

Analyse the consequences of China's WTO accession in 2001, both for China and for the WTO and its existing members.

### Introduction

China's modern history of a centrally planned economy prevented compatibility with the market-oriented principles of the World Trade Organization (WTO). However, China soon found itself realigned with liberal trade policy after the market reforms undertaken by Deng Xiaoping. Even with the reforms starting in 1978, it took 15 years, beginning in 1986, for China to negotiate its way into the WTO. The length of these negotiations reflects the significance of China's admittance, for its consequences for both the Chinese economy and existing WTO members, were broad and deep.

China's accession in 2001 began with its negotiations in 1986, and would not have been realized without the many reforms it took during the 90s. In fact, the attempt to join the WTO may have provided equally significant consequences as joining the WTO itself. Therefore, I shall investigate the question in consideration of this.

My first section, which will underlie the expectations and nature of reform of China in the 90s, will give a solid basis from which to draw further arguments in my subsequent sections. Further arguments will be drawn into two distinct sections. First, I shall be analysing the consequences of the accession in regards to the Chinese economy itself. The areas I will primarily be looking into will be; (1) Agricultural Industry (2) Policy Reforms (3) Anti-dumping measures (4) Distributional Changes.

Secondly, I will analyse the consequences for existing WTO members. As East Asian economies will be most affected by China's accession, they will be concerned in the bulk of this section. Distinction will be drawn between; (1) Developing Countries in East Asia and, (2) Newly Industrialized Countries in East Asia. I will be paying particular attention to (3) Taiwan, and towards (4) Hong Kong's co-operation with Guangdong Province in China.

### China's accession – reform

China's economy in the 80s was still relatively protectionist compared to many surrounding economies, such as Korea and Japan. However, it was becoming much closer to the market-oriented economies, with massive trade liberalization underway long before WTO accession. This was in part, to be able to gain WTO membership, but even the efforts to gain membership had massive consequences for Chinese trade.

During the 1990s China made substantial progress in reducing the coverage of nontariff barriers, lowering tariffs, and abolishing the trade distortions created by the planned economy regime.

The average tariff rate fell from 43 in 1992 to 23 in 1997. Much higher than other developing countries, average reduction rate of 24%.<sup>1</sup> The number of tariff lines were subject to quotas and licenses fell from 1247 in 1992 to 261 1999. The import coverage of all nontariff barriers in China fell from 32.5 percent in 1996 to 22 percent in 2001. Coverage of import licensing and quotas fell from 19 percent in 1996 to 13 percent in 2001.<sup>2</sup>

With the substantial reduction in tariffs, quotas and NTBs, accession was not expected to lead to a significant fall in protection on most agricultural commodities after 2001. Some even suggest spoiling China by linking its future reduction to its trading partners.

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<sup>1</sup> IANCHOVICHINA, E. AND MARTIN, W. (2003) *Economic Impacts of China's Accession to the World Trade Organization*. World Bank Policy Research Working Paper, (3053).

<sup>2</sup> Ibid.

## Domestic Consequences

### (1) Agriculture

Since China's accession, agriculture has become a priority for the central government. Historically, the central government has relied on the support of farmers to maintain stability within the country. It was a concern that China's agricultural sector would face major difficulties after the accession. However, there have been many domestic and foreign influences for why this was not the case.

Actual data for 2002, shows that imports decreased and exports increased, meaning China maintained its trade surplus in agriculture post-accession. Compared with 2001, in 2002 imports of wheat, corn, rice and soybeans fell by 12%, 84% and 12% and 18% respectively. The exports of the same commodities increased by 41%, 94%, 6% and 11%.<sup>3</sup>

There are several considerations that led to this promising outlook for China's agriculture. The most obvious explanation is the inflation of world market prices. The United States Department of Agriculture forecasted that supplies globally would fall in 2003, and thus grain prices would inevitably increase. High world prices moderated the negative impacts of the WTO; they prevented massive imports and effectively encouraged Chinese exports.<sup>4</sup> This smoothed China's entry into the world market, where it maintained a comparative disadvantage to land-intensive crops relative to its neighbouring countries. An additional reason for why WTO accession did not affect China's grain trade so dramatically would be grain stocks. Some studies show that the gap between grain production and consumption was about 25-35 million each year between 2000 and 2003<sup>5</sup>. Consequently, this gap was filled by national stocks. This was an important factor behind limited imports and growing export

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<sup>3</sup> DONGLIN, H. (2005) *Why has China's agriculture survived WTO accession?* Asian Survey, 45 (6), pp. 931--948

<sup>4</sup> U.S. Department of Agriculture, Foreign Agricultural Service, Grain: World Markets and Trade, Circular Series FG 1202, December 2002.

<sup>5</sup> DONGLIN, H. (2005) *Why has China's agriculture survived WTO accession?* Asian Survey, 45 (6), pp. 931--948

levels. At the time of accession, these stocks were so large that they had depressed prices for grains. In 2002, the national grain stock had reached 265 million tons, the highest level in history.<sup>6</sup>

Despite promising global trade and domestic resources, China additionally undertook reforms following accession to prevent increased burden of the farming class. Immediately following the WTO accession, China rapidly reformed its budgetary concerns and thus, its policies. Although China is a developing country with a large farm sector, the government's support for agriculture in the past was inadequate. This can be seen from the proportion of national expenditure devoted to agriculture, which had only been 5-7% during the reform period.<sup>7</sup> Since 2002, however, agriculture has been identified for the first time in recent years as a priority sector, as can be seen from the national budget.

## (2) Policy Reforms

Under WTO membership, China could not rely fully on pacifying the countryside by appeasing the farmers with tariffs. It appears as though the regime has adopted new policies to compensate.

In 2001 the central government to carry out pilot projects, while allowing provincial governments to select several counties or cities for their own pilot projects. This has been reflected in many provincial schemes in China following the accession. In Jiangsu Province, a scheme provided a subsidy of 60.8 Yuan for each acre of grain production for some areas in 2003, extending the whole province in 2004. In Guangdong Province, the government declared that would spend 100 million Yuan in direct payments to grain producers every year from 2004. In Anhui Province, a pilot scheme provided a subsidy of 0.11 Yuan per kilogram

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<sup>6</sup> DONGLIN, H. (2005) *Why has China's agriculture survived WTO accession?* Asian Survey, 45 (6), pp. 931--948

<sup>7</sup> Ibid.

of grain.<sup>8</sup> Clearly, it can be seen that the WTO accession has adjusted China's domestic policy concerns. 20 provinces had implemented reform of rural taxation, affecting nearly 620 million farmers or more than 75% of the total number of farmers by 2003, which extended to all provinces by 2004. In areas where the reforms were introduced, the tax burdens on peasants decreased by 30%–80%. In 2003, the rural taxation reform reduced the total tax paid by farmers by 13.7 billion Yuan (\$1.69 billion).<sup>9</sup>

### (3) Anti-dumping Measures

Another key consequence of China's accession to the WTO was to protect against unilateral trade decisions by other countries. The protection of trade interests is especially important as China's export industry suffers more from anti-dumping measures than other WTO member, excluding the EU.<sup>10</sup>

An objective of China would be to protect against anti-dumping by its access to the WTO-Dispute Settlement Mechanism, through which countries imposing unjustified anti-dumping measures against China would have to pay compensation costs, thus increasing the risk of enforcing these measures in the first place. Furthermore, China now has the possibility to involve itself in 'the redesign of WTO rules, like anti-dumping rules', further strengthening its influence in the world market. So far, however, China's accession to the WTO was bound to the condition of allowing provisions against Chinese exports, such as a special 'Transitional product-specific safeguard' provision, scheduled to last 12 years.

Actual data provides us with a good idea of how the accession has protected China against anti-dumping measures. In the years 1995-2001, 130 anti-dumping measures were

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<sup>8</sup> Ibid.

<sup>9</sup> DONGLIN, H. (2005) *Why has China's agriculture survived WTO accession?* Asian Survey, 45 (6), pp. 931--948

<sup>10</sup> IANCHOVICHINA, E. AND MARTIN, W. (2001) Implications of China's Accession to the World Trade Organisation for China and the WTO. The World Economy, 24 (9), pp. 1205--1219.

taken against China, with 332 in the years 2001-2007, and 309 in the years 2007-2013<sup>11</sup>. This shows that anti-dumping measures have increased, although it was to be expected as China was bound to TPS provisions in its accession. The frequency of these measures are given more significance when we look at total anti-dumping measures taken against all WTO members across the same time period. In the years 1995-2001, 942 anti-dumping measures were taken against China, with 1314 in the years 2001-2007 with a decrease to 992 between 2007 and 2013.<sup>12</sup> Since accession, China has not been able to decrease the share of anti-dumping cases brought against it.

However, China has been more able to protect its markets as a result of WTO accession in the context of using anti-dumping measures as a form of protection. In the six years before its accession, it only initiated 25 measures. From 2001 to 2007 it initiated 117 cases, with 53 cases between 2007 and 2013.<sup>13</sup> Hence, directly after its accession, China made quite strong use of the anti-dumping mechanism, thus protecting its markets from being flooded with cheap goods (likely land-intensive agricultural goods).

#### (4) Distributional Changes

China has also had massive distributional changes as a result of the WTO accession. With quotas on apparel and textiles being phased out progressively until 2005, these industries will face huge employment increase in the coming years. Output and employment in the other agricultural sectors, with the exception of livestock and meat, are expected to fall as unskilled agricultural labour moves into the textile and apparel sectors and unskilled nonfarm real wages rise.

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<sup>11</sup> WTO, (2013), 'Integrated Trade Intelligence Portal', (Data compiled by Author), retrieved 14th January 2014 from <http://i-tip.wto.org/goods/Forms/MemberView.aspx> (accessed 14th January 2014)

<sup>12</sup> WTO, (2013), 'Integrated Trade Intelligence Portal', (Data compiled by Author), retrieved 14th January 2014 from <http://i-tip.wto.org/goods/Forms/MemberView.aspx> (accessed 14th January 2014)

<sup>13</sup> Ibid.

Results suggest that approximately 6 million farm workers in China will leave their farm jobs as a result of WTO accession reform after 2001 in pursuit of employment in non-agricultural sectors. Removal of protection on some agricultural sectors additionally lowers the attractiveness of farming and implies falling returns to farm labour and land. Real farm wages fall 0.7 percent, and the real rental price of land falls 6 percent. Nonfarm wages rise 1.2 percent and skilled labour wages rise 0.8 percent. This implies that urban workers are becoming better off as a result of WTO accession.<sup>14</sup>

### Consequences for existing WTO members

The effect of China's WTO accession will be mixed for existing WTO members. One region where we see a contrast in gains and losses for the accession is East Asia. The gains and losses can broadly be split on how developed the economy is, current trade patterns and their comparative advantage. Although China will be the biggest beneficiary of accession to the WTO, gaining around \$10B per annum, Japan and the NICs in East Asia will also benefit.

#### (1) Developing Countries in East Asia

Developing countries in East Asia do not face the same substantial gains that the NIEs do. In fact, many countries; Indonesia, Vietnam, Malaysia, Philippines and Thailand all face welfare losses. This is particularly due to the comparative advantage China has in low skill, labour intensive industries, in which those countries compete majorly in. However, the losses were not fully realized until 2005, when quotas on Chinese textiles and apparel exports to North American and Western Europe are lifted. As a result of the lifted quotas, and relatively lower tariffs post-accession, these South East Asian economies face massive trade divergence in industries such as apparel and textiles.

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<sup>14</sup> IANCHOVICHINA, E. AND MARTIN, W. (2004) *Impacts of China's accession to the World Trade Organization*. The World Bank Economic Review, 18 (1), pp. 3--27

In actual data, all of these economies face loss of exports of up to \$1.3B USD in the apparel industry (as in the case of Indonesia).<sup>15</sup> The textile industry will also be heavily affected, but not as significantly. Losses are not as substantial outside of these industries.

As China becomes a more efficient supplier of services or a more efficient producer of high-end manufactures, its comparative advantage will shift away from labour-intensive products. This is good news for Vietnam, Indonesia and other developing countries with comparative advantage in these industries. However, it affects negatively the more advanced Southeast Asian countries and the NIEs as complementarities with China are reduced.

Vietnam and Indonesia will benefit the most if China's economy becomes more efficient in the production of high-end manufactures. Indeed, in the period 2001-2010, both economies had already felt small gains in Light manufacturing up of to \$236M USD as they get access to cheaper chemicals and metals.<sup>16</sup> In contrast, the most favourable outcome for the NIEs is for China to continue to specialize in labour-intensive products.

## (2) Newly Industrialised Countries (NICs) in East Asia

All neighbouring NIEs are seeing substantial gains due to the WTO accession, though these gains vary from industry to industry. The most substantial gains will be felt in the processing industry, where all 4 economies will benefit from cheaper access to metals and chemicals. Japan and Taiwan both serve to benefit the most from these reduction in costs, as they have the most highly developed processing industries, with as much as \$6.2B increase in exports for Japan in the processing industry from 2001-2010 as a result of accession.<sup>17</sup> We have certain outliers however, as Japanese GDP will decrease, despite welfare increase. This

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<sup>15</sup> IANCHOVICHINA, E. AND WALMSLEY, T. (2008) *Impact of China's WTO accession on East Asia*. Contemporary Economic Policy, 23 (2), pp. 261—277

<sup>16</sup> IANCHOVICHINA, E. AND WALMSLEY, T. (2008) *Impact of China's WTO accession on East Asia*. Contemporary Economic Policy, 23 (2), pp. 261—277

<sup>17</sup> IANCHOVICHINA, E. AND WALMSLEY, T. (2008) *Impact of China's WTO accession on East Asia*. Contemporary Economic Policy, 23 (2), pp. 261—277

is due to increases in income from Japanese investments in China. Despite these generous gains for East Asian NIEs, there are some substantial losses. The most significant of these losses will be felt by Japan, whose exports will suffer by \$6.2B USD as a result of China becoming a more efficient assembler of motor vehicles.<sup>18</sup> Overall, Japan, Hong Kong, Korea and Singapore have all reaped significant gains from China's WTO accession.

### (3) Taiwan

Taiwan has particular significance in this group of NICs. Due to the bilateral relationship between Taiwan and China, Taiwan was not permitted to join the WTO until after China. Thus, Taiwan's accession is direct consequence of China's accession. Liberalizing trade has affected Taiwan more than any other existing member. Prior to 2001, Taiwan demanded cross-strait trade to remain indirect and posed restrictions from China, using "positive" and "negative" lists.<sup>19</sup> Once the two sides join the WTO however, the Most Favoured Nation clause required Taiwan to treat Chinese products equally with those from other WTO members. The Agreement on Trade Related Investment Measures has also allowed China to investment in Taiwan, when previously it could not. Indeed, post-accession trade between the two countries has boomed. Upon both countries accession, an additional 835 agricultural and 1,223 industrial Chinese products were allowed to be imported into Taiwan, increasing the permitted percentage of goods from 31% to 72.5%.<sup>20</sup> If the WTO had not been applied between China and Taiwan after their accession, Taiwan's total output would be reduced by \$3.26 billion and exports to China by \$16.42 billion. Terms of trade would deteriorate by 2.4% and the trade surplus would fall by \$215 million, GDP by \$11 billion and social welfare by \$16 billion.<sup>21</sup> WTO accession has been a boon for both China

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<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

<sup>20</sup> CHO, H. (2005) *China-Taiwan tug of war in the WTO*. Asian Survey, 45 (5), pp. 736--755

<sup>21</sup> CHO, H. (2005) *China-Taiwan tug of war in the WTO*. Asian Survey, 45 (5), pp. 736--755

and Taiwan economically. Politically, Taiwan has gained its goal of interacting directly with China in the WTO.

#### (4) Hong Kong-Guangdong

Hong Kong has reaped unique gains from China's WTO accession, forming an even closer co-operation with Guangdong Province. Towards the end of the 20<sup>th</sup> century, Hong Kong and Guangdong have developed a "front-shop-back-factor" model.<sup>22</sup> In this model, Guangdong is responsible for various inputs such as the plant, labour, water and other basic facilities which Hong Kong cannot provide. Hong Kong, is then responsible for the marketing of such products, supplying machinery, material and product design. This out processing co-operation is recognized as highly successful, and as a result of WTO accession, increased co-operation is now possible between the two regions. Furthermore, as the gains of this partnership continue to be substantial, both regions have more heavily invested in the co-operation. In 2001, the Closer Economic Partnership Arrangement was founded, to accommodate new trade liberalization. Not more than 2 years later, in 2003, CEPA provided 1,087 Hong Kong-made products with tariff free entry into Mainland China.<sup>23</sup>

## Conclusion

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<sup>22</sup> SIT, V. F. (2004) *China's WTO accession and its impact on Hong Kong-Guangdong cooperation*. Asian Survey, 44 (6), pp. 815-835.

<sup>23</sup> SIT, V. F. (2004) *China's WTO accession and its impact on Hong Kong-Guangdong cooperation*. Asian Survey, 44 (6), pp. 815-835

In Conclusion, just like in any trade agreement, China's accession to the WTO has resulted in gains and losses for different parties. On the whole, China's accession has been an overall gain for its own economy. These gains have been the most substantial in the apparel and textile industries, in which it enjoys a comparative advantage. The biggest relief for these industries would be the quotas that were previously imposed on China prior to 2005, contributing heavily to Chinese GDP. In regards to agriculture, China has suffered in a few counts. Most neighbouring countries are more competitive in land-intensive farming, thus domestic production of many grains has declined. Fortunately, global trade conditions and policy reform have cushioned the heavy blow dealt to the farming class. We can see, then, how WTO accession has forced China's hand when it comes to policy reform, as it had to appease the farming class with a relief of tax burdens. Additionally, we have seen distributional changes in not only employment, but wages as well.

For the existing WTO members, China's accession has also had gains and losses for different parties. For one, these gains and losses can broadly be split across national lines. Neighbouring developing countries see the heaviest losses, especially Vietnam and Thailand, as they compete most heavily in apparel and textiles, in which they have a comparative disadvantage. Gains are not uniform across these countries though, as countries such as Malaysia and Indonesia, which have more developed light manufacturing industries which benefit from lower costs in chemicals and metals. On the opposite end of this spectrum, we see neighbouring NIEs benefit the most. Especially countries such as Taiwan and Japan, with highly developed processing industries, as they benefit from cheaper access to raw materials. However, they still do not see gains across the board, as all NIEs lose out to China in the automotive industry.

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