

China – 10 Years After WTO Entry

– Hardships and Dreams to Become a Major Economic Power Go Hand in Hand –

By *Zhu Jianrong*

Possibility of Structural Changes in Traditional Society

China's accession to the World Trade Organization (WTO) in November is an important global event that will have a profound impact on China itself and the entire world. It is the culmination of 15 long years of tough negotiations that started with China's application for entry into the General Agreement on Tariffs and Trade (GATT), the predecessor of the WTO, which is the largest global organization aimed at setting international trade rules and promoting the expansion of economic exchanges among nations.

Lengthy and difficult bilateral negotiations with GATT (and later the WTO) member nations made sudden progress when Zhu Rongji took over as Chinese premier in the spring of 1998. But, negotiations with some countries, particularly the United States, hit snags and came to the brink of rupture several times, due mainly to conflicts over the extent to which China would lower tariffs and remove barriers for protecting its domestic industries, as well as giving foreign companies access to the Chinese markets in sectors in which they boast competitive edges.

Generally speaking, the United States and European countries demanded that China open its markets as wide as developed countries do, but China insisted that it be allowed to apply easier market opening standards just as other developing countries do. As it turned out, China agreed, as in the case of agriculture, to open its markets almost as wide as developed countries.

For thousands of years, China has contented itself with being a self-sufficient country. But its WTO membership means that it has agreed to accept globally common trade rules for the first time in its history and completely abandon its closed society. If the

reform and opening policy initiated by late paramount leader Deng Xiaoping opened China's door to the world, WTO membership means that China has burned down the bridge allowing it to fly back to its own peculiar traditional society. China has taken great risks by becoming a member of the WTO, but WTO membership has made China an equal member of the global system and given the country for the first time the potential of becoming a global economic giant.

The WTO, for its part, has become a universal entity worthy of its nickname, the "Economic United Nations," with China's participation. By accepting China, the WTO intends to restrain the "Violent Dragon" by applying international rules to the development of the Chinese economy which continues high growth, and remove volatile elements from a global economy that is on the verge of a recessionary crisis. China's WTO membership will particularly have a profound impact on Japan and other neighboring countries, and the coming years will test China's ability to play a positive role, as a responsible major power, in building an East Asian economic sphere.

Impact on China's Domestic Industries

The impact of China's WTO membership on itself will not appear immediately and extensively. The WTO has allowed China to abolish measures for protecting its domestic industries only by stages, which means that the full impact of WTO membership on the Chinese economy and society will be felt in eight to 10 years' time.

Yet, the impact will undoubtedly be extensive and profound. The direct impact will be on domestic industries and external economic relations. But the Chinese legal, administrative and

political systems as well as the perception of Chinese people and its culture will also feel the impact gradually.

Some Chinese conservatives are against China's WTO membership, pointing out that it would give foreign countries life-and-death control over the Chinese economy and lead to the collapse of the Chinese economy and society. They argue that the Communist Party-led government is strangling its own neck. In this regard, it would be necessary to have a wide perspective, beyond the economic sphere, in evaluating China's accession to the WTO.

First, let us examine the impact of WTO membership on each Chinese industry. Taken as a whole, WTO membership would promote labor-intensive industries and boost their exports. Conversely, capital-intensive and technology-intensive industries will suffer considerable losses. According to the principle of comparative advantage, the Chinese will be increasingly incorporated into the global system of division of labor as an emerging economy with considerable competitiveness but still at the developing stage.

Labor-intensive industries, such as clothing, footwear, toys, sporting goods, plastic products, processed foods and traveling goods will further enhance their competitiveness due to low labor costs and improving quality and enjoy their exports to industrialized markets, even though the United States, European countries and Japan, cautious of rapid increases in Chinese imports, have obtained rights from China to invoke measures to limit Chinese imports. For example, China has agreed to the U.S. invocation of discriminatory "safeguard" measures against Chinese products when their imports to the United States surge. According to WTO rules, all WTO member countries can apply similar

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中国加入世界贸易组织签字仪式 SIGNING CEREMONY ON CHINA'S ACCESSION TO THE WTO

11 November 2001, Doha



Chinese Trade Minister Shi Guangsheng signs the official document setting out the terms of Chinese membership at the WTO meeting in Doha, Qatar

measures to Chinese imports.

On the other hand, Chinese capital-intensive and technology-intensive industries are likely to be hard hit across the board, particularly machinery such as engines and other motors, industrial machinery, precision machinery, chemicals, information technology, paper-pulp and iron-steel. Some industrial experts predict that the automobile industry in particular will be dealt a crushing blow due to its low productivity and weak competitiveness.

Agriculture will also suffer. In terms of production volume, China leads the world in several items, such as grains, meat, cotton, peanuts, fruits and tobacco. But China's agriculture as a whole is low in productivity and has many problems with quality management. In a study on the impact of lowering of tariffs and other measures to be taken as part of WTO membership, the Development Research Center of the Chinese State Council (Cabinet) predicted that: 1) about 9.6 million people will leave agriculture within 10 years, 2) the real income of rural dwellers will decrease 2.1% in five years, and the income gap between urban dwellers

and rural dwellers will widen, and 3) production of farm products such as wool, cotton and wheat will decline after being exposed to competition with similar foreign products.

Background behind China's Aspiration for WTO Membership

Lately, member countries of the European Union are expressing doubts over globalization, which in their view means generalization of the American standard. Most developing countries are working hard to protect their own industries and interests, rather than establishing universal rules. China is perhaps the only developing country to praise globalization and emphasize the merit of WTO membership.

As mentioned earlier, WTO membership is certain to seriously affect many Chinese industries. Why then did President Jiang Zemin, Premier Zhu and other top Chinese leaders aspire for WTO membership?

First of all, they wanted to maintain high growth through the promotion of foreign investment. China has maintained high economic growth for the

past 20 years through the induction of foreign capital and increased exports, which served as two engines that pulled the economy. China owed its success of economic reform to a sweeping overhaul of the outmoded state-run economy. Measured in terms of exports' contribution to gross domestic product, China is now more dependent on external trade than trade giant Japan.

In projecting China's economic development in the 21st century, the Chinese leadership focuses on the promotion of foreign investment and increased exports, which would drive economic growth. They expect WTO membership to help induce a vast amount of foreign capital in exchange for allowing foreign companies access to Chinese markets.

Secondly, Chinese leaders intend to revamp old-fashioned domestic industries through WTO membership, which would serve as *gaiatsu* (though translated as "foreign pressure," the term "gaiatsu" has come to be used in English as well) to promote such change. At a time when the reform of state-run industries is reaching a crucial stage, Chinese companies still remain weak in terms of technological strength and competitiveness.

The Chinese leadership believes that Chinese industries will be hard hit within five years of entering the WTO, but gain the following benefits over a long span of 10 or more years: 1) research and development as well as improvement of corporate management will be promoted amid an intensified competitive environment, 2) industries that include inefficient and less competitive upstream industries (such as manufacturing) will see their competitive position enhanced through the use of high-quality foreign components and raw materials which will be imported at lower cost due to the reduction of tariffs, and 3) foreign makers' mass advance into Chinese markets will prompt the consolidation of capital and

technology of ethnic industries in the middle and long run.

Politically, China is still under one-party rule, but the central government's control over regions is surprisingly weak, because regional independence is traditionally strong. This leaves the central government hard-pressed to settle regional conflicts, regional economic gaps and other structural problems. The leadership fears that establishment of a unified market mechanism will never take hold unless the current condition changes. Premier Zhu and other reform-minded leaders hope that the introduction of international rules upon WTO entry and their regional implementation would remove regional protectionism, and establish a unified market mechanism for the first time in the country's history. The establishment of a unified market would not only correct regional gaps but also prevent a deepening of ethnic problems, which could lead to a division of the country.

The third factor that prompted Chinese leaders to seek accession to the WTO was their pursuit of peaceful unification with Taiwan and their ambition

to turn China into a global economic power. Chinese leaders now judge that it is impossible to unify Taiwan with the exercise of military power in view of changes in the post-Cold War international relations, increasing economic exchanges between both sides of the Taiwan Strait and changes in the political situation in Taiwan. The only feasible strategy left for China to unify Taiwan was to boost economic interdependence across the Strait and promote economic integration of both sides. By doing so, Chinese leaders believe they will be able to restrain Taiwan from orienting itself toward independence and separation from China. They will seek political integration through economic integration.

China's WTO membership has overshadowed Taiwan's simultaneous admission to the trade body, which has quite a significance. Taiwan has refused trade, communications and shipping with the Chinese mainland for many years. As a WTO member, however, Taiwan can no longer do this. According to WTO principles of freedom and fairness, Taiwan must engage

in trade, communications and shipping with the mainland. In fact, the Taiwanese authorities have clarified their intention to abolish restrictions on trade with the mainland after 2002. Taiwanese businessmen residing in Shanghai, now totaling as many as 300,000, are optimistic about the opening of regular direct shipping services between Taipei and Shanghai. It seems that China has a long-range plan to become a competitive player in the world economy and a global economic power in 50 years' time through the formation of a Chinese Economic Sphere incorporating the Taiwan and Hong Kong economies, which will make full use of each other's advantages.

Pandora's Box Has Opened

Neither the Chinese central government nor regional leaders, however, are taking enough measures to deal with the downside of WTO membership. A large number of corporate bankruptcies could occur and unemployment could sharply increase in a certain period of time, threatening to cause turmoil in some regions. Vice President Hu Jintao and other younger leaders in their early 60s, who will succeed the current leadership at the next Communist Party Congress scheduled for the autumn of 2002, may be forced to revise the pro-globalization policy adopted by President Jiang and Premier Zhu if they face social disruption. In fact, a Chinese scholar residing in the United States has pessimistically predicted that WTO membership could lead to the collapse of the Chinese economy and society. Other China watchers also point to the adverse effect of WTO membership spreading beyond the economic sphere to China's politics and society.

WTO membership could possibly prompt the spread of corruption at least for a certain period of time. A thesis by Shao Daosheng, carried in the July 11, 2000, issue of the *Jiancha Ribao* (*Prosecutorial Daily*), a Chinese official publication, served a warning: "In the process of usurpation of Chinese

Photo: Zhu Jianrong



The Pudong district of Shanghai has become an international trading and financial center

markets, foreign capital will use corruption strategy as a weapon. Domestic capital, for its part, will protect itself for its survival with corruption strategy in order to cover its inferiority to foreign capital in financial power, technology and quality of products. Unless fully effective measures are taken, corruption in China could possibly further spread and reach a peak after China's admission to the WTO."

At the same time, various gaps are likely to widen temporarily. China watchers predict that Chinese society will be polarized between those with knowledge and networks and those without. A rush of foreign capital into China will deal Chinese township enterprises, particularly those in *xiang* and *zhen* (local provinces), a crushing blow, and trigger mass unemployment, further widening, rather than shrinking, regional gaps.

Furthermore, the government's social control could weaken, resulting in social disorder. At a time when China is yet to establish a mechanism for protecting social justice and equality and uncover corruption and injustice, limitation of government involvement in economic and corporate activities would benefit certain classes and people. But it would restrict measures for adjusting social balances. Against such a background, a majority of Chinese, who now welcome WTO membership, could reverse their positions and turn against it.

Chinese scholars and specialists also cite three factors that would affect China's national security as a result of WTO membership: 1) Western thought and values will flood into China, 2) economic initiatives will be placed under foreign control, and 3) military secrets will become difficult to protect.

Increasing Awareness of Legal Compliance

Vaguely aware of the profound consequences WTO membership would have on various sectors other than the economy, the Chinese leadership has begun to take certain measures to deal

with relevant problems. The State Council, under Premier Zhu's control, is working in close coordination with ministries and agencies concerned as well as regional administrations in studying and enacting legal steps to deal with the problems. Guangzhou and Chongqing have been respectively designated as representative coastal and inland cities where experiments on projects related to WTO membership will be conducted.

A central economic working conference convened by the State Council in November 2000 defined preparations for accession to the WTO as the nation's most pressing economic task in 2001. Based on the decision, Shi Guangsheng, Chinese minister of foreign trade and economic cooperation, unveiled at the year-end a six-point initiative for preparing for WTO membership, with the first point calling for abolition or a review of laws and ordinances related to external economic relations and acceleration of the enactment of new legislation.

Upon accession to the WTO, internal rules adopted by the Chinese central government and regional administrations will no longer hold good and laws including provisions incompatible with WTO rules must be revised. The Chinese government has already pledged to gradually abolish over a period of three years a provision in the 1994 External Trade Law which requires companies to obtain permission from the state authorities concerned before starting external trade. This provision is incompatible with WTO rules which allow companies to engage in trade only after registration. In October 2001, the State Council announced the abolition of 180 laws and provisions that are incompatible with WTO membership. In anticipation of changes resulting from WTO membership, the Chinese government is expected to hasten the enactment of a succession of laws in areas in which China has no legal provisions. These include an electronic communications law, a foreign investment banking law, a trade secret protection law, an intellectual property protection law, an anti-

trust law, an anti-dumping law and a fair competition maintenance law.

Yet, legislation will not solve all problems. It will be necessary to change a society where leaders and bureaucrats unilaterally interpret law for the sake of their own convenience. It will also be necessary to increase respect in the country for the rule of law. Wang Liming, deputy dean of the Law School of the People's University of China, suggested that China take advantage of its accession to the WTO to build a completely new legal system in 10 areas, such as finance, insurance, telecommunications and external trade, as well as make the public more aware of legal compliance. He said the measures will enable the leadership to deal with rampant corruption and ultimately make China a law-governed country.

Administrative Reform and a Wave of Liberalization Measures

WTO membership will also restrict intervention in economic and corporate activities by the Communist Party and the administration, and require administrative reform and enhanced administrative efficiency, including changes in the roles of the administrative sector and personnel reductions.

It is often pointed out that the Chinese government tends to suddenly change policies, its rules are not transparent, procedures are complicated and its management is loose. Chinese scholars predict that after entering the WTO, China will find itself hard-pressed to compete with other regions and countries, unless it makes its decision-making process and behavior more transparent, enhances administrative efficiency and the quality of public services, conquers bureaucratism, and upgrades the quality and proficiency of public officials.

Such administrative reform will promote the development of an administrative structure fitting the market mechanism as well as capable public officials, but eventually it will raise doubt over the pattern of the Communist Party's leadership. The separation of the government and corporations will be fol-

lowed by the separation of the government and the Communist Party. The Communist Party's direct influence will be further limited due to the acceleration of the privatization of state-run enterprises.

Timed with the implementation of the land contract system in farming villages in the early 1990s, the Chinese government enacted a law on rural autonomy, under which the heads of more than 1 million villages will be directly elected by residents. In Sichuan Province and Shenzhen City, direct elections of the heads of townships (*xiang*) and towns (*zhen*), which are bigger entities than villages, were held on an experimental basis. Bai Gang, director of the Institute of Political Sciences of the Chinese Academy of Social Sciences, highly evaluated the direct elections for contributing to the stability of farming villages and effectively managing them.

In anticipation of the social changes following WTO entry, Bai suggested that direct elections in farming villages be extended to the county level and democratic elections be held in urban districts immediately. The Chinese government is reportedly planning to study the introduction of direct elections in farming villages after the next Communist Party congress scheduled for the autumn of 2002. Various experiments are already under way in urban districts, with Shanghai and several other cities building *Shequ* (communities) supervised by local administrations but self-governed by residents.

In what is termed a "media war," the Chinese mass media are in fierce competition to win readers and listeners by sensationally exposing provincial officials' unfair practices, corruption, involvement in smuggling and abuse of the populace. Various media obtained scoops on provincial governments' attempts to conceal their misconduct.

In this connection, the spring 2000 issue of the magazine *Xinwen Shijian* (*Media Study*), jointly published by the *Zhejiang Daily* and the Institute of Journalism of Zhejiang Province, said that reform is aimed at establishing a system which grants people the right to

know. It specifically proposed that government authorities should 1) disclose information related to the population, 2) enable the populace to obtain information freely and easily, 3) make decision-making processes and administrative work more transparent, and 4) establish a system under which the populace can freely discuss political matters and become the key player of the mass media. WTO membership is expected to further activate the Chinese mass media, as can be seen in the fact that the law on newspapers has been enacted.

Training Period for Democratization in the Coming 10 Years

China experts throughout the world are closely watching the extent of the impact of WTO membership on Chinese society, particularly on Chinese people's perceptions. Liu Junning, a scholar residing in Beijing, predicts that WTO membership will not immediately bring about a major transformation of the country into a democracy, but instead offer Chinese people opportunities to become exposed to liberal values and democratic thought. He sees liberalization sometimes as more important than reform for China. Zhang Jing, a professor at Meiji University, believes that China's economic integration into the international community as a result of globalization will expedite the standardization of Chinese people's lifestyles and bring their outlooks and attitudes closer into line with those of other peoples. Changes in daily life would ultimately change Chinese culture itself, Zhang predicts. Kokubun Ryosei, a professor at Keio University, says that globalization, like a monster, is already infiltrating and shaking China, and, seen from historical viewpoints, may turn out to be a more essential cultural revolution than the Cultural Revolution of the late 1960s.

There is no doubt that over a span of 10 to 20 years, the wave of globalization and the growing weight of information will greatly change China and accelerate its democratization. People

who look back on China's WTO membership 20 years from now may judge it to be the country's turning point that accelerated its moves toward democratization.

It is interesting to see that Chinese scholars, regardless of whether they support or oppose the current leadership, unanimously downplay the possibility of China undergoing dramatic political changes such as a shift to a multi-party system.

Xiao Qiang, a Chinese human rights activist now living in exile abroad, based his prediction on the fact that the international community will loosen its watch on Chinese authorities following WTO membership. Zhang Yunling, director of the Institute of Asia-Pacific Studies of the Chinese Academy of Social Sciences, says he is convinced that the Chinese Communist Party will maintain its leadership in reform and opening policies as well as in globalization. In his view, the Communist Party is prepared to flexibly adapt itself to reality unless its leadership is challenged and its flexibility is so wide and deep as to be almost limitless. There will be no power in China which would replace the Communist Party, he predicted.

We can hardly expect a country characterized by vastness and imbalance to achieve dramatic political changes in a period of 10 years or so. Even so, economic development, the advent of the information era and the wave of globalization that comes with WTO membership will no longer allow China to move slowly at its own pace in the world. We must consider these factors in projecting China's future. In the process of China's democratization, the harvest will be the result of the seeds that were planted during the first 10 years. **UJI**

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