4

China's WTO membership

Implications for the domestic economy

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After more than 20 years of reform and 13 years of negotiation, China finally signed the agreement on World Trade Organization (WTO) accession with the United States on 15 November 1999, and with the European Union (EU) on 19 May 2000 and has now joined the WTO.

Needless to say, China's accession to the WTO will have a significant impact on both China and the world economy. There are at least three important reasons for economists, as well as policymakers, to study and understand the significance and implications of its WTO accession. First, China is a big economy, any changes will most likely affect the equilibrium of the world market, even the world economic system. It is obvious that WTO membership will bring big changes to China's economic performance and structure. In turn, these changes will effect world economic performance and business structures. This is one of the reasons why the WTO negotiations with the United States and the EU took so long. Second, China is a developing country. China's decisions and actions regarding the WTO will affect the decisions and actions of other developing countries. If China opens its markets more than most developing countries, it will bring pressure on them to do likewise. On the other hand, if China maintains protection for its domestic markets, it may increase the bargaining power of developing countries in the world trading system. Third, China is a transitional economy. How the WTO access effects China's economy will provide lessons for other transitional economies.

As the seventh largest economy¹ and an economy in the process of industrialisation and transition, WTO membership will impact significantly on China's economic development and reforms, as well as on other world economies. What will be the impact of China's WTO accession on international trade? How will it affect the scope and pace of China's economic reform and development? What are the implications of China's membership? Although

China's WTO membership

there are many other issues that need to be addressed, this chapter focuses on the possible impact on China's economy.

China's WTO membership will affect its economic reform and development in at least three respects. First, it will increase China's foreign trade. In particular, imports from industrialised countries will increase rapidly. Second, it will significantly change its economic structure. As a result of freer trade, production in highly protected sectors will decrease. On the other hand, opening to foreign direct investment (FDI) will stimulate the development of a modern service sector, the information and technology (IT) industry, and even automobile manufacture. Third, it will accelerate the reform of state-owned enterprises and help develop private enterprises in the Chinese economy. China may be able to complete its economic transition from a planned economy to a market economy through its WTO accession.

Stimulating freer trade

The first and most direct impact of China's WTO membership will be the stimulation of world trade volume. Economists from the World Bank, China and other countries have estimated the possible quantitative impacts of China's WTO accession—all of the studies show that China's accession will make world trade bigger and freer.

The reasons why people believe that China's accession to the WTO will stimulate world trade are simple and clear. Because China is already the seventh largest economy and the ninth largest trading country, further trade liberalisation in China will certainly make a significant contribution to the world trade volume. Being a member of the WTO, China will not only open up more of its markets to foreign goods, but will also be able to export more through an improvement in the external business environment and the development of its economic and export capacity.

Reducing trade protection and increasing imports

Like most of the newly industrialised economies in Asia, China's economic development began with the expansion of its exports. Although China's imports have been growing at a fast rate, they have been restricted by the state. Therefore, while exports are being liberalised and encouraged, imports are still limited and controlled. Table 4.1 shows China's total trade in the last ten years. It is not surprising that it has experienced a trade surplus for all but one year. According to the General Administration of Customs of China, the accumulated trade surplus from these ten years was as high as US\$156.4 billion. As trade protection is reduced, China will increase imports significantly.

Tariff reduction. Currently, China's average tariff rate is about 16.4 per cent.

Dilemmas of China's Growth in the Twenty-First Century

Table 4.1 **China's trade with the world, 1990–99 (US\$ billion)**

	1990	1991	1992	1993	1994	
Exports	62.1	71.9	84.9	91.7	121.0	
Imports	53.3	63.8	80.6	104.0	115.6	
Balance	8.8	8.1	4.3	-12.3	5.4	
Total	115.4	135.7	165.5	195.7	236.6	
	1995	1996	1997	1998	1999	Accumulated
Exports	148.8	151.1	182.7	183.8	194.9	1292.9
Imports	132.1	138.8	142.4	140.2	165.7	1136.5
Balance	16.7	12.3	40.3	43.6	29.2	156.4
Total	280.9	289.9	325.1	324.0	360.6	2429.4

Source: PRC General Administration of Customs, 2000. *China's Customs Statistics*, Beijing, July.

This rate has reduced significantly from more than 40 per cent in the early 1990s, but it is still relatively high compared to the average 6 per cent tariff rate of WTO members and the average rate of 14 per cent for developing countries. To be a member of the WTO, China agreed to make a substantial reduction in tariffs. The average tariff rate will be decreased to about 15 per cent on accession to the WTO and will be further reduced to about 10 per cent by 2005. Table 4.2 shows the projected tariff reductions in major sectors and for selected industrial products. The average tariff rate of industrial products will be reduced more than 60 per cent in 5 years from the current level of 24.6 per cent to 9.4 per cent. The tariff on IT products will be completely eliminated, and the agriculture tariff will be cut more than half from 31.5 per cent to 14.5 per cent by 2004.

Table 4.2 illustrates the significance of these tariff reductions on trade in China and in the world. The fifth column of the table indicates the selected products imported in China as the percentage of China's total imports. The sixth column shows the relative importance of these products in total exports from the United States. The last column calculated the products imported by China as the percentage of the total world export of these products. Partly due to high levels of protection, most of these items accounted for only a small percentage of both China's imports and the total world exports of these products. On the other hand, many of them are major exports from industrialised countries, such as the United States.

Taking the Chinese auto market as an example with an 80–100 per cent tariff rate, the import of automobiles is highly restricted. In 1997, China's total auto imports accounted for less than 1 per cent of world trade in auto products that year. This is small for the world's ninth largest trading country. Imports of cosmetics, furniture, pharmaceuticals, agricultural and medical

China's WTO membership

equipment are also very low as a share of total world trade. The limited imports are mainly due to trade restrictions. Once China enters the WTO and reduces such protection, imports of these products is expected to increase rapidly.

In the China–EU negotiations, China offered an additional reduction of 40 per cent on 150 specific EU products, varying from gin to building materials. Tariffs on 13 leather products, which account for 60 per cent of total EU exports in this sector, will be reduced from 20–25 per cent to 10 per cent. Tariffs on 5 specific footwear products that account for more than 70 per cent of EU footwear exports will be reduced from 25 per cent to 10 per cent. On 52 specific products in the important machinery and appliances sector, which accounts for 26 per cent of total EU exports, tariffs will be cut to 5–10 per cent from the current level of 35 per cent. The rapid tariff reduction on these specific EU products indicates that China's European imports will also increase.

Removal of non-tariff barriers. Besides the reduction of tariffs, China will also remove significant non-tariff barriers (NTBs). Table 4.3 summarises the main changes in non-tariff barriers. Again, we can see in selected industry sectors what type of NTBs will be eliminated—these NTBs include quotas, tendering requirements, trading rights, local content, technology transfer requirements, government procurement, and so on.

All quotas on civil aircraft, medical equipment, and IT products will be eliminated. Quotas on auto packages will grow by 15 per cent annually until completely eliminated. Removal of these quotas and other NTBs will certainly make importing much easier. Sometimes, removal of NTBs has more significant effects on trade than removing tariffs since NTBs are a direct trade restriction while tariffs restrict imports indirectly.

Improving business environment and expanding exports

Although China is already one of the largest exporting countries, WTO membership will help it expand its exports. First of all, through the improvement of export conditions, China may expand its traditional exports such as textiles, toys, footwear, machinery and electronic products. As a member of the WTO, China will face a non-discriminatory and stable environment in the world trade system through its permanent most favoured nation status and participation in a multilateral framework for dispute settlement. Second, China's economic structure will be changed through freer trade and foreign investment. As resources move to those sectors in which China has comparative advantages, exports from those sectors will increase.

Without WTO membership, China did not automatically have MFN status with other trading partners. It must negotiate trade agreements with each individual country. Although China has signed bilateral MFN agreements with most countries, some of these agreements are unstable. Since 1989, the

Dilemmas of China's Growth in the Twenty-First Century

Table 4.2 Tariff reductions after China's accession to the WTO

Selected items	Current level (%)	Tariff level after WTO accession (%)	Rate of reduction (%)	Share of China's total imports (%)	Share of US exports in US total exports (%)	Share of China's imports in world exports (%)
Industrial tariff	24.6	9.4 (2005)	61.8	..	..	..
IT product tariff	13.3	0.0 (2005)	100.0	..	..	..
Agriculture tariff	31.5	14.5 (2004)	54.0	..	..	..
Agriculture equipment	11.54	5.7 (1.1.2002)	50.6	0.06	0.42	0.98
Auto package	80.0–100.0	25.0 (7.1.2006)	72.2	1.57	8.10	0.63
Construction equipment	13.6	6.4 (2004)	52.9	..	..	..
Civil aircraft	14.7	8.0 (1.1.2002)	45.6	2.03	5.93	4.05
Cosmetics	45.0	10.0–15.0 (2004–05)	72.2	0.06	0.39	0.52
Furniture	22.0	0.0 (1.1.2005)	100.0	0.11	0.69	0.38
Medical equipment	9.9	4.7 (1.1.2003)	52.5	0.24	1.18	1.59
Paper	14.2	5.5 (1.1.2005)	61.3	2.20	1.55	4.30
Pharmaceuticals	9.6	4.2 (1.1.2003)	56.3	0.55	1.20	1.21
Scientific equipment	12.3	6.5 (1.1.2003)	47.2	..	..	..
Steel	10.3	6.1 (1.1.2003)	40.8	1.15	0.58	3.68
Textiles and apparel	25.4	11.7 (1.1.2005)	53.9	11.51	2.59	5.97

Note: For the last two columns, Agriculture equipment includes SITC 721; Auto package includes SITC 781–84; Civil aircraft includes SITC 792; Cosmetic includes SITC 553; Furniture includes SITC 821; Medical equipment includes SITC 872; Paper includes SITC 64; Pharmaceuticals includes SITC 541; Steel includes SITC 673, 674, 678 and 679; and textiles and apparel includes SITC 65 and 84.

Source: MOFTEC, The White House, and Statistics Canada.

China's WTO membership

annual review and debate of China's MFN status in the United States always brought uncertainty to Sino-US business and economic relationships. The establishment of permanent normal trading status brings more certainty and stability in business relations between China and other countries, including the United States.

With WTO membership, an effective multilateral dispute settlement framework will be used to increase business security, fairness and confidence.

Increases in trade with industrialised countries

China's trade with industrialised countries will grow even more rapidly than the average growth rate in China's foreign trade.

If we look at the trade development of the past 20 years (Table 4.4), it is clear that the share of China's imports from most industrialised countries (except Japan) has not changed much in spite of dramatic increases in China's foreign trade. Imports from the United States, Western European countries, Canada, Australia and New Zealand have remained a small percentage of the total exports from these countries. Meanwhile, China's total imports as a percentage of the world total has increased from 0.88 to 3.32 per cent in the same period. Furthermore, the share of imports from these industrialised countries as a percentage of China's total imports has not increased either. From 1980–1996, China's import share of North America exports changed from 19.4 per cent to 20.9 per cent, Western Europe dropped from 24.4 per cent to 14.4 per cent, and Australia changed from 2.0 per cent to 1.1 per cent.² Overall, the growth of China's imports from industrialised countries was below the average rate, and trade between China and industrialised countries was restricted.

Part of the reason China did not import much from industrialised countries was due to trade protection, as most of the goods being protected were more efficiently produced in industrialised countries. The expansion of exports to industrialised markets will be one of the important results of China's WTO membership.

Changes in economic structure

If a country is engaged in international trade and foreign investment, it is also engaged in the international division of labour and, therefore, integrates its economy into the world. This results in a series of adjustments to its economy. Driving forces for economic restructuring come from both freer trade and FDI. Freer trade will reduce the production of goods for which a country does not have comparative advantages, and will increase the production of goods that exploit a country's comparative advantages. The impact of FDI on the structure of the country's economy depends on the types of technologies associated with

Dilemmas of China's Growth in the Twenty-First Century

Table 4.3 Removal of non-tariff barriers

Industry	
Agriculture equipment	Tendering requirements for non-government purchases will be eliminated within 4 years of accession. Trading rights and distribution will be changed over 3 years.
Auto package	Quotas will grow 15 % annually until eliminated. Trading rights and distribution will be changed over 3 years. Non-bank financial institutions will be permitted to provide auto financing. Safeguard 12 years after accession. Local content eliminated immediately. No condition on import or investment of technology.
Construction equipment	Tendering requirements will be eliminated within 2 years of accession. Trading rights and distribution will be changed over 3 years. Export performance will not apply after accession. Local content will not apply after accession.
Civil aircraft	Quotas will be eliminated upon accession. Trading rights and distribution will be changed over 3 years. The US could use its unfair trade laws with subsidies.
Cosmetics and Furniture	Trading rights and distribution will be changed over 3 years. Export performance will not apply after accession. Local content will not apply after accession.
Medical equipment	Quotas will be eliminated upon accession. Tendering requirements for non-government purchases will be eliminated within 4 years of accession. Trading rights and distribution will be changed over 3 years. Export performance will not apply after accession. Local content will not apply after accession.
Paper	Trading rights and distribution will be changed over 3 years.
Pharmaceuticals	Trading rights and distribution will be changed over 3 years. Intellectual property rights will be implemented under the Trade-Related Intellectual Property Agreement of the Uruguay Round upon accession.
Scientific equipment	Tendering requirements for non-government purchases will be eliminated within 4 years of accession. Trading rights and distribution will be changed over 3 years. Export performance will not apply after accession. Local content will not apply after accession. Intellectual property rights will be implemented under the Trade-Related Intellectual Property Agreement of the Uruguay Round upon accession.
Steel	Trading rights and distribution will be changed over 3 years. Export performance will not apply after accession. Local content will not apply after accession.
Textiles and apparel	Trading rights and distribution will be changed over 3 years.
Toys	Trading rights and distribution will be changed over 3 years.
IT products	Quotas will be eliminated upon accession. Trading rights and distribution will be changed over 3 years. Export performance will not apply after accession. Local content will not apply after accession.

Source: MOFTEC, The White House.

China's WTO membership

the investment and the types of industries in which foreign capital is invested. Most of the FDI now comes from multinationals and is associated with particular products and certain types of technology. Technology or product-specific FDI is not just a transfer of resources, but may affect either export or import-competing sectors and change the economic structure of the receiving country.

Although China has been opening up its markets since the beginning of economic reform in late 1970, accession to the WTO is still a big move and further adjustments to its economic structure will be inevitable.

China's comparative advantages

To comprehend the possible impact of China's WTO accession on the structure of the Chinese economy, we must first understand what types of products benefit from China's comparative advantages. The revealed comparative advantage (RCA) index, developed by Balassa (1965) is often used to make international comparisons. To study the comparative advantage in China relative to other countries or regions, we constructed and calculated a series of regional (or bilateral) revealed comparative advantage indices.

The regional revealed comparative advantage index of product 'i' of country 'j' in region 'R' is calculated as follows

$$RRCA_{ij} = (X_{ij}/X_j) / (X_{iR}/X_{TR})$$

where X_{ij} and X_j are the value of product i and the value of total products exported from country j, respectively. X_{iR} and X_{TR} are the value of product i and the value of total products exported from the region, respectively. If $RRCA_{ij} > 1$, it indicates that country j has a comparative advantage of producing good i in the region. The higher the value of RRCA, the greater the comparative advantage. On the other hand, if $RRCA_{ij} < 1$, it means that the country does not have a comparative advantage (or, that it has a disadvantage) in this product.

To calculate the RRCA for China, we used trade data compiled by the Standard Industrial Trade Classification (SITC) in 1997. Table 4.5 shows the values of China's regional revealed comparative advantage index in each sector.

Compared with all the industrialised countries in Table 4.5 (including Japan, the United States and Western Europe), China has explicit comparative advantages in SITC 8 and disadvantage in SITC 1, 5 and 7. Compared with the United States and Western Europe, China does not have comparative advantage in SITC 0, 3 or 4.

The goods in SITC 8 include travel goods, clothing, footwear, instruments, watches, clocks, sound recorders and so on. These products are mainly labour-intensive. The products that China does not have comparative advantages are either resource-intensive products (SITC 0, 1, 3 and 4) or are capital/technology-intensive (SITC 5 and 7).

Dilemmas of China's Growth in the Twenty-First Century

Table 4.4 **Share of China's imports in other economies' total exports (per cent)**

	1980	1983	1987	1990	1993	1997
Hong Kong	5.93	10.71	25.20	26.44	38.33	36.76
Taiwan	0.00	0.00	0.00	4.56	14.29	17.36
South Korea	0.00	0.00	0.00	0.91	7.91	14.02
Japan	4.04	4.19	6.50	2.95	9.11	7.45
Australia	4.06	2.18	4.47	2.98	4.33	4.91
Singapore	1.29	0.74	2.29	1.67	3.18	3.91
Southeast Asian 4	1.01	0.82	3.13	2.11	2.65	3.16
New Zealand	3.12	2.19	2.87	1.15	2.44	2.79
United States	1.64	0.87	1.10	1.17	1.58	1.57
West Europe	0.31	0.41	0.70	0.54	1.08	0.95
Canada	1.31	2.18	1.37	1.20	0.97	0.85
Total market	0.88	0.95	1.69	1.64	3.28	3.32

Note: Southeast Asian 4 includes Malaysia, Indonesia, Thailand and the Philippines.

Source: Statistic Canada (1999).

Production adjustment and resource reallocation

As China enters the WTO, both tariff and non-tariff barriers in resource-intensive products (agriculture, wood, paper and so on) and capital/technology-intensive products (chemicals, automobiles and IT products) will be reduced. Imports of these products from industrialised countries are expected to increase. Consequently, domestic production in these sectors has to be adjusted. Resources will be reallocated to those sectors where China has comparative advantages, or potential comparative advantages, and the newly developed service sectors.

However, the automobile industry may face a different situation. Although currently China does not have comparative advantage in the auto sector, the industry may still not shrink even after protectionist measures are removed. The import of luxury cars or those that are not produced in China will increase, but most economy cars will still be produced in China.

Currently, the major auto companies in China have set up joint ventures with American, European and Japanese automobile producers. The dominating models are manufactured by these joint ventures. On the other hand, there are also more than 100 companies in China producing autos on a very small scale which are protected by high trade barriers. Once the protection is removed, these small-scale companies will disappear, but production of joint venture autos will expand. In other words, auto producers in industrialised countries prefer to produce economy cars in China rather than produce them in their home countries and export them to China. Because of the growing market for small and medium size economy cars, China is attracting FDI from the world's major auto producers. A freer trade will reduce or shut down the small

China's WTO membership

automobile companies' production while a freer FDI will expand the production of Chinese-made foreign cars.

Opening up the service sectors to foreign companies

Less-restricted FDI will also affect China's economy. China has successfully attracted much foreign investment in the past decade, but this has mainly been from Hong Kong, Taiwan and other Asian countries. Most FDI is in labour-intensive manufacturing sectors and has helped China produce and export more labour-intensive products. Little FDI has been in the service sector because it is highly restricted.

One of the major agreements in both Sino-US and Sino-EU, WTO membership negotiations was to open up the service sector in China. Table 4.6 summarises the main points in both agreements. All service sectors, including telecommunications, banking, insurance, retail, transportation and professional services, will be opened up to foreign investment and participation. Through foreign investment and competition, the service sector in China will rapidly develop.

Overall changes in economic structure

Freer trade and market access will change China's economic structure in next 5–10 years. The adjustment of economic structures and the reallocation of resources will follow the principles of comparative advantage and economic dynamics.

In general, the production of goods that use China's scarce resources intensively will decrease, and production of goods that use China's abundant resources intensively will increase. In particular, China will import more land-intensive agricultural products such as grain and will shift production towards more labour-intensive goods. Domestic production of resource-intensive

Table 4.5 **Regional revealed comparative advantage between China and selected economies, 1997**

SITC	0	1	2	3	4	5	6	7	8
Tiger 3	3.90	1.60	2.83	2.25	1.69	0.91	1.85	0.45	1.28
Southeast Asian 4	1.22	5.59	0.59	0.55	0.13	2.98	2.25	0.69	0.56
Japan	9.62	0.98	3.93	7.04	3.31	0.62	1.33	0.27	3.17
United States	0.30	0.05	0.24	0.77	0.08	0.34	1.23	0.51	3.78
West Europe	0.49	0.14	1.35	0.36	0.26	0.64	0.92	0.67	2.95

Notes: Tiger 3 includes Korea, Singapore and Taiwan. Southeast Asian 4 includes Malaysia, Indonesia, Thailand and the Philippines.

SITC: 0—food and live animals; 1—beverage and tobacco; 2—crude malts excluding fuels; 3—mineral fuels and so on; 4—animal fat, vegetable oil; 5—chemicals; 6—basic manufactures; 7—machines, transport equipment; 8—miscellaneous manufactured goods.

Source: Statistics Canada 1999.

Dilemmas of China's Growth in the Twenty-First Century

products (wood, paper) will also decrease.

Production in some highly protected sectors (for example, chemicals, cosmetics and pharmaceuticals) will decrease as imports go up. But some other highly protected sectors (auto, service industries and IT) may develop rapidly as China opens up for FDI. Although at its present development stage China does not have comparative advantage in these sectors, it may have a potential comparative advantage in the near future.

Deepening market-oriented economic reforms

It is obvious that China's WTO membership will bring more business to China as well as to other countries. However, the most significant impact of China's WTO accession is to deepen its economic reform.

Unlike reforms in Russia and other Eastern European countries where the ultimate goal is to create a private market economy, there is no clear and consistent road map for China. Basically, the reform strategy is, as Deng Xiaoping said, a process of 'crossing the river by touching the stones'. China's economic reform is under the leadership of the Chinese Communist Party (CCP). The initial objective of the reform is to improve the efficiency of state-owned enterprises without changing the basic economic system. Chinese leaders have announced that the goal of reforms is to establish a socialist market economy with Chinese characteristics. However, this goal is still not well defined. Each political and economic group can interpret it in a different way depending on their own interests.

Vague reform goals were not a big problem in the early stages because the initial reforms were simple and mainly a Pareto improvement process. In this situation no one is worse off and most people are better off during the reforms. The reforms started in agriculture by reinstating the family farming system. It was relatively easy to implement because family farming had been practised in China for thousands of years. Collective farming in China had a less than 25-year history and was easily reversed. Although land is still collectively owned, farmers are now able to rent land for a long period (30 years). Thus, the initial reforms in the agricultural sector were very successful.

Urban or industrial reforms started in 1984 and are still far from completion. There is no commonly accepted theory to guide the reform process since the ultimate goal of reform is unclear. On the one hand, China wants to establish an efficient modern economic system. On the other hand, political leaders want to maintain public or state ownership of enterprises. China has been moving towards a market economy, but political leaders still reject Western economics. A strongly influential group of people, including economists, hope to develop a non-planning and non-capitalist economic system, but most

China's WTO membership

businesspeople and reformists want to complete the transition and establish a private ownership-based market economy. Since the goals and road map are not clearly stated, many interest groups are also using political force to protect their narrow economic interest. A vague goal now becomes an obstacle to further economic reforms in China.

By joining the WTO, China is able to put all the differences among politicians, interest groups and economists aside, set up a clear goal for further reform and establish a road map to reach that goal. WTO membership forces China to deepen reforms based on the WTO's rules. It enables Chinese leaders to turn a controversial domestic issue into an international commitment. People do not have to spend endless time debating what system China should adopt and what sectors it should protect. The most urgent issue is how to adjust the current system to be consistent with the WTO and determine how to reform Chinese enterprises in order to be ready for international competition.

Development of private enterprises

Private enterprises have experienced remarkable development in China over the past two decades. However, private ownership is still being discriminated

Table 4.6 **China's commitment to market access**

Sector	Sub-sector	China's Commitment
Telecommunications	Basic services	49% foreign ownership (first year of accession) to 50% (in the second year)
	Mobile/cellular phones	25% foreign ownership on accession, 35% after 1 year, 49% after 3 years
	Leasing markets	Open up in 3 years
	Wireless services	6 years
Finance	Insurance	Eliminate geographic limitation in 3 years; open 85% of the service in 3 years; 50% ownership for life insurance, 51% for non-life (100% in 2 years)
	Banking	Local currency business in 2 years; full market access in 5 years
	Non-banking	Auto financing upon accession
Commerce	Trading and distribution rights	Phased in over 3 years; lift restrictions on joint ventures and size limit for foreign-owned stores
Others	Professional service	Legal: open to foreign law firms; Accountancy: open to foreign accountants
	Travel and tourism	100% foreign ownership in 3 years

Source: MOFTEC and White House.

Dilemmas of China's Growth in the Twenty-First Century

Table 4.7 **Composition of China's exports by enterprise ownership**
(January–July 2000)

	Total	SOE	FIE	COE	Other
Total exports (US\$ billion)	135.95	65.73	63.31	5.63	1.29
Share (%)		48.35	46.57	4.14	0.95
Ordinary trade (US\$ billion)	58.20	43.33	10.16	3.77	0.94
Share (%)		74.45	17.46	6.48	1.62

Notes: FIE is foreign-invested enterprises or enterprises with foreign investment (including foreign firms, joint ventures and foreign cooperation); COE is collectively-owned enterprises.

Source: China Monthly Exports and Imports, July 2000.

against in many aspects. In many important sectors, including financial, distribution, international trade, power supply and transportation, private ownership is still prohibited. Under the title of a socialist system, interest groups in these sectors are able to use political, ideological, even legal power to maintain state monopolies. It is very difficult for private enterprises to enter these sectors without domestic political support.

China's WTO accession provides opportunities for private enterprises to enter previously prohibited sectors. In the process of preparing to join the WTO, the government was asked to first open up the financial, telecommunications and other important sectors to Chinese private enterprises. Since China will allow foreign investment in these sectors and all foreign investors are private, it is natural that China should allow domestic private enterprises to invest or operate in the same sectors. Once the government lifts all bans on private ownership, private enterprises will develop even more rapidly.

Ownership reforms in SOEs

China's WTO membership will also bring a serious challenge to the state ownership of the production of tradable goods. One of the major principles of the WTO is to protect fairness in trade and international competition. Any non-market activities like subsidies or state trading are considered as unfair trade and subject to retaliation. As a transitional economy, SOEs in China are still playing an important role in many sectors. Recent data (Table 4.7) shows that almost 50 per cent of exports still come from SOEs. The SOEs share is even higher (almost two-thirds) of exports. China would still be treated as a non-market economy even though it is a WTO member country. Some retaliation measures against Chinese SOEs could be used for another 15 years, or until China becomes a market economy.

China's WTO membership

Membership of the WTO will bring greater pressure for ownership reform in SOEs. In addition to the need to improve efficiency, Chinese SOEs now have more incentives to reform ownership to avoid unfair treatment of the non-market economy and painful default dumping charges. Globalisation and international competition require common rules of the game. As long as a firm wants to participate in the game (international competition), it must follow the same rules. WTO membership will bring a convergence of enterprise ownership in different countries. Unless China is able to change the rules of the game (by entering the WTO, China has already committed to follow its existing rules), ownership reform in SOEs is inevitable.

Conclusion

Many studies of the impact or implications of China's WTO membership have been conducted, clearly indicating the importance of the issue.

As most of the studies point out, trade liberalisation in China will increase both its imports and exports. The sectors being liberalised are those in which industrialised countries have a comparative advantage, and therefore imports from industrialised countries will grow most rapidly. China's WTO membership will increase trade between China and industrialised countries.

In return, the expansion of trade and FDI from industrialised countries will change the industrial structure of the Chinese economy. Resources will move away from land-intensive agriculture, resource-intensive manufacturing, and some capital/technological industries to labour-intensive products or the sectors that have potential comparative advantage and market sizes.

China's WTO membership may help the government to break through political, economic and ideological deadlocks and set up the ultimate goal and road map for economic transition. Pressures from internal and external economies may push China to complete the last and most difficult stage of reform: ownership reform. Through adjustment and reforms, the Chinese economic system may well converge with the system that all WTO members have adopted.

China's WTO membership implies that China is not only integrating with the world market but also converting to the world economic system. China is entering a new stage of reform and development. Like the agricultural reform in 1978, accession to the WTO marks another milestone in China's modern history. China has successfully achieved high growth under a more open environment. Reforms under the WTO framework will take China to another higher level of economic performance.

Dilemmas of China's Growth in the Twenty-First Century

Notes

- 1 According to the World Bank (The World Development Indicator Database, World Bank 2000), China's GDP in 1999 was US\$991 billion, ranking seventh in the world. China's population is about 1.3 billion. It is the world's most populated country.
- 2 See Table 2.1 China's geographic trade structure, 1970–96, in Drysdale, P., 2000. 'Open Regionalism, APEC and China's International Trade Strategies', P. Drysdale, Y. Zhang and L. Song (eds), *APEC and Liberalisation of the Chinese Economy*, Asia Pacific Press, Canberra.