



RESEARCH NOTE

Number 24, 2001-02
ISSN 1328-8016

China's Admission to the World Trade Organization (WTO): What does it mean? Who will/won't benefit?

After 14 years of negotiation, China was admitted to the World Trade Organization (WTO) on 11 December 2001 as the 144th member. The admission will have a major impact on the domestic Chinese economy and politics, will alter patterns of world commerce and affect international political relationships.

What is the WTO?

The WTO is the successor organisation to the General Agreement of Tariffs and Trade (GATT) which had overseen international trade from its establishment in 1947 until the inauguration of the WTO in 1995. The WTO regulates a new series of agreements under which member countries acquire rights to trade with other members on the basis that access to markets is guaranteed. Members accept an obligation to extend the same right to every other member of the WTO. The rights, unlike virtually any other international agreement, are policed by a system of compulsory arbitration which is accepted by all members, including the US and European Union (EU). Membership will lock China into a rules based international trading system.

The agreement on WTO entry covers the industrial, agricultural and service sectors, unfair trade and investment practices and other rules and includes specific, enforceable commitments in each area. Fulfilling these promises will require fundamental change in business practices and government policies in China.

Implications for China

The WTO agreement commits China to substantial reductions in tariffs, removal of many non-tariff

barriers and opening up of sectors such as finance and services to foreign competition. These reforms should enhance specialisation and open up new investment opportunities.

The further opening of the Chinese economy to foreign investment and subjecting Chinese trade to international rules will certainly benefit those sectors of the economy which are internationally competitive. It will increase China's integration into the world economy. Membership will facilitate Chinese exports to major markets in the US, EU and Japan.

The WTO will also provide a means for China to argue its case in bilateral trading issues. China has already opened a case against Japan over Japan's restrictions on the import of mushrooms and over alleged dumping of paper products by importers into China.

Pressures for Reform

Most commentators consider that China and its trading partners will benefit from China's accession. But the Chinese Government will face enormous challenges in meeting the requirements of the WTO while trying to maintain domestic economic reform and growth.

The Chinese economy has experienced two decades of sustained growth which has transformed the standard of living of a great many Chinese. But this growth has revealed many of the structural problems within the Chinese economy and created social dislocation and inequality.

Many state-owned enterprises (especially heavy industries created in the 1950s and 1960s) and small-scale industries are highly inefficient. The concentration of growth in coastal regions has left

many interior regions undeveloped and mired in poverty. Major social and urban problems have been created by the movement of huge numbers of people in search of jobs.

The requirements of WTO membership will increase the urgency for the Government to tackle these issues. Having to compete against cheaper foreign imports will place extra strain on the inefficient sectors of the economy, but large-scale closures would add to China's already huge problem of unemployment. Although internationally competitive industries will benefit from increased openness, most economists consider that the increase in unemployment will probably occur at a faster rate than the creation of new jobs. Moreover, these trends will only exacerbate regional disparities because investment will cluster even more in developed areas.

Politically, the accession to the WTO represents a victory for those elements in the Chinese leadership, including President Jiang Zemin and Prime Minister Zhu Rongji, who have been pushing to normalise China's economic and political relationship with the rest of the world and to integrate China into the global economy. It is to the advantage of those who control the internationally competitive sectors of the economy, to the coastal regions of the country and to those with an open view of China's international relations.

It is a blow to old line nationalists who regard organisations such as the WTO as instruments of US economic and cultural imperialism. It may complicate the position of the People's Liberation Army (PLA) because the military is a bastion of anti-Western and anti-US sentiment

but it also owns significant economic interests (eg hotels) that could benefit from WTO membership.

Implications for the Asia-Pacific region

Economic Effects

Many economies in the region will benefit from the opening up of new markets and investment opportunities in China, from cheap Chinese imports and from possible complementarities with Chinese producers. Increased competition from China may, however, create problems for some domestic industries in these countries.

The Asia-Pacific countries whose economic profiles are similar to China's may be particularly affected by Chinese competition. Because these countries specialise in similar products to those produced in China they will face increased competition in their key markets in the US and the EU. Exporters of clothing and textiles and electronic goods such as Indonesia, Thailand and India will be especially affected. India's burgeoning trade in computer services may also face increased competition.

There will also be increased competition for scarce foreign investment funds. The southeast Asian economies still recovering from the 1997 financial crisis, especially Indonesia, are in urgent need of foreign capital but may be bypassed in favour of more attractive opportunities in the growing Chinese market. Most ASEAN countries have already been affected by a shift of investor interest to China.

In general terms the more developed Asia-Pacific economies that are more complementary with China and that already have well-established trade and investment linkages with China are likely to benefit the most from China's membership of the WTO. These include the US and Canada, Japan, South Korea and Taiwan and Australia. The US in particular will benefit from the opening up of the trade in services, including the financial sector, insurance and

accounting firms, as well as high technology industries.

The increased Chinese competition in labour intensive industries will continue to cause concern in some US industries. The continued stagnation in the Japanese economy have also meant that protectionist sentiment has been strong in that country as a result of the possibility of increased competition from China.

Political Effects

The WTO explicitly excludes bilateral political questions from its activities, but international trade issues cannot be delinked from global political issues or from bilateral relationships.

China's membership took so long because it was controversial in the US and other Western countries. China's initial attempts to join failed because of the international reaction to the violent suppression of the pro-democracy movement in 1986. China's accession to the WTO could be seen as the final acceptance of the country on the global stage as a 'normal' country that is prepared to accept certain international norms and is willing to take on the political tasks of reforming its economy.

In bilateral terms, China's accession settles a long-running source of tension with the US. The issue had become directly linked with a range of irritants in the China-US relationship, including human rights, labour and environmental standards. On the other hand, one part of the price of WTO membership for China was accepting that Taiwan would be allowed to join.

There is some possibility that bilateral trade disputes may receive more prominence as a consequence of China's membership. The WTO has clear procedures to deal with commercial disputes and China can be expected to make full use of them to strengthen its diplomatic position with countries in the region as well as to advance its economic interests. This is, however, no different from could be expected from any other state in the WTO and is an inevitable outcome of integrating a country of China's size into the wider global system.

Implications for Australia

The Australian economy will gain from opportunities created by the new trade and investment regime in China, while no Australian industries are likely suffer from increased Chinese competition.

Australian access to the Chinese market will be improved, in manufacturing, services and especially agriculture. Reduction of barriers for wool, sugar, grains and other Australian agricultural products should boost exports to China. Services such as telecommunications, insurance, banking and education will also benefit. WTO rules will also help resolve any bilateral trade disputes that may develop between the two countries.

The only possible concerns relate to adverse affects from increased Chinese competition that may be felt by Australia's regional neighbours, such as Indonesia. This may prolong continued economic sluggishness in these countries, thus reducing their trade with Australia. Any resulting regional tensions will need to be closely monitored by Australia.

Dr Stephen Sherlock
Foreign Affairs, Defence and
Trade Group
Information and Research
Services

19 February 2002

Views expressed in this Research Note are those of the author and do not necessarily reflect those of the Information and Research Services and are not to be attributed to the Department of the Parliamentary Library. Research Notes provide concise analytical briefings on issues of interest to Senators and Members. As such they may not canvass all of the key issues. Advice on legislation or legal policy issues contained in this paper is provided for use in parliamentary debate and for related parliamentary purposes. This paper is not professional legal opinion.

© Commonwealth of Australia