

EC330: What Have Been the Consequences of Chinese Accession to the World Trade Organization (WTO)—for the Chinese Economy and for the Rest of the World?

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Introduction

The Chinese economy has experienced an astonishing growth in the last few decades. According to Lawrence (2006), the rapid of China has been driven by its global economic engagement. After fifteen years of negotiations with the United States and other Western countries, China reached an agreement with the World Trade Organization (WTO) on September 17, 2001, and successfully became the 143rd member of the WTO on December 11, 2001.

China has made commitments in its accession to the WTO on three levels: first, a commitment to the objectives of the WTO, such as free and non-discriminatory trade among all WTO members; second, a commitment to the international regulations governing trade for particular sectors, such as agriculture, apparel, information technology and telecommunications; third, a commitment to bilateral agreements that China signed with its major trading partners. (Guthrie, 2012: 283) According to Chow (2003: 106), conditions for China to join the WTO include making tariffs reduction on imports, granting permission to foreign firms to sell directly in the Chinese domestic markets and opening telecommunications and financial sectors to more foreign competition. Guthrie (2012: 283-284) writes that for agricultural products, China promised to reduce tariffs from 31.5 percent to about 15 percent, and it promised to remove export subsidies and increase the volumes of tariff-rate quotas on most imports promptly. For industrial products, China agreed to eliminate restrictions and lower the average tariff from 24.6 percent to 9.4 percent by 2005. For information technology products, China consented to sign the WTO Information

Technology Agreement. Under the terms of the agreement, all tariffs on telecommunications equipment, semi-conductors, computers and computer equipment, and other information technology products will be eliminated eventually. Besides, China pledged to open major service markets such as accounting, banking, insurance, securities and many other professional services to foreign service providers. Also, trading and distribution rights of foreign firms will eventually be granted, and thus they can engage in service, wholesale and retail trade, as well as import and export. In addition, China has dramatically liberalized its domestic economy and proposed a large number of internal policies like eliminating all forbidden subsidies (including those to state-owned enterprises), liberalizing trading rights and standardizing the operations of state trading enterprises so as to meet the conditions of its accession to the WTO. Within the WTO agreement, the most notable commitment is that China agreed to accept the provisions of trade-related aspects of intellectual property rights. “Recognizing the need to stimulate the domestic innovation and gain access to foreign technology and responding to the international pressure, China has strengthened its intellectual property rights regime.” (Martin et al. 2003: 6-7)

The Consequences of Chinese Accession to the WTO for the Chinese Economy

Since the Chinese accession to the WTO in 2001, foreign trade and foreign direct investment (FDI) have become more important for the Chinese economy. In the past few decades, repeated waves of liberalization and trade promotion have been held in China, and each wave has been followed by a huge increase in foreign trade. Figure 1 shows trade (i.e. exports and imports) as a share of GDP, and how China’s position has altered dramatically. In 1978, the trade ratio of China was in a relatively low level when comparing with the world average. After 1978, China started to open up its economy and introduce a series of economic policy reforms. In the early 1990s, the trade ratio of China met the world average owing to the “Reform and Opening” which is so-called “Gaijie kaifang”. However, the pace of trade

growth slowed down in the period from 1996 to 2001 and trade as a share of GDP stabilized, though both were still increasing at a steady rate. According to Naughton (2007: 393), the deceleration of trade growth was caused by three reasons including the impact of external events such as the Asian Financial Crisis in 1997, the 30 percent depreciation in the RMB between 1994 and 1997, and the insufficient of dramatic progress in trade liberalization during that period.

Nevertheless, China's trade has lifted up again since 2002. (Figure 1) "The renewed liberalization of the trading regime signaled by the WTO accession in 2001 has led to a renewed surge in China's trade." (Naughton, 2007: 393) One of the consequences of Chinese accession to the WTO for the Chinese economy is that it has led to a growth of Chinese exports and imports increased above 20 percent per annum. Lawrence (2006: 3) states that the dollar value of Chinese exports and imports increased at annual rates of 29.3 and 25.3 percent respectively between 2001 and 2005. As a result of this great performance, China's share in world exports increased from 3.9 percent in 2001 to 6.5 percent in 2004. Similarly, its share of world imports increased from 3.3 percent in 2001 to 5.9 percent in 2004. This makes China to become a vital participant in world trade, and also the dominant trading power in East Asia.

Ianchovichina and Martin (2004) have analyzed the consequences of liberalization associated with the WTO accession of China in agriculture, manufactures and services. For this analysis, they make use of a special variant of the Global Trade Analysis Project (GTAP) model. (Hertel, 1997) Ianchovichina and Martin (2004: 16) write that a significant feature of the period after the WTO accession of China concerns the consequences of eliminating the quotas on textiles and apparel that were originally imposed on China and other developing countries under the Multifiber Agreement. The abolition of quotas has a considerable effect on the textile and apparel sectors in China, which has been restricted by the quotas so tightly

in the past. Table 1 shows the changes in China's key economic indicators after 2001 as a result of the Chinese accession to the WTO. The total volume of exports is expected to increase by 16.8 percent as a consequence of the liberalization associated with the WTO accession. With the elimination of textile and apparel quotas, exports of apparel lead the export expansion with an increase in export volume of about 106 percent, followed by textiles and automobiles. Exports of most agricultural products such as wheat, vegetables and fruits will also increase owing to the decrease in input costs of agriculture and the persistent difficulties workers face in migrating out of agriculture. Nevertheless, exports of plant-based fibers are predicted to decrease because of the rising demand for cotton in the export production of textiles and apparel and the removal of export subsidies. (Martin et al. 2003: 14-15) Similar to exports, the total volume of imports is projected to increase by 17.3 percent as a consequence of the substantial reduction of trade barriers. Imports of beverages and tobacco are projected to increase by more than a double because of the dramatic decrease in tariffs on these commodities. Imports of services including construction and commercial services also have a significant increase in import volume owing to the trade liberalization in services.

Apart from that, labour movements between sectors also appear as a consequence of the liberalization associated with the WTO accession although their changes are quite small relative to the changes in foreign trade. The biggest change in employment after the WTO accession is likely to be in the apparel sector, with an increase of about 57 percent. Employment in the textile sector and plant-based fibers used in textile production will also increase so as to meet the demand from apparel sector. Nevertheless, employment in most agricultural sectors and some manufacturing sectors are expected to fall after the WTO accession and a series of trade reform. (Martin et al. 2003: 15) In addition, Ianchovichina and Martin (2004: 18-20) write that China can have a welfare gain of \$40.6 billion per year as a

consequence of the WTO accession. Most of the gain (\$31 billion) was realized following the extensive trade liberalization during the period from 1995 to 2001 and the continuing restructuring of the automobile industry. The remaining reforms will give an additional welfare gain of \$9.6 billion per year.

On the other hand, FDI has played an important role in the Chinese economy since the WTO accession of China in 2001. Prior to the WTO accession, China has maintained a number of restrictions on foreign entry in the most crucial service sectors. The Chinese accession to the WTO involves commitments to reduce most of these barriers substantially. According to Naughton (2007: 419-420), three service sectors (wholesale and retail trade, transport and telecommunications, and finance) account for large proportion of FDI inflows in all developing countries. Between 2001 and 2002, wholesale and retail trade, transport and telecommunications, and finance accounted for 7.4, 8.0 and 11.5 percent respectively in total FDI inflows of world developing countries. In contrast, wholesale and retail trade, transport and telecommunications, and finance only accounted for 2.1, 1.6 and 0.4 percent respectively in total FDI inflows of China. Naughton (2007: 420) writes that “WTO commitments will have the largest impacts on these three service sectors. Wholesale trading rights of foreign firms were being granted during the 2003 – 2005 period. Transport and telecommunications sectors were being opened to minority foreign ownership during the period from 2005 to 2008. Financial sectors were being progressively opened to more foreign competition, with an important milestone in 2007, when the banking market was opened to foreign participation.” These changes associated with the WTO accession have driven further expansion and significant structural change in FDI inflows of China. For instance, the shares of wholesale and retail trade, transport and telecommunications, and finance in Chinese FDI inflows increased to 5.7, 2.0 and 6.2 percent respectively in 2015. (Table 2)

The Consequences of Chinese Accession to the WTO for the Rest of the World

Since the Chinese Accession to the WTO in 2001, the linkage between China and the rest of the world has become closer and closer, and the volume of world trade has increased dramatically. According to Ianchovichina and Martin (2004: 20), the North American and Western European economies that eliminate their quotas on textiles and apparel and increase their direct trade with China will gain the most in absolute term. North America, Western Europe and Japan will also gain as China has cut most of its protections after its WTO accession, which has increased its efficiency and competitiveness as an export supplier and its demand for their exports. This implies that the dramatic rises in Chinese imports and exports associated with the WTO accession can create great opportunities for those countries (as China's trading partners) to benefit, both as beneficiaries of lower-priced and higher-quality imports and as suppliers of exports to this rapidly growing market. (Martin et al. 2003)

Guthrie (2012: 286) writes that the WTO accession of China will certainly strengthen trade and investment ties with its Asian neighbours, and thus can provide them a more stable and secure environment. In this regard, countries like Japan, Taiwan and South Korea will benefit substantially through strengthened trade links with China. Apart from that, the newly industrialized economies of Asia will benefit from the Chinese WTO accession, given that they have invested heavily in China in the 1980s and 1990s. In addition, the opening up of Chinese service sectors as a consequence of the WTO accession has given large trade and investment opportunities to the United States and other advanced industrial economies. Most advanced industrial countries can thus increase their exports of capital and technology-intensive commodities to this vast market.

Although the Chinese WTO accession has brought lots of benefits to key developing economies and the world as a whole, some developing economies in Southeast Asia, South Asia and Latin America that compete with China in third markets may get hurt from the

abolition of textile and apparel quotas after 2001. For instance, Vietnam – an economy that is following in China's footsteps and possesses similar pattern of comparative advantage in labour-intensive commodities will be the largest loser. (Ianchovichina and Martin, 2004: 20) Guthrie (2012: 285) mentions that those developing countries have worried about the sharp decrease in global demand for their exports and the fall in their FDI inflow owing to the large market size and great potential in the production of labour-intensive exports in China. On the other hand, advanced industrialized countries have worried that increased Chinese exports would flood and cause damages to their domestic markets.

Conclusion

To conclude, the Chinese economy has experienced an astonishing growth in the last few decades. China has emerged as one of the largest participants in the global economy since its accession to the WTO in 2001. It has made commitments in its accession to the WTO on three levels: first, a commitment to the objectives of the WTO; second, a commitment to the international regulations governing trade for particular sectors; third, a commitment to bilateral agreements that China signed with its major trading partners. Conditions for China to join the WTO include making tariffs reduction on imports, granting permission to foreign firms to sell directly in the Chinese domestic markets and opening telecommunications and financial sectors to more foreign competition.

Since the Chinese accession to the WTO in 2001, foreign trade and foreign direct investment (FDI) have become more important for the Chinese economy. In the past few decades, repeated waves of liberalization and trade promotion have been held in China, and each wave has been followed by a huge increase in foreign trade. Nevertheless, the pace of China's trade growth slowed down in the period from 1996 to 2001 and trade as a share of GDP stabilized. China's trade has lifted up again since 2002. The renewed liberalization of

the trading regime signaled by the WTO accession in 2001 has led to a renewed surge in China's trade. The Chinese accession to the WTO has led to a growth of Chinese exports and imports increased above 20 percent per annum. The total volume of exports is expected to increase by 16.8 percent as a consequence of the liberalization associated with the WTO accession. Similar to exports, the total volume of imports is projected to increase by 17.3 percent as a consequence of the substantial reduction of trade barriers. Apart from that, labour movements between sectors also appear as a consequence of the liberalization associated with the WTO accession although their changes are quite small relative to the changes in foreign trade. In addition, China can have a welfare gain of \$40.6 billion per year as a consequence of the WTO accession. On the other hand, FDI has played an important role in the Chinese economy since the WTO accession of China in 2001. Prior to the WTO accession, China has maintained a number of restrictions on foreign entry in the most crucial service sectors. The Chinese accession to the WTO involves commitments to reduce most of these barriers substantially. These changes associated with the WTO accession have driven further expansion and significant structural change in FDI inflows of China.

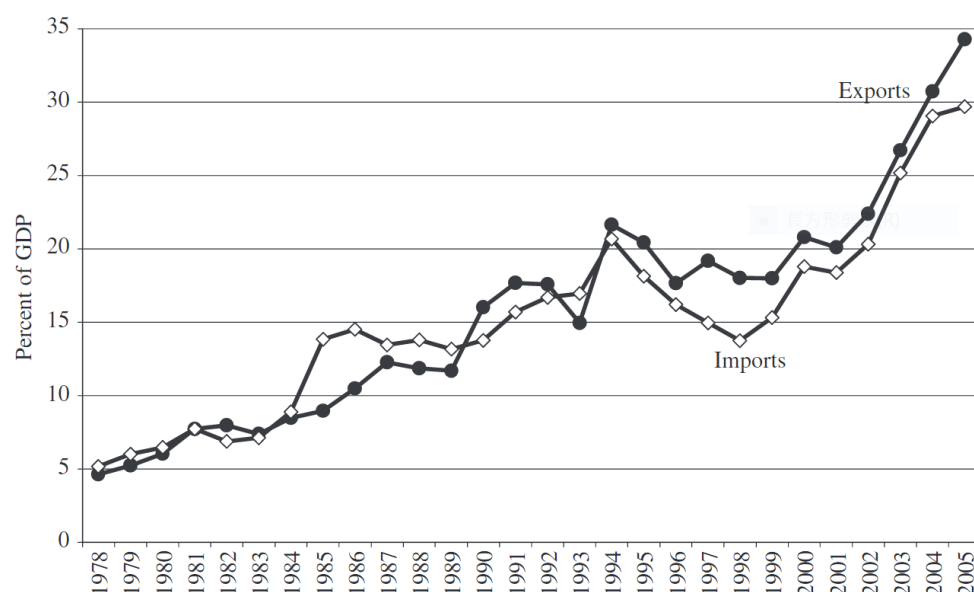
After 2001, the linkage between China and the rest of the world has become closer and closer, and the volume of world trade has increased dramatically. The North American and Western European economies that eliminate their quotas on textiles and apparel and increase their direct trade with China will gain the most in absolute term. North America, Western Europe and Japan will also gain as China has cut most of its protections after its WTO accession, which has increased its efficiency and competitiveness as an export supplier and its demand for their exports. The WTO accession of China will certainly strengthen trade and investment ties with its Asian neighbours, and thus can provide them a more stable and secure environment. Apart from that, the newly industrialized economies of Asia will benefit from the Chinese WTO accession, given that they have invested heavily in China in the

1980s and 1990s. In addition, the opening up of Chinese service sectors as a consequence of the WTO accession has given large trade and investment opportunities to the United States and other advanced industrial economies.

Although the Chinese WTO accession has brought lots of benefits to key developing economies and the world as a whole, some developing economies in Southeast Asia, South Asia and Latin America that compete with China in third markets may get hurt from the abolition of textile and apparel quotas after 2001. Those developing countries have worried about the sharp decrease in global demand for their exports and the fall in their FDI inflow owing to the large market size and great potential in the production of labour-intensive exports in China. On the other hand, advanced industrialized countries have worried that increased Chinese exports would flood and cause damages to their domestic markets.

Appendix

Figure 1



Source: Naughton, 2007: 378

Table 1

Product	Output	Employment	Exports	Imports	Trade balance (US\$ million)	Wholesale prices	Consumer prices
<i>Agriculture</i>							
Rice	-2.1	-2.3	6.1	-7.1	64	-0.9	0.9
Wheat	-2.0	-2.3	18.9	-10.1	174	-1.7	0.4
Feedgrains	-2.3	-2.6	-77.8	-2.4	-596	-1.9	1.9
Vegetables and fruits	-3.4	-3.7	14.6	-6.3	214	-1.9	-0.1
Oilseeds	-7.9	-8.4	29.8	20.9	-789	-2.8	-4.7
Sugar	-6.5	-7.4	13.9	24.1	-73	-1.9	-3.1
Plant-based fibers	15.8	16.4	-51.8	7.7	-189	0.1	3.1
Livestock and meat	1.3	1.1	15.5	-8.9	837	-1.6	0.2
Dairy	-2.0	-2.4	13.5	23.8	-143	-1.5	0.2
<i>Manufacturing</i>							
Processed food	-5.9	-6.4	11.4	62.6	-3,460	-1.7	-1.8
Beverages and tobacco	-33.0	-33.1	9.7	112.4	-14,222	-1.8	-6.9
Extractive industries	-1.0	-1.3	7.5	-4.4	2,088	-0.7	1.2
Textiles	15.6	15.5	32.7	38.5	-10,366	-1.7	-3.2
Apparel	57.3	56.1	105.8	30.9	49,690	-0.5	-1.9
Light manufacturing	3.7	3.7	5.9	6.8	1,786	-0.9	0.0
Petrochemicals	-2.3	-2.3	3.1	11.8	-8,810	-0.7	0.8
Metals	-2.1	-2.1	3.7	6.8	-1,893	-0.4	1.3
Automobiles	1.4	-2.2	27.7	24.0	516	-3.9	-4.2
Electronics	0.6	0.4	6.7	6.8	453	-1.3	-1.7
Other manufactures	-2.1	-2.2	4.1	18.9	-11,291	-0.5	0.8
<i>Services</i>							
Trade and transport	0.0	0.0	0.8	-0.4	493	-0.2	1.6
Construction	0.9	0.9	2.7	17.5	-436	-0.2	1.7
Communications	-0.5	-0.5	-0.5	10.9	-56	0.1	1.9
Commercial services	-2.0	-2.0	-0.4	35.4	-1,749	0.2	1.9
Other services	-1.7	-1.8	1.4	33.6	-1,525	-0.1	1.6
Total	1.0	0.0 ^a	16.8	17.3	717	-0.7	-0.2

Source: Ianchovichina & Martin, 2004: 11

Table 2

Main Invested Sectors	2015, in %
Manufacturing	43.2
Real estate	20.9
Business services and renting	6.2
Wholesale and retail trade	5.7
Transport, storage, telecommunications, postal services	2.0

Source: Invest in China, 2016

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