WTO Accession, Policy Reform and Poverty Reduction in China

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Will WTO Accession Spoil China?

- China’s reforms have been extraordinary
  - Open-door policies, export processing, reduction in tariffs, elimination of NTBs
- Strong focus on China’s own development needs
  - Reform to improve technology, create jobs
- WTO accession reduces China’s flexibility, sets a path of reform, emphasizes rule of law
  - But will WTO reduce China’s reforming zeal?
We think not

• China has to respect her solemn legal commitments, but these are not a recipe
• Retains flexibility to pursue development goals
  – eg by minimizing antidumping, using TRIPS flexibilities, liberalizing services, lowering tariffs, opening sectors currently subject to state trading
  – The key is to focus on good economic policy
• And WTO membership means an opportunity to push for better policies in China’s trading partners
Accession Involves

- Non-discrimination between suppliers
  - and between domestic and imported goods
- Uniform administration and transparency
- Liberalization of Trading rights
- Protection substantially reduced
- Abolition of all NTBs except state trading
- Abolition of TRIMs
- Abolition of MFA quotas on textiles
Other Key Features

- Trade-Related Intellectual Property Rights
- Retention of state trading for oil and key agricultural products
- Tariff-rate-quota regime for some imports
- Non-market economy treatment in antidumping for 15 years
- Product-specific safeguards for 12 years
- Special textile safeguards for 3 years
## Most Tariff Reduction Done

<table>
<thead>
<tr>
<th>Year</th>
<th>Weighted</th>
<th>Unweighted</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>41</td>
<td>43</td>
</tr>
<tr>
<td>1995</td>
<td>30</td>
<td>36</td>
</tr>
<tr>
<td>2001</td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td>Post-accession</td>
<td>6.8</td>
<td>9.8</td>
</tr>
</tbody>
</table>
Agriculture

- Huang and Rozelle study shows agricultural protection rates generally low in China
  - Export subsidies must be abolished—important for maize and cotton
- Some reductions in protection are likely to be required but minor relative to many assessments
- Barriers against agricultural exports 4 times as high as those against manufactures
- Green box and decoupled support policies not subject to 8.5% limit on domestic support
## Agricultural Import Protection

<table>
<thead>
<tr>
<th></th>
<th>1998 Tariffs</th>
<th>Protection 2001</th>
<th>Post-accession</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>127 %</td>
<td>-3.3 %</td>
<td>-3.3 %</td>
</tr>
<tr>
<td>Wheat</td>
<td>133 %</td>
<td>12 %</td>
<td>12 %</td>
</tr>
<tr>
<td>Maize</td>
<td>130 %</td>
<td>32 %</td>
<td>32 %</td>
</tr>
<tr>
<td>Veg &amp; fruit</td>
<td>15</td>
<td>-4 %</td>
<td>-4 %</td>
</tr>
<tr>
<td>Oilseeds</td>
<td>132 %</td>
<td>20 %</td>
<td>3 %</td>
</tr>
<tr>
<td>Cotton</td>
<td>3 %</td>
<td>17 %</td>
<td>20 %</td>
</tr>
<tr>
<td>Lvstkd &amp; meat</td>
<td>35</td>
<td>-15 %</td>
<td>-15 %</td>
</tr>
<tr>
<td>Dairy</td>
<td>46 %</td>
<td>30 %</td>
<td>11 %</td>
</tr>
</tbody>
</table>
Manufacturing

- Six percent decline in protection required, vs 33 percent undertaken since 1992
- Big reductions in tariffs on beverages/tobacco and motor vehicles
- Massive restructuring of automobile sector required—should allow output to rise
- Consumption tax policies will affect consumption and imports of beverages/tobacco
Abolition of MFA Quotas

- Removes a major burden from China’s exporters of textiles and clothing
- China’s clothing exports up over 100%, employment up more than 50%
  - Much stronger demand for cotton
- Shifts resources out of other manufacturing activities
  - may create opportunities if countries flexible enough to take advantage
AD & Safeguards: big problem

- WTO rules on antidumping are too weak
  - Allow protection when there is no dumping
- China suffers greatly from AD measures
  - Faces twice as many AD actions as the USA
  - And seven times as many per $ of exports
  - Non-market economy treatment serious
- Product-specific safeguard against China a major concern
- Increased use of AD in China raises costs
  - Much better to press for tighter WTO rules
GATS

• General principles of transparency and MFN
• China has committed to opening in 57% of sectors and modes vs 38% in other large developing countries & 47% in rich countries
  – “The most radical services liberalization ever negotiated in the WTO”
• Many reservations on geographical, ownership, business scope
  – geographical restrictions may encourage agglomeration in favored areas/exclusion of other areas, if not eased
Logistic Services

• Logistics costs currently very high in China
  – 30-40% of wholesale prices vs 5-10% in USA
  – Lower costs → big gains in remote areas

• China’s commitments cover all the components of logistics
  – Provide a basis for perhaps 10% cut in costs through greater competition, efficiency
  – But many complementary reforms needed—remove discrimination, end local protection, improve infrastructure
Telecom Services

• Allows entry to a wide range of services
• Key issue is the regulatory reforms involved in the reference paper
• No commitment to allow more than 49 percent foreign ownership
  – Will this prove to be an effective way to achieve China’s development objectives?
TRIPS

- China will have a modern structure for intellectual property rights
  - Patents, copyright, trademarks, trade secrets
- Uses the flexibility in the agreement consistent with China’s development needs
  - But proposals for stronger protection—eg patent protection for software may be too strict
- Concerns with administration and enforcement
Labor Markets Are Critical

- WTO commitments, and China’s growth & development will require massive movements of workers
- Many barriers to mobility between agriculture & other sectors
  - Poor education, lack of experience, formal barriers (eg hukou), inability to sell land use rights, all limit mobility
- Hukou a small, but important, barrier
Household Impacts

- WTO benefits urban more than rural workers
- Indications that some poorer rural households may suffer significantly
- Best solutions to this problem lie in policies with long-run beneficial impacts for the poor
  - eg improving labor mobility, better educational opportunities, improved agricultural technology, stronger social safety nets
Implications for Policy in China

• Some policy reforms follow directly from the agreement, but it’s not a recipe

• Important policy issues, such as
  – The level of tariffs relative to tariff bindings
  – What investments will support development?
  – How to improve the regulatory framework?
  – How can China use the WTO to achieve its goals?
    Improve market access, strengthen rules on AD
  – Should China reduce barriers to labor mobility?

• Development impact can guide policy choices
Impacts on other countries

- Gains from increased market opportunities in China
- Gains from increased availability of imports from China— as long as not offset by protection
- Potential losses from third market competition
- Potential increase in competition for foreign capital
Conclusions

- WTO accession builds on the reform process, but still a major turning point
- Implementation will involve major changes in areas like agriculture & automobiles
- Some poor rural people may be hurt
- Complementary reforms needed if the full benefits are to be realized