

Stability of the Great Wall in an Ever-changing Borderless-technology: The Case for Membership in the WTO

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Abstract

The purpose of this paper is to examine China's proposed membership in the World Trade Organization (WTO). At a time when e-commerce is changing most of our business models, the question facing China is, whether China is ready to compete over the Internet, and conversely, whether the rest of the world is ready to compete with numerous "dot com" companies originating out of China.

1. Introduction

New China-US trade agreements and on going negotiations between China and other WTO members continue to transform the landscape of China's economy. The potential impact of WTO membership on China's economy would be profound. In the long run, China would benefit from the advantages of a market driven economy. These benefits include a reduction of inefficiencies in production and the labor market in state-owned sectors of China's economy. However, it is in the short run where the pressure of the market forces would be unyielding and in all likelihood, exert a painful effect on China. For example, the current China's trade surplus would likely disappear as a result of an increase in imports of goods and services from the West. Moreover, the most talented and skilled workers could flee the government sector to find jobs with private and foreign firms. Accession into the WTO also would be expected to permanently transform Beijing's ability to govern the economy.

2. Background

China was one of the 23 original signatories of the General Agreement on Tariffs and Trade (GATT) in 1948. After China's revolution in 1949, the nationalist government in Taiwan announced that China would leave the GATT system. The government in Beijing, however, never recognized this decision to withdraw from GATT. In 1986, after nearly 40 years, the Chinese government notified the GATT system of its wish to resume its status as a GATT Contracting Party. A working party of GATT was established in March 1987 to examine China's status and subsequently met for the first time in October 1987.

Like other countries that have applied for WTO membership, China began the process of implementing economic reforms and transforming its controlled-economy to a market-based economy. Since 1987, the value of China's trade increased from \$20 billion to \$80 billion in 1997. It became the second largest receiver of foreign direct investment by 1998. China made tremendous concessions during the 12 years of its accession negotiations to the WTO. Below is an example of these concessions:

- Average tariffs (not including agricultural products) were reduced from 42.7% in 1992 to 17% in 1998.
- Non-Tariff Measures were cut from 1247 in 1992 to less than 400 in 1998.
- China signed the Information Technology Agreement. This agreement calls for the elimination of duties on a variety of information technology products.
- China did not renew plans to support export subsidies for agricultural products.
- China made substantial progress in its negotiations on trade in services.
- The Chinese government created a freer economy to attract foreign capital and now there are 150 foreign banks operating in China.

3. China's Membership in the WTO

China-US trade agreements and on going negotiations between China and other WTO members continues today. China's membership in the WTO currently is being debated in US Congress. It appears that the China accession into the WTO is eminent. However, political debates may limit certain aspects of the agreement. Below are the projected impact on the WTO agreements between China and the United States.

Table 1 Agricultural Products (all tariff rates are in %)

	Before WTO Membership	Immediately after WTO Membership	2004	Under-review
Beef	45		12	
Pork	20		12	
Poultry	20		10	
Cheese	50	12		
Ice Cream	45	19		
Wine	65			20
Grapes	40		13	
Citrus	40		12	
Apples	30		10	
Almonds	30	20	10	

Table 2 Industrial Products (all tariff rates are in %)

	Before WTO Membership	2003	2005	Under-review
Auto	80-100		25	
Wood	12-18	5		
Paper	15-25	7.5		
Fish & Fish Products	20	10	5	
Distilled spirits	61	15	10	
Semiconductors	13.3	0		
Computer and computer equipment	13.3	0		
Telecommunications	13.3			0
Internet equipment	13.3			0

Table 3 Services

	Before WTO Membership	After WTO Membership
Insurance	Restricted to Shanghai and Guangzhou to only two US firms	All geographical limitations will be removed by 2005
Tourism	Limited to 11 areas and cannot establish full service travel agencies.	Unrestricted access. Allow up to 100% foreign owned hotels by 2003. Foreign travel agencies can provide full range of services, including access to government resorts.
Professional Services	Mandatory localization requirement on management consulting, legal and taxation services.	Elimination of mandatory localization requirement.
Audiovisual	Restricted everywhere	Allow 49% foreign participation for video and sound recordings. Allow majority ownership by 2003 for ownership and operation of movie theaters.
Banking and Securities	Limited operation in Shanghai	Under review

4. The Effects

In general, membership in the WTO would offer China distinct and extremely positive advantages. These advantages cross every aspect of the Chinese economy. These advantages include:

- Using its competitive labor market to put to work its unemployed and underemployed population,
- Allowing private equity market to fund specialized or state-of-the-art projects
- Promoting and cultivating new innovative ideas and resulting in the funding and launch of lucrative startup companies,
- Improving the general standard of living especially in transportation, communications, and healthcare.

No decision is without negative consequences. In the case of China's admittance to the WTO the consequences pose a threat socially, economically, and politically. The disadvantages include:

- Facing high unemployment with the possibility of disturbing/uprooting/unsettling family units,
- Creating classes and gaps among poor and rich, skilled and unskilled, young and old, city and rural populations,
- Increasing the potential for unrest, chaos, and an ineffective legal system with a weaker government,
- Displacing cultural values and abandoning family values with shaken morality and ethical values.

5. Conclusion

This paper examined China's request for membership in the World Trade Organization (WTO), when e-commerce is changing most of our business models. The U.S. and other members of the WTO have strong economic reasons for including China in the WTO, but whether the social cost of competing is too great for China is still unanswered. On one hand, long-term stability and growth in the economies of all countries is contingent on admitting China to the WTO and securing freer trade around the world. Conversely, unprecedented financial rewards from the market economy can worsen a torn and confused family values, diminish an unnourished business ethics, and keep a fractured or weak government in charge of enforcing business laws and controlling widespread corruptions. We call for caution, and recommend slow entrance into market economy.

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