

# “Global Factory” China is Joining the WTO

By Kojima Akira

The 21st century got off to an unfortunate start, with the first year marred by a devastating terrorist attack that triggered a new war and by a simultaneous global recession. During the 1990s, the possibilities of the “New Economy” were touted against the background of globalization and the rapid development of information and communications technology (ICT). The collapse of the Soviet Union through internal strife ended the Cold War that lasted for much of the 20th century, spurring people around the globe to dream of a world free from war. But, the United States, which enjoyed the longest economic expansion in its history, was forced to make cyclical adjustments for the first time under the New Economy toward the end of 2000. The coordinated terrorist attacks on America’s financial and political centers in September 2001 exacerbated the adjustment phase into

an outright global recession.

Many people are saying the terrorist attack changed the world for two reasons. Firstly, war between superpowers at least seemed almost unthinkable in the post-Cold War paradigm, but suddenly there emerged a new threat of terrorism beyond the control of governments, which even a missile defense system incorporating computers and other high-tech devices can hardly deal with. Secondly, the terrorist attacks disrupted the trend toward globalization which had rapidly advanced thanks to ICT, and exposed the vulnerability of the New Economy pulled by ICT as an engine.

No less significant is the persistent backlash against globalism. High hopes and expectations were placed on globalism. However, since the ministerial meeting of the World Trade Organization (WTO) in Seattle in late 1999 was upset by a huge demonstra-

tion against globalism, major international conferences, such as the International Monetary Fund and World Bank meetings in Prague in 2000, a World Economic Forum business summit in Davos in January 2001 and an Organization of American States summit in Quebec in April 2001 became targets of fierce demonstrations by anti-globalism campaigners.

Some people who say that the world has changed saw an end of the post-Cold War world order.

The year 2001 witnessed another important event in China’s full return to the international community for the first time in about a century and a half, as symbolized by its accession to the WTO together with Taiwan and the awarding of the 2008 Olympic Games to Beijing.

The General Agreement on Tariffs and Trade (GATT), the predecessor of the WTO, existed almost throughout the Cold War period and, as a result, excluded China and the Soviet Union, clearly dividing the world into the East and West blocs in economic terms as well. The WTO, which succeeded the GATT in 1995, was the first full-scale global multilateral organization to come into being after the end of the Cold War. China’s accession means the WTO has become a genuinely global organization. Russia is also knocking at the trade body’s door. Once Russia’s accession is realized, the world economy, split into two blocs for half a century, will be unified into one entity in name and in reality.

Globalization still remains the mainstream of the world economy. The era of ICT will not come to an end in the fallout of the slump of information technology (IT)-related industries. Information technology will remain the main engine of economies and industries.

The backlash against globalization

Figure 1



Sources: IFS (IMF)

will continue unabated, but the world will not return to what it was 10 years ago. This is evidenced by the WTO membership of China, the world's most populous nation with a population of 1.3 billion, which has achieved economic development to the extent it is now called the "factory of the world." Yet, there is no denying the fact that there are many groups that fiercely oppose globalism as a trend of the times and are determined to disrupt major international economic conferences.

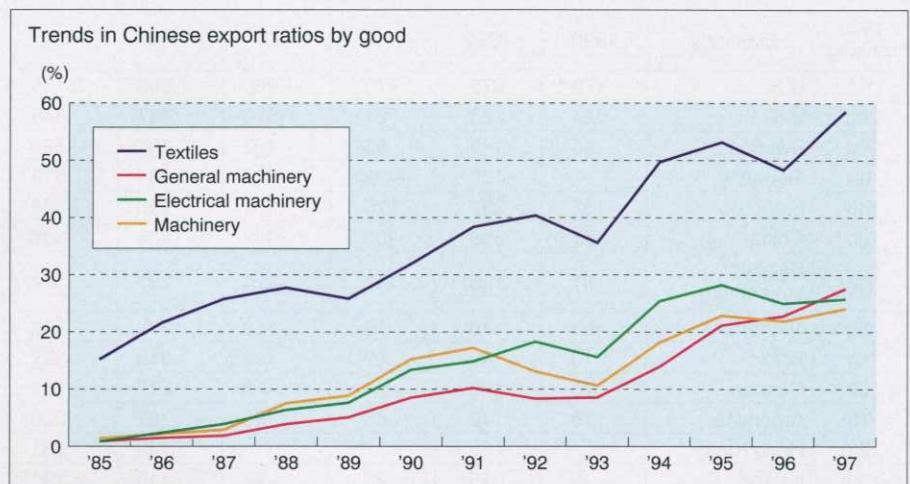
Alarmed by the spread of anti-globalism, Joseph S. Nye, Jr., professor at Harvard University, put forward a response at a meeting of the Trilateral Commission, made up of the United States, Europe and Japan. "It would be ironic if current protests curtailed the positive aspects of globalization while leaving the negative dimensions untouched," he said "Markets have unequal effects, and the inequality they produce has powerful political consequences. But the cliché that markets always make the rich richer and poor poorer is simply not true. Economic globalization, in short, may be a necessary, though not sufficient, condition for combating poverty."

The IT recession hardly heralds an end of the era in which ICT leads economies and communities. It is true that there was an economic bubble in ICT arising from excessive expectations being placed on it. But it represented only one aspect of the changes brought about by ICT.

There are several aspects of ICT, such as the one between IT producers, that can be classified into hardware and software producers, and IT users. The collapse of the IT bubble that spread from the United States to other parts of the world, a phenomenon known as the IT recession, mainly represents phenomena that are taking place among IT producers.

However, it hardly means that ICT will no longer lead the global economy and communities. Good use of ICT by users, that is communities, companies and individuals, remains vitally important. Electronic government can be

Figure 2



Notes: 1. Export ratio = export value/production value  
 2. Textiles: Exports—SITC26, 65, 84      Production—ISIC321, 322  
 General machinery: Exports—SITC71-75      Production—ISIC382  
 Electrical machinery: Exports—SITC76, 77      Production—ISIC383  
 Machinery: Exports—SITC71-79, 87, 88      Production—ISIC382-385

Sources: ISD (UNIDO), AIDXT (Institute of Developing Economies)

created if ICT is used in the administrative sector. Companies will be able to make themselves more efficient if they use ICT for business purposes, including the procurement of materials. Used in the educational sector, ICT will help introduce e-Learning. An information-based society will be created if ICT is used by all sectors of society. Such a process has just begun.

ICT's impact on economies and societies reminds us of the locomotives and automobiles produced in the Industrial Revolution. Automobiles not only created a new mammoth industry but also changed the way companies did business, along with people's lifestyles as well as economies and societies as a whole.

The changes did not occur overnight. They slowly developed over decades. During the process, automobile production was repeatedly affected by huge waves of booms and slumps but the waves of motorization continued to change economies and societies without a break. Similarly, ICT is likely to bring about further changes on the user side regardless of the booms or slumps in IT-related production.

As China develops as a new global factory, its entry into the global economy is being taken as a threat or a

menace to the world order. As we look back on the long flow of history, we can see that the emergence of a new major power never failed to generate tension with many countries and disturb the international order. The rapid and phenomenal development of China as a new major power is indeed creating tension and strain.

The World Economic Forum (WEF) held an East Asia Economic Summit in Hong Kong in late October 2001. In view of its timing, international terrorism, the global recession and China's impending accession to the WTO dominated the agenda of the conference, which was the Asian version of the annual WEF meeting normally held in Davos, a mountain resort in Switzerland, in winter.

China was a dominant presence in all sessions of the conference held on a theme-by-theme basis. China identified itself with the U.S. action to contain international terrorism by clarifying its objection to all terrorism and succeeded in mending relations with the United States which had been strained for years. China also expressed its basic support for the U.S. bombing campaign against Afghanistan, but on the condition that the United States took measures to avoid civilian

Figure 3  
Trends in value of inward foreign direct investment

1999 ranking	Economy	1990	1995	1996	1997	1998	1999
1st	U.S.	479	675	770	1,060	1,863	2,755
2nd	U.K.	324	225	324	370	637	848
3rd	Sweden	20	149	55	103	194	594
4th	Germany		120	▲ 32	117	201	522
5th	France	132	237	220	231	295	388
6th	China	35	359	402	442	438	388
7th	Belgium/ Luxemburg	81	105	147	120	227	384
8th	Netherlands	123	115	78	118	372	342
9th	Brazil	10	49	99	197	319	327
10th	Canada	76	108	64	118	217	251
11th	Argentina	18	42	43	88	67	236
12th	Hong Kong					148	231
13th	Ireland	6	15	25	27	110	191
14th	Japan	18	0	2	32	33	123

Sources: IFS (IMF)

(Unit: US\$ 100million)

casualties. By so doing, Beijing shed its image of being indifferent to human rights.

While other Asian countries such as Singapore and Taiwan were plagued by low economic growth stemming from the U.S. IT recession and by the simultaneous global recession resulting from the terrorist attacks on the United States, Chinese officials boasted that their country would maintain economic growth in the 7% range. They were also trumpeting their contributions to Asia's economic stability by not devaluing the yuan during the 1997 Asian currency and financial crisis.

At a plenary session held to discuss the theme "China: Enhancing the Capacity for Growth," Minister of Foreign Trade and Economic Cooperation Shi Guangsheng said, "China's accession to the World Trade Organization will make the global trading organization more complete and representative. It will narrow the gap between developing and developed members and the rules of international trade will be better formulated. This could be a catalyst for the establishment of a new international economic order. China will support the launch of a new round of global trade negotiations that will give special attention to the developing countries and China's joining the WTO would benefit the rest

of East Asia and deepen Beijing's relations with its neighbors."

China's recent dominance in world trade drew attention and interest at the conference.

The longest peacetime economic expansion in U.S. history, lasting nearly a decade from 1991, has come to an end, leaving the United States facing its first recession under the New Economy. The ICT industries that played the role of the engine of the New Economy have entered a severe adjustment phase, with the result that Japan and other Asian countries that relied on the boom of the U.S. IT sector have begun to falter due to sharp reductions in exports to U.S. markets.

Only China continues to enjoy high growth, with its real growth in 2001 registering in the 7% range, slightly decelerating from the 8% range for 2000.

Over the period of one and a half to two years, China dramatically gained its industrial production strength, which is so strong that the country is now regarded as a "factory of the world." Various products such as textiles, machinery and electrical machinery saw their exports and export ratios expand substantially. China led the world in the production share of cameras (58%), telephones (58%), air-conditioners (50%), motorcycles

(43%), televisions (36%), refrigerators (21%) and crude steel (15%).

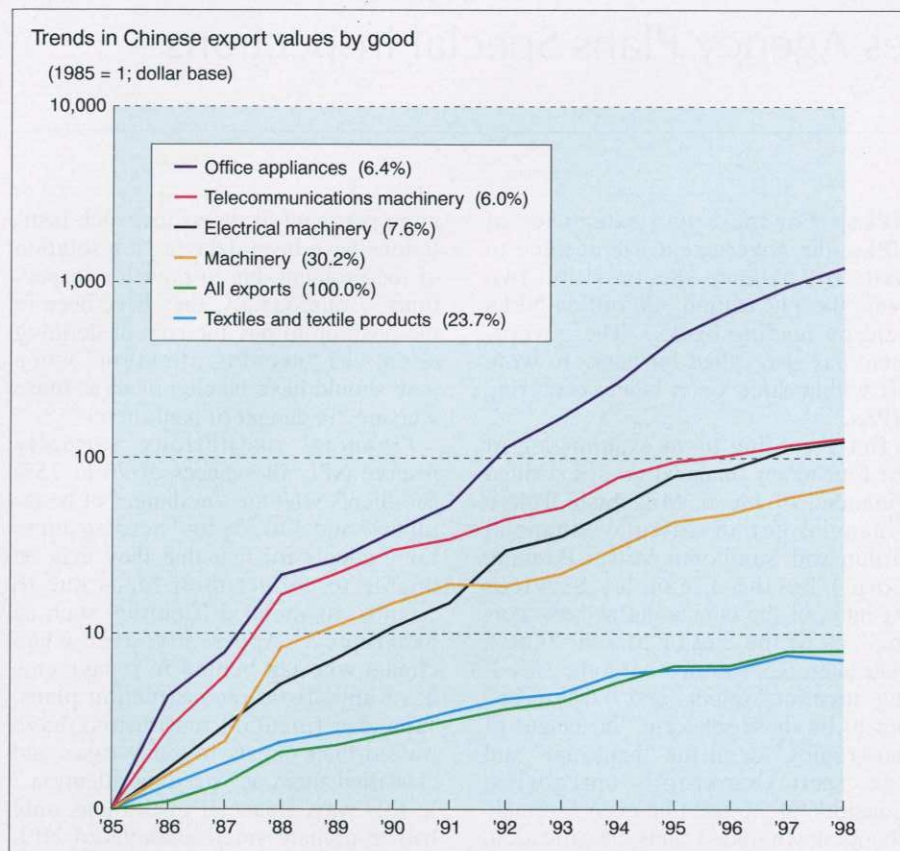
Neighboring countries are understandably alarmed by the possibility of their economies being unable to resist the gravitational pull of China's.

Japanese companies' moves to shift their production bases to China are much talked about in industrial circles. Honda Motor Co. recently announced its decision to produce 50-c.c. scooters in China and market them in Japan in mid-2002. Minolta Co. plans to withdraw from camera production in Japan and Malaysia, and instead double the annual production capacity of its joint venture plant in Shanghai to 3 million units. This is part of Minolta's long-term strategy to concentrate production of all cameras, from single-lens reflex cameras to digital cameras, in China. Toshiba Corp. has opened a research-development base in Beijing for the purpose of enhancing the quality of its products, and accurately grasping Chinese needs and securing capable personnel.

Last April, the Japanese government invoked emergency import curbs (safeguards) on three farm products: Welsh onions, fresh *shiitake* mushrooms and rushes used to weave *tatami* mats. These items were produced in China on a commission basis under Japan's technical guidance for export to Japan. When considered in the context of broader Japan-China trade, they are marginal products which belong to a 19th-century type of industry. At a time when China is beefing up strength not only in agriculture but also in 21st-century-type industries, such as computers and other high-tech sectors, Japan must consider the possibilities of new division of labor with China in production and exports of the 21st-century-type industrial sectors. In this regard, Japan's invocation of safeguards against such marginal products was a very short-sighted policy option which ignores such possibilities.

China's rapid economic development and growth of industrial power in recent years was supported by direct investment from foreign countries. *The White Paper on International Trade*

Figure 4



Notes: Figures beneath each good comprise that good's share in 1998  
Sources: AIDXT (Institute of Developing Economies)

2001 issued by the Ministry of Economy, Trade and Industry, analyzed the phenomenal growth of the Chinese economy in Chapter 1, titled "East Asia as the Hub of a Mega-Competition Era," with a focus on China.

It noted that China became the ninth largest exporting country in 1999, with its exports expanding about four-fold for the past 10 years and that direct investment in China from abroad soared to \$44.2 billion in 1997 from \$3.5 billion in 1990, ranking second only to the United States as the outlet of direct investment.

China's enthusiasm in inducing direct investment from abroad is in stark contrast with the Japanese attitude toward direct foreign investment in the postwar economic recovery policy. Japan did its utmost to keep away from direct foreign investment and from for-

ign control of businesses. Instead, Japanese companies imported hand-picked foreign technologies and improved them for their own sake. Japan thus succeeded in generating new industries one after another, all of which were wholly Japanese owned. This represented Japan's postwar industrialization policy.

China, for its part, enthusiastically induced direct investment under its economic opening policy, whereby China obtained foreign technology, capital and business know-how. Though foreign companies owned capital, production facilities and capabilities introduced by foreign companies to China boosted China's production and exports. Direct investment also helped Chinese companies accumulate production capabilities and business know-how, and spurred indus-

trial integration. Local industries also grew, driven by foreign capital. Component makers sprouted in coastal industrial districts in response to the needs of foreign capital. This made China attractive to foreign companies and in turn induced additional direct foreign investment. It turned out that the Chinese policy of making full use of foreign direct investment enabled China to achieve industrial development much faster than postwar Japan, which tried to achieve industrial development on its own.

WTO membership will make China an even more attractive investment outlet for foreign capital, because it will prompt China to introduce a legal system meeting international standards, further open its domestic markets through lower tariffs and other measures, and accelerate its domestic reform, including the reform of state-run companies. Even before acceding to the WTO, China had overwhelmed other Asian countries as the outlet of direct investment. If WTO membership further boosts direct investment in China, not only ASEAN (Association of South East Asian Nations) countries but also Taiwan and South Korea will likely be further alarmed by the Chinese threat.

Nevertheless, all countries must accept as a new reality China's phenomenal development as the "factory of the world." WTO membership represents the international community's formal acceptance of this new reality. Now that the WTO has been globalized in the real sense of the word with China's entry, how to steer the global trade system smoothly is a pressing issue for the world economy in the 21st century.

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