ownership is allowed in many industries.

Industries where differences still need to be resolved include banking, insurance and audiovisual, in addition to agricultural export subsidies. Issues which need to be settled are the scope, location and extent of foreign participation in these industries. The banking sector will be particularly difficult as China tries to restructure its failing

[1] The following are based on the USTR Press Release on 8 April 1999. Chinese officials have subsequently denied that China has agreed to everything in that press release.

banking system. The fear there is that if China allows foreign competition in a short period of time, domestic banks will be forced out of the market, causing banking crises. Audiovisual services are also very sensitive. Over the past twenty years of reform, the Communist Party and the Government have been consciously trying to avoid any Western cultural influence while gradually integrating China into the world economy. The industry will no doubt take advantage of this concern and rally support from conservative forces to maintain *status quo*.

On the rules embodied in the draft Protocol of China's WTO Accession, it is claimed that China will comply with TRIMS Agreement and the WTO Agreement on State Trading. The most noteworthy aspects of the draft Protocol are fourfold. First, the US will be able to treat China as a non-market economy for the purpose of antidumping and countervailing purposes. This implies that the US will be able to use third country reference prices to determine if Chinese exporting firms are dumping or their exports have been subsidised. The second important and disturbing aspect is that China has the obligation of voluntarily restraint on its exports if they 'are a significant cause of material injury'. The US has insisted on this despite the ban of VERs by the Uruguay Round Agreement. This sets a dangerous precedent for other transitional economies which are lining up for WTO membership. The third aspect is that the US can apply restraints on Chinese exports unilaterally based on standards that are lower than those in the WTO Safeguard Agreement. Again this is a direct violation of the non-discrimination principle. Finally, the agreement allows the US to restrict Chinese textile exports five years after MFA quotas will have been phased out for all other developing countries.

The benefits of WTO accession

Despite these problems, there is little doubt that China's WTO accession will benefit both China and its trading partners. Certainly, some industries, especially the SOE-dominated heavy industries and some mordern service sectors, such banking and insurance, will be hurt by greater market access, but some other industries will expand because of improved market access overseas and reduced costs of imports. In the end, overall economic activities will expand as the resources will be used more efficiently.

Perhaps the largest benefit of WTO accession to China is its impact on its trade regime. China's current trade system evolved from central planning and still lacks transparency. This has provided breeding ground for rent-seeking and is often at the centre of complaints by China's trading partners. Greater transparency in the trade regime will also have profound implications for the rest of the economy. This is particularly important for SOE reform where transparent rules are lacking and their lock-in is needed.

Other benefits are also likely to be significant. First of all, lower protection and greater transparency would reduce the rampant corruption which has aroused great concern by the authority and ordinary citizens. Smuggling would fall as a result of tariff reductions. After all, all these are consistent with China's objective of building a modern market economy with 'socialist spiritual civilization'.

China will also be able to enjoy more secured market access. Apart from laying to rest the acrimonious annual MFA renewals in the US, China will be in a much better position to tackle discriminatory trade restrictions using the WTO dispute settlement mechanism. China will have more influence over the path of future rounds of WTO negotiations. This can benefit China as well as other developing countries, particularly if China plays a positive role with regard to high tariffs on textile products in industrial countries. Potential longer-term benefits include more balanced treatment of environmental and social issues (such as labour standards) in the future rounds of WTO talks.

The political economy of WTO accession

If China's WTO accession has so much to offer, why it has taken so long and yet there is still no sign of resolution. The answer to this question lies in the political market. As China moves away from a central planing economy to a market oriented one, enterprises become more accountable for their financial performance. Trade policies begin to affect their profitability. Like in all other countries, democratic or otherwise, industrial interest groups devote resources to lobbying the government. These interest groups are often represented by the government departments which supervise and regulate them. This is best demonstrated by the uproar from various ministries after Zhu Rongji's WTO offer was made public by the USTR. MOFTEC officials were grilled when they tried to explain the planned concessions to various ministries in charge of agriculture, banks, audiovisual, cars and telecommunications. These interest groups have much of the popular support. Not only widespread unemployment has cast doubt on the value of WTO accession in the minds of workers, but also disputes over issues such as Taiwan and human rights between China and the West have led to much resentment to the West.

In China's trading partners, especially the US, the political economy surrounding China's WTO is even more complicated. There, not only industrial groups have gone all out trying to curb China's competitive exports, such as garments and toys, an unusual alliance has formed over a wide spectrum of interest groups, ranging from religious rights to anti-abortion activists. Their strong lobby has resulted in a protocol of China's accession that is clearly discriminatory. Counter forces represented by US exporting industries do exist, but the strength of their persuasion is greatly undermined by the allegations over their 'putting profits before national security' in exporting to China. In the end, President Clinton did not accept Zhu Rongji's offer in April, which was widely regarded as to have well exceeded US expectations prior to Zhu's visit.

The prospect

With the Seattle meeting just a month away, what is the prospect for China's WTO accession? The short answer is that time has run out for this year. The best one can hope is that the ongoing negotiations will keep the momentum and by the time of the Seattle Meeting a broad agreement can be reached and the accession process is firmly on track. But this will not guarantee that China will enter the WTO in the near future. With US presidential election campaign under way in earnest, China's WTO accession is unlikely to be an issue to be taken up positively by politicians. On the China side, WTO accession is also a risky business for politicians. The premiership will be open for contention in 2001, but political maneuvering will start much earlier. Zhu Rongji may have wanted to boost his mandate by fast-tracking WTO accession after his popularity has sunk with slow SOE reform but steady increases in unemployment. Will

China have a premiership candidate who dare to offer unprecedented 'concessions' to the West?