

## **China: The Implications and Key Lessons Learned through WTO Accession**

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China's accession to the World Trade Organization (WTO) has taken 15 years of arduous and protracted negotiations. In assessing this process, one finds that it is a worthy undertaking, not only for China, but also for other countries, especially in the context of numerous ongoing trade negotiations at the global and regional levels. Many thought that China, as a major trading country, was to join the WTO as a matter of course. Others thought that, because of the country's sheer size and importance, the WTO had to handle China's accession with the utmost care. Whichever the approach, 15 years of negotiations seem far too long to achieve such a goal, particularly in relation to the average time taken by other countries that have acceded to the WTO.

Oddly enough, as the chief negotiator of China's WTO accession and having had to endure so much difficulty and shoulder so many burdens during this long process, I now believe that it may prove to be a good thing for China to have undergone these difficult years of negotiations. It may seem illogical, but it is true. The key is how one views the accession process. If you look at this process of negotiation only as one in which you have to make endless concessions to your partners and confront endless challenges at home for the sake of obtaining a WTO membership card, then you would find this process very painful and long indeed. If, instead, you look at the process from a strategic point of view, in the framework of China's long-term economic development, as well as its relationships with the rest of the world, you will find that many positive elements have been generated through this historic process.

### **Building a consensus**

The fact is that many people only perceive the apparent difficulties and pain of the negotiations themselves. They do not know that there is another side to the coin, an even tougher and therefore more significant process, one of consensus building among our own people at home on some major issues that are being confronted not only by China, but also by many other countries, especially the developing ones.

The issues include, although they are not limited to, the following:

- How to address economic globalization
- How to achieve a balance between trade liberalization and economic development
- How to tackle social issues such as unemployment in the restructuring of the economy

It is the process of consensus building around these major issues domestically that turns out to be the more important aspect of China's WTO negotiations.

The fact that China's accession to an international organization would have such a wide impact throughout the world is something we had not expected at all. The important thing is that we in China have successfully and skillfully handled the domestic side of the accession process and have transformed the pressure generated by these negotiations both at home and abroad and

turned them into a promoter, a catalyst for China's historic process of economic reform and opening to the outside world, a process started by Deng Xiaoping in 1979.

That is the most significant lesson we can draw from the negotiations: *that we have involved not only dozens of negotiators, but also millions of ordinary Chinese in the process.* To some extent, the process became an unprecedented, massive education programme for our people regarding globalization and the restructuring of the economy, with its positive, as well as negative implications for their day-to-day lives. I believe that this striking feature of China's WTO accession—not as a diplomatic exercise in Geneva, but as a range of broadbased activities involving millions of people in a quest for a better life—is a unique experience in the context of contemporary trade negotiations.

### **The issues China had to confront**

To understand this unique feature of China's accession to the WTO, one should examine the major outcomes of the 15 years of negotiations. To acquire the right to WTO membership, China has made numerous commitments, which can be grouped into two broad categories: first, to observe international rules and practices and, second, gradually to open up its markets. By committing itself to international rules and practices, China has addressed some of the fundamental problems it has faced in the economic reform and opening-up process.

First, China is determined to create a market economy based on the rule of law. A sense of rules has certainly been lacking in China. The planned economy the country pursued for several decades was based on the rules of men, and, to make matters more complicated, several thousand years of feudal society had given the "rule of men" deep roots. So, China's economic reform has reached a critical stage, namely, that of making the rule of law an essential element in the country's economic system. It is against this background that China's commitment to international rules and practices arising from the WTO accession negotiations has become an integral feature of China's economic reform process.

As China has committed itself to making its domestic laws and regulations consistent with WTO rules, it started an extensive clean-up of its existing legal system; this "clean-up" includes the massive task of repealing or modifying numerous laws and regulations.

At the same time, China established reasonable legal measures to protect domestic industries and the domestic market in those situations where WTO rules allow them, under the so-called safety-valve mechanism. These measures included, among others, modifying and drafting antidumping regulations, ant subsidy regulations, and special safeguards.

As legal reforms have accelerated hand-in-hand with the accession to the WTO, China's economic reform process has entered a new stage hallmarked by emphasis on the rule of law and the importance of making laws consistent with international practice. This progress in the legal sphere has certainly had a far-reaching impact on China's economic reforms, giving them greater sustainability and international recognition.

Second, after 20 years of reform and market opening and as tremendous progress was being achieved in economic development and the improvement of people's livelihoods, China has also witnessed the emergence of serious market disorders, including smuggling, corruption, bribery, sham goods, tax evasion, counterfeit goods, and pirated software. These have become the tumor in the body of China's economy. The Chinese government launched an extensive campaign against these evils in the marketplace, fully aware of the long-term significance of this action. WTO accession, including the enforcement of international rules, has certainly given the

government the full legitimacy to take strong, sweeping measures to deal with these issues.

The government realized that it was dealing not only with an imminent threat to the establishment of a true market economy; it was also addressing fundamental obstacles to creating a society based on values of reliability, honesty, and truthfulness. Therefore, upon completing the accession negotiations, China set up an unprecedented and extensive training programme for the whole country on the WTO rules, additionally thought of as a driver to forge the ethical values of honesty and trustworthiness both in business practices and in people's daily lives. This educational programme, which was partly a result of the WTO accession, has helped to change the business environment, but, more importantly, the social and ethical environment of the Chinese people in the 21st century as well.

Third, in China's opening-up to the outside world, one of the key achievements is the fact that China has become the premier location for foreign direct investment (FDI) among the developing countries, with a yearly average of US\$40 billion in the last decade. FDI today plays an important role in China's economic development. In 2005, enterprises benefiting from foreign investment contributed 57 percent to the overall imports and exports in China and 20 percent of the country's tax revenue and, more importantly, generated more than 20 million jobs. It is of paramount importance to keep up the volume of FDI and improve the quality of these investments.

In spite of all the efforts already made by the government, including an array of measures offering preferential treatment, there is still much room for improvement in China's investment environment. The chief complaint that an increasing number of foreign investors and business people were making to the government before the WTO accession was the lack of a transparent, predictable, and stable legal environment.

In China, there used to be numerous so-called internal regulations governing business practices. These were only known to a few people, a situation that conspired against the desired transparency of law. In many cases, the local regulations were not consistent with national rules, even less with international practices, and they were changing all the time, making predictability almost impossible. As a result, the investment environment has deteriorated in some parts of China, and the government has had to take decisive action to stop random fees and fines, compulsory donations, and unauthorized inspections of foreign capital enterprises. In this connection, China's WTO accession has provided timely recipes for improving the business environment for FDI flows.

In summary, China's WTO commitment to observe international rules has helped China build a market economy based on the rule of law, a market economy characterized by order, and a market economy with a transparent, stable, and predictable legal environment. All these are not only fundamental if China is to move into a truly market-driven economic system, but they are also important if China is to maintain the reputation of its business environment in order to attract more FDI and to avoid unnecessary trade disputes with its fellow WTO members.

The ongoing WTO negotiations have included efforts to introduce more rules, regulations, standards, and so on in such areas as environment and labor. Once these are accepted by WTO members, they will have far-reaching implications for the domestic economic system of the members and the functioning of their governments and companies.

However, it is imperative to avoid as much as possible the practice of a double standard in the implementation of the rules in order to strengthen the rule-based system of the WTO. Paragraph 15 and 16 of the protocol on the accession of China set up different rules for China only in the area of antidumping and product-specific safeguard mechanisms. Even though these

provisions were agreed under specific circumstances during China's WTO negotiations, they have weakened the position of the Chinese government in its efforts to convince the general public to observe the WTO rules since people have concluded from these provisions that there may be exceptions to the rules and that China is already a victim of these exceptions.

### **A two-way process**

By committing itself to a gradually more open market, China has highlighted some important points to be maintained in its trade policies.

In the first place, China believes that market openness is a two-way process. China, as an increasingly important trading country in the world, cannot simply take advantage of the markets of others; it has to open its own market. This is the principle of mutual benefit and nondiscrimination. It is also of fundamental importance in reducing trade frictions and disputes.

However, China has forcefully held that the opening of domestic markets, especially by developing countries, should be a gradual process. The extent of opening should be in line with the level of development of each individual country. That is why China insisted very firmly on its developing-country status throughout the entire negotiation period.

The opening of markets should serve the growth of markets and be conducive to domestic economic development. Otherwise, it would only lead to a situation, where, as the Chinese proverb goes, "One kills the hen in order to get the egg." It would be a real tragedy for trade negotiators if, after such tough negotiations, they find that the market has been opened, but that, actually, the market has ceased to exist because there is no economic growth and residents have no purchasing power.

Since China and its negotiation partners, especially those from developed countries, have come to a common understanding that only a gradual opening of the Chinese market can produce a win-win outcome for all the parties concerned, some compromises have been reached with regard to opening up markets, including many arrangements during the transition to ensure a gradual process.

These outcomes have taken into account the level of maturity reached in each and every sector under negotiation. Therefore, the arrangements protect the development of these industries from serious risk; on the other hand, the arrangements promote the development of these sectors through healthy and appropriate external competition.

Second, China believes that the main benefit of opening up to trade and investment flows is to catalyze change in Chinese domestic industries, not simply to generate foreign exchange. China is not opening itself up so that foreign products can flood the domestic market; rather, it is opening its markets to enhance the competitiveness of Chinese industries.

Of all the sectors opening up to competition since China's WTO accession, for many constituents, agriculture would be the most vulnerable and therefore the most exposed to massive import competition. With WTO entry, China's average tariff on agriculture imports fell to 15 percent from 22 percent in trade-weighted terms, affecting mainly wheat, maize, rice, and vegetable oil. It was even predicted that more than 9 million to 20 million farmers would lose their jobs. In terms of first impressions, this may be true. However, it was also believed that China's entry provided a real opportunity to restructure the country's agricultural sector, which has been the least open and lags relatively behind other industries in the reform process.

Compared with advanced countries, China's agriculture does not enjoy a comparative advantage in producing some foodstuffs, including wheat, corn, soybeans, and other vegetable

oil crops. China has only 7 percent of the world's arable land, but has to feed 20 percent of the world's population. In addition, many areas of China are short of water. Therefore, as some agricultural experts argue, China should import more grain as this is tantamount to the importation of scarce land and water resources. Given China's size, even if it imports the full tariff-quota volume of grains (about 22 million tons a year), such imports would still amount to less than 5 percent of the country's total production of these crops. This means that food security could be guaranteed even in the very unlikely event of a food embargo. Therefore, China should be resolute in restructuring its agriculture sector so as to move to the more competitive products, such as fruits, vegetables, and meat, because WTO membership will bring greater access to foreign markets.

In any event, WTO entry has certainly exerted a major influence on the government to introduce a more rational and fair policy toward agriculture, strengthening it through better infrastructure and services and by alleviating the financial burden and increasing the incomes of farmers. After China's WTO accession, the Chinese government decided to abandon the agricultural tax, which has been practiced for thousands of years in China and has been considered a negative subsidy in agriculture. Furthermore, China has also increased its domestic support for agriculture within the so-called green box (the WTO category that allows subsidies for agriculture in certain cases). It would be interesting to debate whether this development can be considered positive or negative as a result of China's WTO accession.

The development of the agricultural sector following WTO accession may prove that WTO entry was a turning point for China's agricultural policy and the driving force behind a new phase of seeking to achieve world standards of competitiveness. It has been found that another key benefit of opening up to world trade and investment flows has been the cultivation of new industries to generate massive employment, which is critical for China's sustainable economic development, as well as social stability.

As a result of the WTO market-access negotiations, China has made the most significant offer of opening up the service sector. The service sector is relatively undeveloped in China, accounting for only 35 percent of the country's gross domestic product (GDP) in 2004, which is a lower ratio than that in some developing countries and even more so with respect to that in developed countries, where the service sector accounts for 65-85 percent of GDP. Still more remarkable from the Chinese government's standpoint is that the service sector has a weight in terms of employment in those countries that is similar to its weight in their GDP. As a consequence, the Chinese government is determined to restructure the economy and make special efforts to develop its service industries. Its experience in developing some of its most advanced manufacturing sectors, such as electronic home appliances, has led the government to believe that the Chinese service sector will also follow the same road by opening up to foreign competition.

This is the reason why there has been so much more major market openness in banking, insurance, telecommunications, distribution, tourism, transportation, and professional services. However, in retrospect, for some activities, especially in banking, investment, and securities, more openness might have been arranged under China's WTO agreement, if not for the 1998 Asian financial crisis, which hardened the views of Chinese leaders that the opening of the financial sector should be gradual in order not to repeat what had happened in some Southeast Asian countries. In spite of the intention for a more gradual pace in opening up these areas, the service sector in China is, in reality, opening up rapidly and becoming increasingly important in the Chinese economy. We believe that the opening-up of these service sectors will generate

massive job opportunities, especially middle- and high-income jobs, which is important to ensure work prospects at home for talented young Chinese rather than compelling them to seek jobs abroad. The paramount consideration of creating more jobs is reflected in opening up not only the service sector, but also some of the major manufacturing sectors.

The automobile industry is a typical case. Longstanding protection of the auto industry has made it inefficient and noncompetitive and has made cars, whether imported or domestically produced, so highly priced that they have been out of reach of most of the population. This has limited the expansion of the domestic market. This is why, for so many years, private car sales increased very slowly in China. Even more worrisome is the fact that many of the service providers fundamental to the auto industry, such as gas stations, auto loan and insurance providers, and distribution and maintenance networks, have not developed; all these services could generate considerable employment.

### **Gearing up for globalization**

Fortunately, China has been implementing a policy of opening up to trade and investment flows for the past 26 years, that is, for longer than it took to negotiate China's accession to the WTO, and almost all of its population has benefited from this. As a result of the policy, since 1977, China has doubled its income every 10 years, while, historically, it took Britain 58 years, the US 47 years, and Japan 35 years to accomplish this. This is why, during the negotiations, it was comparatively easy to convince our people that a gradual process of opening our markets should not be regarded as unilateral concessions. The fact that the negotiations took longer than we expected has to some extent made it easier for us to prepare conceptually and in practical terms for WTO accession.

On the other hand, there has been strong general public support for accession because of the fact that China, during the negotiations, was very firm in protecting its fundamental interests. We need to make sure that the policy of opening up will not lead to mass unemployment, that it will not lead to the destruction of key industries, and that it will not change China's national values, culture, and identity. The opening of the market should be a positive element in China's economic development, not a negative factor.

Another strategic outcome of China's WTO accession is that it helped to get the Chinese people well prepared for economic globalization. It is generally believed in China that, confronted with the historical tide of economic globalization, China, like other countries, must participate actively in the process. We must also participate effectively in order to benefit from this process and not be harmed by it.

It is somewhat ironic that, when China first gained access to the global trading system, there was a rapid development of regional and bilateral trade agreements. We, the trade negotiators, then became quite puzzled why there had been a need to undertake so much effort to get into the global system if regional and bilateral arrangements could achieve the same purpose. That is why I did not know in the beginning how to handle the negotiations for a free trade agreement with the countries of the Association of Southeast Asian Nations. Gradually, we came to understand that, if the Americans and the Europeans were accelerating their efforts in this regard, Asia's interest might be jeopardized if it did not pursue the opportunities for regional and bilateral agreements. The reality is that intra-East Asia trade is already over 50 percent of the total trade and is approaching the percentage achieved by Europe-North America trade. There should be a mechanism to reflect this trade reality in East Asia and better manage competition

within the region, as well as with other regions. Therefore, it is not a question of whether such a trend would be helpful or harmful to the WTO–Doha Development Agenda process. Rather, it is for the WTO, maybe through the Doha process, to develop rules and frameworks to ensure that regional and bilateral arrangements will not weaken the basis of global trade, but, instead, complement the WTO system.

In conclusion, China's 15 years of negotiations have prepared us to participate in economic globalization in general and for a new round of trade negotiations within the framework of the WTO, as well as many regional-level and bilateral-level trade negotiations, in particular. We have discovered that a balanced approach between the opening-up policy and sustaining economic development works for China. Economic development would not take place without a real opening-up policy. That is why we support the Doha round, a new round that will bring greater economic benefits for the world and especially for the developing countries. That is also why we actively participate in the regional-level effort to liberalize trade and investment, which might prove to be the building blocks for global liberalization.

