

Summary

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SUMMARY

PART I How Will China Be Affected by The Accession?

This part focused on the transformation of domestic institutions in China on its accession to the WTO, its influences on major sectors and foreign direct investment (FDI), and analysis of the implications on China's economic development and its external economic relations.

Macroeconomic and Institutional Changes (Liu He)

China has been accelerating its process of transition toward market economy in recent years as epitomized by: the gradual withdrawal of state capital from sectors where market mechanisms are supposed to function well; the thorough reorganization of the government sector; a policy shift to put more emphasis on the development of the private sector; and the introduction of anti-monopoly and competition-enhancing policies. At the same time, China is emerging as one of the world's manufacturing centers as the country is increasingly integrated into the global economy.

China's accession to the WTO will promote these trends toward market economy and globalization, which will push up the country's economic growth by a margin of one percentage point or more. The sweeping reorganization of inefficient state-owned enterprises will, however, inevitably entail a significant increase in unemployment. The accession will also bring various influences to bear on domestic sectors. Capital-intensive sectors like automobiles and petrochemicals will be negatively influenced, while other industries such as the knowledge-intensive software industry will gain significantly.

Foreign Direct Investment (Jiang Xiaojuan)

The last five years saw a massive inflow of foreign direct investment in China. Multinationals are looming as major players in China's production, investment, technology upgrading, and exports. The government is taking new measures to promote FDI such as favorable tax treatment for

research and development by foreign joint ventures, reducing limitations on FDI in service industries like finance, distribution, and intermediary services, and revising FDI-related laws.

As China enters the WTO, FDI inflows to China will grow steadily, due mainly to the country's robust economic growth and further reductions in investment regulation. Service and high-tech industries will be the new focus of FDI. Wholly-owned foreign companies and holding companies are likely to be the major forms of FDI. As the government puts more emphasis on the development of interior regions, investment in the major municipalities in the Central and Western region is expected to grow.

Industrial Policy (Tomoo Marukawa)

The Chinese government pursued interventionist industrial policy in the 1990s that aims at building large domestic enterprise groups to prepare for the mounting international competition expected after the country's accession to the WTO. In sectors such as automobiles and electronics, the government tried to reorganize numerous firms into a few large enterprise groups.

Policy performance, however, fell short of expectation. The reorganization of the automobile industry stagnated; leading companies like First Automobile and Dongfeng that pursued expansion through merger and acquisition in line with the big-business-group policy are burdened with excessive debt. In the electronics industry the development of newly emerging companies outside the scope of policy support has been exceeding that of the major state-owned companies.

Accession to the WTO will make it difficult for the Chinese government to promote previous interventionist industrial policy. Nonetheless, the unexpectedly robust growth of emerging companies has proved the huge potential of China's domestic industry, in spite of the disappointing ineffectiveness of industrial policy.

Agriculture (Lu Feng)

Trade statistics for the past 20 years show that China's agricultural trade basically follows the country's comparative advantage pattern: net export of labor-intensive products such as horticultural products and net import of land-intensive products such as grain and cotton.

As China's domestic market for agricultural products becomes more open after WTO accession, the country's agricultural trade will be further aligned along the comparative advantage pattern. This will negatively affect regions that are less competitive in land-intensive agriculture, while

regions that are competitive in labor-intensive products will benefit. To ease negative regional impacts the government needs to promote adjustment policies in accordance with market mechanisms, such as improving market access for farmers and enhancing compulsory education in rural areas.

PART II Integration with the Global Economy

This part focused on the impact of China's WTO accession on the economic relationship between China and other economies in the Asia-Pacific region, how China's role in the region's international division of labor will be affected, and what challenges China and other economies in the region will face as China is successfully integrated into the global economy.

Economic Relations with the United States (Barry Naughton)

As China enters the WTO, the country's exports of labor-intensive products such as garments to the United States are expected to grow. Some US sectors such as agriculture will benefit from an increase in exports to China. The relaxation of FDI regulations in sectors where the US is comparatively advantaged, like finance and distribution, means that US businesses are likely to be the major players among foreign businesses in China's domestic market.

In the long run, as US business interests in China expand, friction over intellectual property right protection or other policy or legal issues will increase. Taiwan's accession to the WTO, which is expected to follow China's accession immediately, will further promote the development of information industry networks between China and Taiwan, substantially benefiting US IT industries. Despite the deepening economic relationship between China and the US, risks of political conflict over Taiwan or other issues still remain.

Economic Relations with Japan (Hisashi Mino)

China's manufacturing exports have been growing much faster than total exports since the 1990s. The composition of manufactured exports has been becoming increasingly sophisticated and diversified. This trend is apparent also in China-Japan trade in recent years, where Japan exports more parts and processing materials and imports more finished products instead of exporting them. In the foreseeable future it is expected that machinery will replace garments as Japan's largest import item from China.

And Japan's direct investment in distribution will grow as a result of the relaxation of investment regulations.

Promoted by factors like Taiwan's WTO accession and relaxation of controls on domestic labor migration, China, especially the Pearl River Delta and the Yangtze River Delta, will emerge as international centers for high-tech product manufacturing. In this regard, it is required that Japanese businesses reshape their economic relationship with China so as to fully utilize the country's developing productive capacity.

Economic Relations with ASEAN Countries (Suthiphand Chirathivat)

Since the beginning of the 1990s, ASEAN began to lose ground to China in some advanced countries' markets for labor-intensive products, while FDI inflows to China have been outpacing ASEAN as a whole since 1993.

As China enters the WTO, ASEAN is likely to be further affected by a decline in total share in international markets of products such as garments and electronics and shifting FDI flow from ASEAN to China. At the same time, the opening of the domestic market required by accession to the WTO will benefit ASEAN by increasing business opportunities both in trade and investment. To adapt itself to this new reality, ASEAN needs to take measures like improving the investment environment, reinforcing regional integration, and pursuing new opportunities for China-ASEAN economic cooperation.

Economic Relations with Taiwan (Tain-Jy Chen)

As a result of Taiwan's restrictions on imports from China, the present structure of cross-Strait trade is unevenly in Taiwan's favor. As Taiwan abolishes restrictions on imports from China on its accession to the WTO, Taiwan's imports are expected to rise substantially, imposing on Taiwan significant adjustment cost. On the other hand, China's accession to the Information Technology Agreement expected after its WTO accession will bring Taiwan huge business opportunities in China's domestic market. Further market opening will also lead to an increase in Taiwan's investment in sectors like consumer durables manufacturing.

As the bilateral trade grows after both China and Taiwan enter the WTO, Taiwan's investment in China will also increase, leading to the formation of a further integrated economy across the strait, notwithstanding political intentions. At the same time, Taiwan will see rising unemployment in its unskilled labor and severe shortage of managerial or technical personnels in the domestic labor market and will face a mounting pressure for further industrial sophistication and structural adjustment.

PART III General Discussion

In the third part, four panelists (Liu, Marukawa, Naughton, Suthiphand) were invited to summarize their views on the issue of China's accession to the WTO, as an overview of the discussions in the preceding two parts. Professor Yamazawa, the chairperson, requested that they address four specific issues: the significance of China's WTO accession; adjustment problems; future industrial policy; and regional integration. They also answered four relevant questions from the floor on: state-owned enterprise reform; the influence of accession on development of the Western region; the influence of the human rights issue on US-China relations; and prospects for overseas Chinese investment in China.

Note: This summary and summaries of discussions in each part were prepared by the co-editors, who are solely responsible for the wording.