China in 5 Years after WTO Accession: Sharing Experiences with Vietnam
Hanoi and HCM City September 2007

A Brief Summary of presentations and discussions

Session I: General overview of achievements, issues and lessons of China in 5 years after WTO accession (by Hu Angang, Center for China Studies Tsinghua University)

Globalization and WTO accession are like double-edged swords, with both challenges and opportunities. The issue is how to promote advantages and eliminate disadvantages, and seize development opportunities of deeper integration. The government of China adopted a series of policies and measures since China’s WTO accession in 2001, which was listed in China’s “Tenth Five-Year Plan”. Five years after accession, China has smoothly gone through the transition period, and achieved unexpected gains. Its success can be seen both domestically and internationally. In this five-year period, China became the world’s fourth largest economy as measured by GDP; and GDP per capita also jumped from No. 130 in 2000 to No. 100 in the world; trade volume increased from $1.4 trillion in 2000 to $1.7 trillion (No. 3 in the world) in 2006, and is expected to reach $2 trillion in 2007; and human development indicators also had considerable improvements.

Domestic benefits can be summarized in four areas: a) Gains in international trade. Trade has been growing faster than expected, China’s trade share in the world quickly increased from 3% to 7.8%; and unexpectedly, high-tech product’s share in China’s export also increased rapidly. b) Huge gains by sectors. Industrialization accelerated, agriculture sector also saw growth. Actually almost all sectors that have been opened have witnessed strong growth, such as the automobile sector (China became the 2nd largest producer in the world with annual production of 8.5 million cars), telecom, transportation, legal etc. Competitiveness is improved. c) Development gains. Openness attracts more FDI, increases FDI related employment, and tax income from foreign companies. d) Reform gains. Market system is improved, domestic companies’ competitiveness increased. Pressures from opening forced SOEs to speed up their reform process, and functions of the government have also been transformed.

International gains are shown in: a) overflow effect to surrounding economies (China became the largest trading partner of 15 countries in 2005). b) China’s contribution to the global trade growth. c) Create opportunities for Development in Africa and Middle East.

Negative impacts are smaller than expected, mainly shown in the following areas: a) some SOE’s non-performing loans (NPL) rose; b) some companies’ wasteful/blind investment in sectors with excess capacity; c) agricultural productivity has been low and the gap to advanced agriculture is still huge; d) regional inequality between coastal and inland areas has increased significantly; e) dependency on imported resources increased.

1 This summary is prepared by Bintao Wang and edited by Yan Wang (TTL). This note is useful since the workshop was conducted in Chinese and Vietnamese only. Most teaching materials were in Chinese.
Assessing the future impact of Vietnam’s WTO Accession. Vietnam is entering a
period of economic take-off, GDP grows at 8-9% per year. Fast trade growth is
anticipated after WTO accession. Vietnam has made remarkable progress in achieving
MDGs, witnessed the fastest poverty reduction rate –even faster than that of China. Poor
and rural population benefited from growth. Vietnam’s Gini Coefficient is lower than
China, and has more equitable growth. Compared to its GDP level, its human
development indicators have reached relative higher level than China.

Q&A

On the positive impact of China’s fast growth to the global economy. 1) Scale
effect of growth. The rising living standards of China’s 1.4 billion population is a huge
contribution to the world. 2) China becomes an engine of world economy growth; 3) it
also opened big market for foreign exporters; 4) China makes a huge contribution to
employment worldwide.

On negative impact. The most distinct negative impact is the deterioration of
income inequality across regions especially coastal area vs. inland areas (the ratio of
export volume to GDP from inland areas is lower than in 1980). Internationally, as a huge
trading party, China increased the intensity of global trade imbalance; it may have
potential negative impacts on natural resources and environment.

On special treatment to developing countries in the WTO. As a developing
country joining WTO, Vietnam should execute its rights, actively participate in
negotiation process, help DDA reach its development objective. Developing countries
can use SDT and special safeguard to protect its infant industry in the transition period.
Currently there are some Special and Differential Treatment (SDT) to developing
countries under WTO, some developed countries have duty-free, quota-free treatment to
Least Developed Countries, etc. But overall the specification of special treatment to
developing countries is very general. Vietnam and other developing countries should
push to make it more clear and operational in the WTO system. For example, in the area
of reducing agriculture tariff and domestic support in the US and EU, etc.

On industrial transformation. China’s industrial transformation took only about
10-15 years, and paid a big cost. It accelerated in 1995, the most difficult period was
1998. Almost 60 million workers were laid off, it was about 1.5 times the total labor
force of Vietnam. The challenge is on one hand to create new opportunities, on the other
hand, to protect vulnerable people. China improved its social security system, and
invested to develop informal sectors to create new jobs.

Session 1b "Coordination among central and local governments after China’
accession to WTO (by Fu Xingguo, Director of Department of WTO Affairs, Ministry of
Commerce)

Legislation, training, and accession’s negative impact were discussed.
On legislation, since laws and regulations must be consistent with WTO rules,
China cleaned up about 3000 central government decrees, 190,000 local decrees in the 5
years after accession, which involved lots of central and local coordination. It’s a process
of “Adopting New Laws, revising and abolishing old ones” -including laws, regulations
and decrees at center, provincial and local levels, as well as implementation. Legislation was cleaned up through the following approaches: actively review current regulations as led by the Office of Legislative Affairs of the State Council; passively revise by requirement; as recommended by a Consultation Bureau; losing in a trade dispute also requires revising legislation. The difficulties may not be the wording of certain regulations but the negotiation process, to set up some fundamentals to build upon. E.g. the Intellectual Property Rights, administrative arbitration used to be adopted in deciding appearance patents, but after WTO accession, it needs to be dealt with in court. Some juridical practitioners feel at lost because of lack of experiences.

On training. Quite a few WTO centers and WTO institutes were set up to meet the huge demand of WTO related training. WTO documents were translated into Chinese. Trainings were offered to a wide range of people, ranging from policymakers, negotiators, legislators, law enforcement officers, to university lecturers and students. They were organized in various forms, e.g. provincial seminar, workshop, discussion forum, action plan drafting groups, etc.

On example of failure after WTO accession. We haven’t heard any member country who wants to withdraw from WTO; no one has suggested revising the core clauses of the WTO. Even though many countries’ economic situations were worse than China and Vietnam, but no one had experienced economic collapse because of WTO accession. The accession cost is high, but the opportunity cost of not entering WTO is even higher. Members can form groups with parties that share similar interests in WTO, and use its free but fair procedure to address the conflicts, and seek the maximization of their interests.

Session II Economic and Legal issues after China’s WTO accession

Session II (a) Opening of financial sector in China after WTO accession: achievements, issues and experiences (by Han Mingzhi, Director General, International Department, of China Banking Regulatory Commission)

China had a huge banking sector burdened by Nonperforming loans. It is vulnerable to the increased risks after China opens its financial sector. So our approach is to sequence the reform and take one step at a time. China’s financial sector reform started from 1979 together with the economic reform. China’s WTO accession greatly accelerated the reform process. China used recapitalization, stripping off NPLs, introducing strategic investors, new management mechanism, IPO and other approaches to strengthen and restructure the State Owned Banks. China Banking Regulatory Commission was established to strengthen banking sector supervision. Attentions were also paid to deposit insurance system and rural finance.

Liberalization or openness has two sides, and it’s not necessarily the faster the better. Considering the weak financial foundation, weak risk management capacity in China, a gradual, prudent opening process was adopted. When sub-prime market crisis is affecting major economies in the world, China suffered relatively smaller loss. But as China gradually opens its financial sector, more risks are anticipated. It requires
improved supervision not only to institutions themselves-both domestic and foreign-, but also over their different financial products. Qualified foreign institutions have started RMB business for individuals as well as for firms in China, as promised in China’s WTO commitment.

Future challenges include how to manage risks, and how to properly provide financial service to the whole society including the rural poor. Rural finance and micro finance are still underdeveloped in China.

**Session II (b) Legal system reforms in China after WTO accession** (by Zhong Qing, Beijing WTO Center)

Between 1999 and 2002, cleaning up of domestic laws; 10 new laws were adopted. After 2003, 6 new laws were drafted and 9 pieces revised. **Legal structure /hierarchy** in China: Constitution at the top level, then followed by laws at the National Congress; administrative decrees/ codes at the central government/state council level, administrative regulations at the sectoral/ ministry level, and judicial interpretation (at the national level). The third tier includes laws and regulations at provincial People’s congress’, regulations at the local government levels (provincial, municipal, prefectures).

**Adjustment of operating mechanism:** unified implementation at central and local level; local laws—record keeping, and subject to further examination; transparency principle, official website, document query system.

**Q&A**

Is it possible for local government not complying with central government’s commitments? Is it possible for local government to open ahead of schedule before the central government? Does local government have its own space in legislation?

Generally unified implementation principal should be followed. Trading partners can suit the national government if a local government does not comply with WTO principles. But local government may have some flexibility in the area of trade in services on opening ahead of schedule. For a country with imbalanced economic development across regions, sometimes there is a conflict between local interest and national interest. On the incentive structure for local officials, their evaluation should take into account broader range of indicators, such as the environment aspect, in addition to GDP, export, and FDI. According to judicial review, government’s sectoral ministries have only administrative power; court should have the final ruling power.

**Session II (c) China experience in WTO accession: how to respond to USA anti-dumping suits against China** (by Yu Fei, Shanghai University of Finance and Economics, School of Law)

There are 536 anti-dumping cases against China. Regarding non-market economy, US Department of Commerce (DOC) compares a selection of economic characteristics relating to six criteria for investigation. A 100% anti-dumping duty is imposed to 10 countries to force their factories out of market. DOC is also pushing the Countervailing Duty cases. Normally non-market economy is not subject to countervailing duties, but this year the US department of commerce (DOC) has brought up 7 cases against China. DOC’s application procedure is more complicated and strict. (PPT is available)
Agriculture is an important sector in China. 5 years ago, agriculture contributed to 11.8% of China’s GDP, 41.3% of labor force, and 56% of the total population lived in rural area. China’s agriculture tariff is among the lowest in the world. We had worried the possible shock to agriculture sector after WTO accession. Now it seems China has rather smoothly passed the transition period, a few sub-sectors saw some negative impacts, but generally speaking, impact of WTO accession to China’s agriculture sector is positive. Agricultural production has been increasing for 4 consecutive years since 2004, after 7 years’ stagnation, farmers’ income started to rise from 2004, the structure of agriculture started to shift towards products with comparative advantages (88% of agricultural export is labor-intensive, primary resource intensive products decrease). Explanation is given in 3 aspects: 1) Government put agriculture on top of its agenda, adopted “Unified Planning of Urban and Rural Economic and Social Development” policy in 2002, “give more, take less” in 2003, “industry nurturing agriculture” in 2004, “build new socialist countryside” in 2005. For 4 consecutive years from 2004, the Party issued No. 1 Circular stressed issues related to agriculture, farmers and rural development. 2) There might be a lag before more negative impacts would emerge; 3) Prices of agricultural products in international market have been rising, but domestic prices have been low. China used Tariff Rate Quota (TRQ) effectively which may not be used in the future.

Challenges to the agriculture sector remains. It will be hard for China’s small scale, self-sufficient agriculture to compete with the large scale farmer in the US and EU. The huge support to agriculture sector in developed countries may take different forms, but they will hardly reduce. Specific challenges to China: 1) Import pressure keeps rising in some products, esp. soybean and cotton; 2) Deficit in agriculture trade becomes normal; 3) International market risk; 4) Complexity of agricultural trade, standard and technical barriers, SPS and safeguard issues.

Q&A

On meeting the challenges. 1) For some fundamental products, using TRQ has achieved notable systematic effect. But it also drew criticism from certain interest groups. For cotton, corn, China didn’t find effective method to limit import. 2) In the East coastal area, companies are linked with peasant households-- agricultural product company build its own product base in rural area; utilize advanced technology to reduce cost. 3) Land tenure issue is crucial. Land using right should be allowed to transfer with compensation. 4) Urbanization is happening at a rapid pace. Providing training to rural surplus labor; addressing social security issue for rural labors in urban area emerged as pressing issues. 5) Rural environment issue. Pollution from animal husbandry becomes serious — there are efforts to promote ecological agriculture, organic agriculture, and reduce the use of chemical fertilizer.
On supporting policies. China has reduced/eliminated agricultural taxes; used subsidies to support agriculture. There are 4 types of subsidies: direct grain-growing subsidy to grain farmers, decoupled subsidy; seed variety subsidy; mechanization, subsidy on means of agricultural production (e.g. fertilizer), amber box subsidy, and they are below the 8.5% limit for domestic support. There is a move to support key agricultural products: price subsidies, minimum-purchase-price; rural infrastructure; rural education; and rural minimum social protection (Di bao).

On Small and Middle sized enterprises (SMEs). China’s rural finance is underdeveloped and very limited. There are strict land acquisition rules. Urbanization/cluster development is important; set up rules and improve the investment climate and level the playing field—foster market competition.

Session III (b) Social security reform in China after WTO accession (by Yang Yi Yong, Economic Department, National Reform and Development Commission)

After WTO accession, there’s an urgent need to improve social security system as inequality situation deteriorates. Security is a serious issue especially in informal sectors. China’s reform covers the following areas: 1) Pension Insurance (for urban enterprises, urban residents, and later, farmer’s pension); 2) health care insurance system (in 2007, health insurance for urban resident is expanding coverage; in rural area, the new cooperative health insurance covers 90% on a voluntary basis); 3) Unemployment insurance (now only covers 1/7 of the labor force); 4) work injury insurance towards rural labor in urban area (coverage increased from 1/18 to 1/8); 5) minimum protection system (Di bao) in rural and urban areas.

Economic development is the basis for the social security system. Its reform can’t be completed in one day, and should be carried on gradually and by categories according to the state’s capabilities. Government should take the leading role. International tradition/experiences should be considered (ILO). Socialized management of the social security system doesn’t mean government’s direct management. Government should strengthen legislation on social security issues, increase the budget for social security, improve communication, and consider the social insurance for rural and urban residents in a coordinated and integrated fashion.

Session III (c) Healthcare insurance situation and policy after China WTO accession (by Xu Linhui, Shanghai Academy of Social Sciences)

In China, health care resources are allocated unequally: urban population (40% of total population) has enjoyed 80% of total health care resources. Health care expenses are too high for rural people. Study shows that 25% of the poverty is caused by illness. Income increase can’t catch up with the rise in health care expenses. Health care system is far from ideal. Policy suggestions: balance the health care resources between rural and urban and across regions (through a regional health care treatment plan); secure funding; strengthen government’s efforts on prevention.

On rural medical insurance. The Cooperative Health Care Services started from the 1960s, disappeared in the 1980s, only existed in very limited rich area. New Experimental Rural Cooperative Health Insurance starts from 2001; cost was shared by
central government (20 yuan), local government (20 yuan) and individual (10 yuan). Farmers can join voluntarily. It is still too early to evaluate this system and the effectiveness is still to be seen.

Session III (d) Realizing the mutual benefits of environment and trade: China’s policy of environmental protection after WTO accession (by Shen Xiaoyue, Policy Research Center for Environment and Economy, SEPA)

WTO accession posts new challenges to China’s environment. Current structure of trade (lower-end export, resource intensive export and processing trade…) puts pressure on the environment. New environmental risks also come from importation of garbage, electronic waste, as well as invasion of foreign species, and wildlife trade. Foreign investments have been concentrated in pollution- and resource-intensive sectors, some local government lowered environmental standards in order to attract FDI. Sustainable Trade Barriers provide both opportunities and challenges.

New policy direction is to rebalance the environment and economic development: 1) use trade instruments to reach environment protection goals such as reducing export tax rebate of high-energy consumption, high-pollution and resource-intensive products; 2) revise foreign trade law, establish foreign investment guidelines; 3) In WTO related laws and regulations, raise environmental standards and emission threshold; 4) Set up coordination mechanism.

Session V Experiences of provinces and cities of China after her accession to WTO

Guangzhou: Service Sector Development. Challenges after WTO accession included the following: wholesale and retail sector, big foreign supermarket chains brought more competition; lay off problem of old state-owned commercial enterprises; increased imbalance of regional development, investment concentrates in the Pearl River delta; tax evasion, abusing labor rights in some foreign invested companies, etc. Closer Economic Partnership Arrangement with Hong Kong boosted service sector development in Guangzhou. Experiences: Raise awareness on the importance of the service sector, and manufacturing centers need well-developed service sector. The profitability of service sector might be very small at the initial stage, it may take 10 years before ports, airports, and highways turn profitable.

Guangxi: Reform the government’s administrative management system, transform functions of the government: 1) Simplify procedures and delegate power; 2) Improve effectiveness of government, transform government towards service-oriented government, focusing on economic adjustment, market supervision, providing public services and social management. 3) Promote law-based administration and transparency; 4) set up performance-based evaluation. Improve efficiency: The first person receiving the inquiry must be held responsible to follow it through; 2) set specific processing time; 3) Responsibility and accountability system.