

China's WTO Accession: A Domestic Political Analysis

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The history of the relationship between China and the World Trade Organization (WTO) began in May 1947, when China formally became one of the original contracting parties of the General Agreement on Tariffs and Trade (GATT), the precursor organization to the WTO. The fifty-five years since have seen a varied relationship between China and the organization, but culminated almost exactly a year ago with the formal accession of China to the WTO following almost fifteen years of negotiation.

China's drive for entry into the WTO for the past 15 years has been an integral part of China's reform and modernization movement. Consequently, the debate surrounding WTO accession overlaps with the debate over China's current and future opening to the world. While WTO accession, finally achieved in 2001, represents a major battle won by those pushing for more openness and integration, much is left to be fought over as the struggle over implementation of the WTO commitments begins. With accession and the required international commitments towards economic and trade liberalization made, China has taken a significant step towards systemic reform that will reinforce her stability, legitimacy, and continued prosperity. However, much is dependent on how the continued debate plays out as China attempts to implement her WTO commitments in order to reap the benefits of WTO membership.

Why has China been trying so hard to gain entry into the WTO and how does it relate to the overall reform process? Who are the winners and the losers from entry into the WTO and in what arenas and in what manner have they held the debate? What are lingering issues remaining, now that WTO accession has actually taken place and what

implications does this mean for China's future? This paper will attempt to provide some insight into the domestic political issues surrounding China's recent entry into the World Trade Organization.

This paper is divided into five main sections. The first section will examine two models of economic integration and use them to explain the major trends seen in China's process of economic integration as well as forming the basis for debate. The second section will look at the political and economic stakes of WTO accession – what WTO accession means and what are the implications for China's economy and its politics. This will frame the debate. The third section describes the debate, listing out the individual groups that stand to gain and lose from WTO accession, the key topics and arenas of debate, and key characteristics of the debate process. The fourth section examines several post-accession challenges China faces, many of which directly result from the process of debate described in the previous section. The conclusion will attempt to look into the future, trying to draw long term implications of WTO accession and the reform process in general, identifying issues and suggesting options.

The Open Door and Two Models of Economic Integration

China economic scholars have generally charted China's growing integration with the world economy in two broad phases – the initial phase beginning from the opening of reforms in 1978 characterized by a rapid and smooth process of integration, and a second phase starting in 1994 marked by a much slower, more conflicted process of integration. In her analysis, Margaret Pearson¹ states these two periods coincide with two related but

¹ Margaret M. Pearson, *China's Integration into the International Trade and Investment Regime. China Joins the World: Progress and Prospects*. Elizabeth Economy and Michel Oksenberg, ed., Council on Foreign Relations Press, New York, 1999.

different processes. The two processes of integration each have their own supporting hypothetical models of global economic integration and each have subsequent domestic and international influencing factors. The first model, the *partial integration* model, views China's integration into the world economy from a pragmatic yet cautious standpoint. Its ideal is to reap the benefits of international economic exchange – foreign exchange, technology transfers, and share of global wealth – while maintaining full control over economy or sovereignty. Sometimes referred to as *shallow integration*, this type of integration, described by Deng Xiaoping as 'letting fresh air in without worrying about the flies', characterized much of the changes that occurred to the relationship between China and the global economy in the first period from 1978 to 1994. During this period, the amount of trade between China and the world rapidly grew, increasing from \$4.8 billion in total trade to \$42.1 in US-China bilateral trade alone². However, despite this huge increase in economic interaction with the world, China's economy remained detached and isolated, much of the trade being a result of international offshore labor-intensive export processing operations with neither many imports entering into nor many exports originating from China's core economy. In short, high tariffs and other import controls insulated many sectors of the Chinese economy while a separate export-processing economy grew and developed. This early model of integration supports the criticisms levied at China as being mercantilist and having a dualistic economy.³

² *China-U.S. Trade Issues*, Congressional Research Service, Congressional Information Service, Inc. January 24, 2002

³ Nicholas R. Lardy, *Integrating China into the Global Economy*. Brooking Institution Press, Washington, DC, 2002.

The second, *full integration* model, however, seeks to fully integrate China's economy at depths and levels matching most industrialized countries in the global economy. The ideal of this model is to use full integration in order to ensure maximum efficiency in the allocation of resources and to also benefit from the gains from specialization. While the partial integration regime is a legitimate step in the process of integration, according to this model, real benefits and gains from integration will only be achieved after full integration is complete. This second model can be used to explain the developments in economic integration that took place in China in the period after 1994. As liberal reformers in China began acknowledging the benefits of a free trade regime, they began to adopt this model of full integration, making more fundamental and impacting changes to their economy. However, while the partial integration representing changes that happened before 1994 were endorsed by both groups supporting partial and full integration, changes after 1994 fundamentally conflicted with those leaders who only bought into the concept of partial integration. For them, the ideological conflict and the loss of control and sovereignty made the full integration model unacceptable.

This debate over the level and ideal of economic integration with the world can be viewed analogously with the broader debate over the open door and reform process in general. As reform has continued despite certain challenges and setbacks through the last two decades of the past century, so has the drive towards full economic integration.

Political and Economic Stakes in WTO Entry

As in any policy or system change, there are costs and benefits, winners and losers, and political and economic stakes to gain and to lose. WTO accession, a dramatic, widespread, and committed change in China's economy system promises dramatic and

permanent changes for various political and economic actors touching all areas of Chinese life.

The Commitments

As part of the process of WTO accession, a country requesting membership must conduct bilateral negotiations with any member countries who request them. Of the 37 countries with which China was requested to conduct bilateral negotiations, the US provided the most difficult, tenuous, and protected bilateral negotiation:

Major aspects of the US-China WTO Agreement

- Provide full trading and distribution rights for U.S. firms in China
- Cut average tariffs for U.S. priority agriculture products from 31.5% to 14.5% by 2004. Overall industrial tariffs would fall from an average of 24.6% to 9.4% by 2005. Tariffs on information technology products, such as computers, semiconductors, and telecommunications equipment, would be cut from an average level of 13.3% to zero by 2005.
- Establish a tariff-rate quota system for imports of agricultural bulk commodities, i.e. imports up to a specified quota level would be assessed a low tariff (1-3%), while imports above a certain level would be assessed a much higher tariff rate. Private trade in agricultural products would be permitted for the first time.
- End export subsidies on agricultural products.
- Open service sectors including distribution, value-added telecommunications, insurance, banking, securities, and professional services.
- Reduce restrictions on auto trade. Eliminate auto quotas by 2005 and allow US financial firms to provide financing for the purchase of cars in China.
- Provide that Chinese state-owned firms make purchases and sales based on commercial considerations and give U.S. firms the opportunity to compete for sales on a non-discriminatory basis.
- Accept the use by the U.S. of certain safeguard, countervailing, and antidumping provisions.

(China-U.S. Trade Issues, *Congressional Research Service*, Congressional Information Service, Inc. January 24, 2002)

In addition to the various bilateral agreements that China was required to negotiate, the multilateral working party overseeing China's accession process also required commitments of liberalization:

Major aspects of the WTO accession agreements:

- China will bind all tariffs. The average tariff for industrial goods will fall to 8.9% and to 15% for agriculture. Most tariff cuts will be made by 2004; all cuts will occur by 2010.
- China will limit subsidies for agricultural production to 8.5% and will not maintain export subsidies on agricultural exports.
- Within three years of accession, China will grant full trade and distribution rights to foreign enterprises
- China will provide non-discriminatory treatment to all WTO members.
- China will fully implement the Trade-Related Aspects of Intellectual Property Rights (TRIPs) Agreement upon accession.
- A 12-year safeguard mechanism will be available to other WTO members in cases where a surge in Chinese exports cause or threaten to cause market disruption to domestic producers.
- China's banking system will be fully open to foreign financial institutions within five years.

(China-U.S. Trade Issues, *Congressional Research Service*, Congressional Information Service, Inc. January 24, 2002)

To summarize, China will experience major cuts on tariff rates across a broad range of industries including industrial goods and agricultures, opening up domestic industries to free and open competition for the Chinese consumer. Reciprocally, Chinese exporters will have a more open environment in which to sell their goods to foreign consumers. China will be obligated to treat all economic parties equally, so that the same economic rights are granted to all countries, and that foreign and domestically owned firms will have equal rights, statuses, and pricing. Finally, most of these changes are to occur within a 2-8 year time frame.

Economic Costs and Benefits of WTO Entry

Benefits:

The direct explicit benefits from WTO entry and the agreements that accompany it, is that Chinese exporters will have greater access to foreign markets. This will particularly help industries for which China has a comparative advantage, mainly labor-intensive goods. Although lowered tariffs that will reduce competition from imports will

hurt import-competing industries explicitly, the implicit benefits from this are many – in fact, it is from these benefits that reformists expect to gain the most. Competition from abroad will force industries across the board to more competitive and therefore more efficient. As Josef Fewsmith writes⁴ WTO accession will “help weed out inefficient state owned enterprises (SOEs), break down bureaucratic interests that have fostered economic paternalism, erode local protectionism, and curtail industrial monopolies.” In economic terms, this will force a more efficient allocation of resources in the Chinese economy, thereby increasing output, and accordingly, per capita GDP. Further aiding efficient allocation is the liberalization and opening up of the financial sector to foreign firms which will aid in the ability for capital to be efficiently allocated in China. Additionally, Chinese consumers will be able to choose from a wider range of consumption choice at a wider range of prices (i.e. cheaper prices). In other words, the average Chinese citizen will be better off because he will be able to consume more for less money.

The resulting positive benefits to the Chinese economy as a whole will not be small. There have been many predictions as to the aggregate effect to the economy. For example, Jun Ma and Zhi Wang of the China Business Review predict that WTO accession alone will result in an additional 1.5% GDP growth and will be responsible for the attraction of an additional trillion dollars of foreign investment⁵. Already, China is

⁴ Joseph Fewsmith, “The Political and Social Implications of China’s Accession to the WTO”, Current History. Sept 2000, Vol. 99, Issue 638, p268

⁵ Jun Ma and Zhi Wang, *Winners and Losers of China’s WTO Entry*, The China Business Review. March-April 2001.

expected this year to have surpassed the United States as the largest Foreign Direct Investment (FDI) host country⁶.

Additionally, there are various secondary benefits to WTO accession from which China will gain. One such benefit that, while not related economically, plays an important part in domestic and international politics is the preemption of Taiwan as the first Chinese trade regime to enter the organization. As Taiwan had completed accession negotiation by the late 90s, increasing pressure mounted on China to complete negotiations for fear of entering behind Taiwan⁷, and thus undermining the “One-China” policy⁸. A similar benefit that China gains from WTO membership is the international stature and legitimacy gained from being an important member in a large international organization. It can be deduced from China’s relative inactivity in international organizations, such as the Security Council of the UN, that China feels that membership in itself provides benefits for China. Finally, there are various economic benefits that China will gain from having a more open transparent economy. For example, the capability and opportunities for smuggling, black markets, and economic corruption should be reduced after the WTO accession commitments have been implemented.

⁶ “China to Draw US\$50bn FDI, to be World’s No. 1 Recipient”. People’s Daily, December 5, 2002.

⁷ Nicholas R. Lardy, Integrating China into the Global Economy. Brooking Institution Press, Washington, DC, 2002.

⁸ WTO members are described as either sovereign nations or non-sovereign autonomous trade regimes. This allows them to skirt the “One-China” problem as well as complications of having such territories as Hong Kong as separate WTO members. Gaining entry first, however, allows China to be the first and only sovereign Chinese nation to enter the WTO, forcing the WTO to accept Taiwan subsequently only as an autonomous trade regime.

Costs:

Explicit costs that will be incurred by the Chinese economy as a result of WTO accession will be the increased competition from imports. This will lower the prices at which land and capital-intensive import competing industries such as agriculture and heavy industry will be able to sell their goods. Additionally, the drastic cuts in tariffs will mean a massive reduction in the customs revenue for the central and local governments. Although economic trade theory shows that tariff revenue losses are completely offset by gains to consumers, this will mean an absolute reduction in the government's ability to redistribute income.

The negative effects on import competing industries, which constitutes a very large percentage of the domestic economy, may cause major economic and social repercussions if not treated adequately. As can be seen already, two decades of reform restructuring SOEs, town and village enterprises (TVEs), and decollectivization of rural areas has created large scale unemployment. This, in turn, has created large populations of migrant workers, and is a source of general social unrest. The reduction in the government's ability to redistribute income makes this threat all the more salient. It is a great worry that this rural social class, who have already received much of the costs of reform, may not be able to withstand the additional brunt of economic transition that WTO accession will bring.

WTO Accession in the context of reform

As has been stated before, the benefits and risks associated with the Chinese government's attempts at gaining WTO membership is congruous with and follows as the next logical step in the broader context of the open door policy reform process started in

1978. The reformers' goals are, in achieving deep integration, to transform China's economy from a self-reliant, isolated, stifled command-economy to a integrated open and prosperous market economy. Implicit in the transformation into a prosperous economy is increased international stature, an increased ability to for China to control her own context and surroundings regionally and internationally. Additionally, since 1978, Deng Xiaoping has based the legitimacy for the ruling regime on this ability to become prosperous. That WTO accession is practically and symbolically fundamental to China's ongoing reform process is not lost to China's leaders, and their representatives to the WTO. As was noted by Vice Minister LONG Yongtu, Head of the Chinese Delegation, at the sixteenth session of the WTO Working Party on China,

The protracted negotiations are not solely for the accession to the WTO, more importantly, we believe that China's accession will facilitate China's reform and opening-up. The historic experience has shown to us that adhering to reform and to opening-up is absolutely the only way for a country to develop itself and to make its people realize happiness and prosperity.⁹

The reform leaders realize that WTO accession will speed up the reform and opening-up process in China both in what it achieves materially, but also in that it makes the reforms that China's leaders are imposing more politically saleable, as many of these reforms will now be codified in international obligations¹⁰. Moreover, despite high rates of growth over the last two decades in the official books and (slightly lower) in actuality, the actual growth rates have started to come under intense pressure as China has attempted to maintain its high growth rates despite a global recession and despite the fact that the ease

⁹ "Meeting of the working Party on the accession of China : Statement by H.E. Vice Minister LONG Yongtu, Head of the Chinese Delegation, at the sixteenth session of the Working Party on China". The World Trade Organization.
(http://www.wto.org/english/news_e/news01_e/china_longstat_jul01_e.htm)

¹⁰ Nicholas R. Lardy, *Integrating China into the Global Economy*. Brooking Institution Press, Washington, DC, 2002: p11.

of the early shallow integration reforms have now given way to more difficult deep integration reforms. Indeed, economists have noted that China has become more and more reliant on large-scale infrastructure projects and other types of fiscal spending to keep up domestic demand support the high growth rates. Perhaps China's reformers are looking optimistically at WTO accession as a 'silver bullet' cure to the impending economic slowdown. As Fewsmith¹¹ writes, "There seems little doubt that China's decision to pursue WTO membership vigorously was connected to the deepening crisis of the SOE sector"

The Debate over WTO Accession

Given the background behind the WTO accession, a model for conceptualizing accession in China's political-economic environment, and an idea of the effects of WTO accession, it is now possible to analyze the domestic political debate that has occurred around this event.

Winners and Losers

As with any change in system, winners and losers are created. While an ideological-political framework has been presented with which to conceptualize WTO accession, the usefulness of identifying winners and losers with which to frame the domestic debate cannot be overstated.

By Industry:

As can be logically deduced from international trade theory, the winners by industry from WTO accession will be those industries aligned with China's comparative advantage – mainly the labor-intensive industries of apparel, textiles, and light

¹¹ Joseph Fewsmith, "The Political and Social Implications of China's Accession to the WTO", Current History. Sept 2000, Vol. 99, Issue 638

manufacturing, as demand for their products will grow due to an expanded world market used to higher prices. The losers will be those industries aligned with China's comparative disadvantage – mainly the capital and land-intensive industries of agriculture and heavy industry, as they will face huge competition from foreign goods selling at lower prices. For example, Fewsmith notes that in the agriculturally dependent interior, the cost to produce agricultural good is equal to or may exceed world prices¹², while the quality falls short of the world standard¹³. In addition, trading companies who were the previously holders of quota certificates and therefore could benefit from quota rents will lose from the abandonment of the quota system.

By Region:

Associated with the industrial winners and losers, regions will see their fortunes rise and fall after China's accession to the WTO. Fewsmith¹⁴ predicts that the East, traditionally the main recipients for FDI will, "capture the lion's hare of foreign investment", as foreign capital will flood into China seeking to benefit China's now released comparative advantage. This is because the East has advantages of "human capital, management, transportation, and infrastructure," due to their historic and recent linkages with the west. Foreigners seeking to invest in inner-China will find a much less hospitable environment. Associated with the industries which stand to lose, the North-East and Central regions, laden with heavy-industrial SOEs will be hurt, as well as the agriculturally dependent interior.

¹² Ibid, p.580

¹³ Shaoguang Wang, *The Social and Political Implications of China's WTO Membership*. Journal of Contemporary China (2002), 9(25), 373-405: p. 397

¹⁴ Joseph Fewsmith, "The Political and Social Implications of China's Accession to the WTO", Current History. Sept 2000, Vol. 99, Issue 638: p.580

Political:

As the economic structure changes, whole ministries will rise and fall as well as the political units within. Winners will include those economic planning ministries who will now control the macroeconomic levers key to a market economy. These include the State Economic and Trade Commission (SETC) and ministries such as the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), which was the key organization coordinating internally and negotiating externally for WTO accession. Additionally, a whole set of new institutions have been created just to deal with WTO implementation and operation issues such as the Department of WTO Affairs and the Bureau of WTO Information and Consultation. On the other hand, ministries associated with the old planned economy stand to have even more of their control and power taken away. For example, the State Development and Planning Council (SDPC) is expected to lose power to the SETC¹⁵. Moreover, the elimination of quotas means that the power derived from controlling distribution of quota rents is now also gone. In addition to the planning ministries, the state industrial ministries, having already been demoted down the hierarchy during the central restructuring of the late 90s, stand to lose even more power and control.

Intellectual and Societal Opposition:

Other domestic political actors, apart from the explicit and implicit winners and losers from WTO accession are the set of intellectuals comprising the “New Left”¹⁶,

¹⁵ Yong Wang, “China’s Accession to WTO: An Institutional Perspective”, June 22, 1999: p.7

¹⁶ The “New Left” and the intellectual opposition to globalization is explained in detail in Joseph Fewsmith, “The Political and Social Implications of China’s Accession to the WTO”, Current History. Sept 2000, Vol. 99, Issue 638: pp.584-589

opposed to the full-integration model from an ideological standpoint. They see the trend towards globalization as an inevitable move towards capitalist economics and democratic politics. In some ways speaking for the losers of the reform movement thus far, they point to the expanding disparity of wealth between the winners and losers of reform. Additionally, they help capture the sentiment of a recent surge in Chinese nationalism, and oppose the fundamental loss of sovereignty from membership in international organizations, especially one they see as controlled by the United States and the West. As Fewsmith comments, the government has yet to put forth a convincing argument to the public the benefits of WTO membership. While the intellectuals and populace may not have access to real official political expression, repercussions will be felt in difficulties in implementation. Indeed, Fewsmith predicts that the oppositional intellectual discourse may legitimize forms of popular resistance.

Key Areas of Debate

The direct and secondary effects of WTO accession will not leave any economic or social sector of China untouched. It will ensure China's continuing reform process for at least the next decade by making the cost of halting or backtracking on reforms extremely costly (i.e. renegeing on international agreements). Since almost every part of China's political system has a stake in both the terms of WTO accession and membership itself, the policy debates were wide ranging. Below are some key broad areas that were debated.

Conflicts of Ideology and Vision

Ever since Deng Xiaoping and Chen Yun shifted the priorities of the CCP towards economic reform over ideology, and staking the party's legitimacy on improving

the nation's welfare by modernizing and reforming China under Deng's 'Four Basic Principles', the basic ideological conflict of pragmatic reform versus Marxist-Leninist Maoist Ideology had been won by the pragmatists in the CCP and among the elites. However, as has already been referred to earlier, there continued to be a lack of clarity over the extent of reform – whether the country was to simply 'let in fresh air without worrying about the flies' – i.e. selectively benefiting from integration while avoiding risks - or if China was going to stake its economic future on full and deep integration based on liberal trade. As Pearson¹⁷ contends, China's leaders initially acted in accordance to the shallow integration model, perhaps intending an incremental move towards liberal reform, or more likely, uncertain themselves as to the true goal, preferring to 'cross the river by feeling the stones'. Regardless, Pearson argues that eventually, China's liberal reforms came to fully adopt the deep integration model. This became clear in 1992 when Deng Xiaoping took his trip South, indicating that despite the economic and social problems that culminated in the Tiananmen crisis in 1989, the country would continue headlong into reform.

While the issue of the ideological conflict of reform seems to have been resolved within the political realm in the early years of China's WTO accession process, Pearson notes that it is possible that, "the [shallow integration] model has remained salient for many political actors." Moreover, as previously noted, new ideological opposition has been appearing from Fewsmith's described "New Left" based on shortcomings of the reform process perceived during the 80's. Mass rural discontent suffering from further

¹⁷ Margaret M. Pearson, *China's Integration into the International Trade and Investment Regime. China Joins the World: Progress and Prospects*. Elizabeth Economy and Michel Oksenberg, ed., Council on Foreign Relations Press, New York, 1999: p.162

inequality resulting from reform, conceptualized by this new intellectual group, and harnessed by ambitious politicians has potential of bringing back the ideological issue in a very sudden and disruptive manner.

The Economic Debate

As Yong Wang has pointed out, certain experts within China's think tanks have argued that to join the WTO at this early stage of economic development is not in China's economic long-term interests, and that China would "lose the opportunity to independently develop itself and will lose political sovereignty ultimately."¹⁸ These groups have been vocal and "have sympathy from media, ordinary citizens and some senior officials"¹⁹. However, while discussed in the media, this debate and opposition had not done much to slow the momentum leading up to final accession.

The Changing Power of the Ministries

Much more prevalent in the WTO debate was the changing roles and power of the ministries, the main centers of bureaucratic power. As noted before, necessarily implicit in a shift from a state-controlled closed economy to an open market economy is a decline in the role of those ministries planning the economy and industries and a gain in power for those ministries holding the macroeconomic levers. Particularly shocking to the old industrial ministries are realizations of the effect of FDI on the SOEs. After a change of rules in 1992 allowed foreign firms to make direct investments in China, SOEs began experiencing fierce competition from small independent firms on its own turf. WTO accession will exacerbate this further. This shift in power was heavily bargained over

¹⁸ Yong Wang, "China's Accession to WTO: An Institutional Perspective", June 22, 1999: p.14

¹⁹ Ibid, p.15

and extremely political, up through the top ranks of the elites. As will be explained later, it required a change of elite leadership and a central restructuring to break a deadlock in the ministries in order to allow WTO negotiations to move forward.

Incurring the costs of WTO accession

Another heavily debated issue is the negative impact that WTO accession will have on the rural interior and the industrial northeast, and how to deal with the massive unemployment caused by restructuring²⁰. By some accounts, the central and local governments have already had many shortcomings dealing with the negative affects of reform thus far. As Yong Wang writes, “Local Leaders predict that with pouring imports, state-owned enterprises will face darker days, and they have to stand up against the early WTO accession.”²¹

The US-China Bilateral Agreement and the New Commitments

A more specific area of debate recently has been surrounding the nature of the negotiations and the concessions made to the US in April of 1999 in the negotiation of the US-China bilateral WTO accession agreements, especially in the environment of a soured US-China relationship after the embassy bombing in Belgrade. Key points of contention include whether or not the concessions had gotten central authorization beforehand, whether they came out of the interministerial coordination process, and MOFTEC’s negotiation style. Aggravating the situation was confusion resulting from the recent central reorganization a year earlier, and the unexpected publishing of the Chinese

²⁰ Joseph Fewsmith, “The Political and Social Implications of China’s Accession to the WTO”, *Current History*. Sept 2000, Vol. 99, Issue 638: p.581-584

²¹ Yong Wang, “China’s Accession to WTO: An Institutional Perspective”, June 22,1999: p.14

WTO concessions on the internet by the United States (this lead to accusations of MOFTEC and Zhu as traitors, and the concessions they made as the contemporary “Twenty-Two Concessions”).²²

Characteristics of the Bargaining Process

Policy formulation generally followed a bargaining process that highlights the fragmented authority nature of the current Chinese political situation, as described by Lampton and Lieberthal²³.

*Policy Coordination*²⁴

As with many policy formulation processes that cut across multiple domains, China’s central leadership initially created a policy coordination group in order to bring the multiple interested parties together to agree on external WTO accession negotiation points. In 1986, they established the State Council Interministerial Coordination Group on GATT Negotiations, bringing together the ministers of foreign trade, foreign affairs, the general director of customs, and vice chairmen of relevant ministries and commissions. This was later changed in 1988 to the State Council Committee on Interministerial Coordination on GATT, replacing State Councilor Zhang Jingfu with Vice Premier Tian Jiyun as chairman, and adding the SETC. However, even elevating of importance of the chair as well as the addition to the supraministrial agency failed to make it a viable

²² Complications from the 1999 US-China negotiations are found in Yong Wang, “China’s Accession to WTO: An Institutional Perspective”, June 22,1999: p.15. The Twenty-Two Concessions refers to the Twenty-One concessions made to Japan in 1915, conceding enough sovereignty to Japan to make it a virtual colony.

²³ Kenneth Lieberthal and David Lampton, eds. Bureaucracy, Politics, and Decision Making in Post-Mao China, University of California Press, Berkley, 1992, pp. 1-58 and Kenneth Lieberthal and Michael Okensberg, Policy Making in China: Leaders, Structures and Processes, Princeton University Press, Princeton, 1988.

²⁴ The Policy coordination process is detailed in Yong Wang, “China’s Accession to WTO: An Institutional Perspective”, June 22,1999: p.6-10

effective policy coordination group. Yong Wang attributes this to the failure to include the State Planning Council (SPC), another powerful supraministerial agency, and the relative weakness of the SETC, which had only recently been created. Also problematic was the fact that the interministerial group was not a standing agency but rather, “only a vehicle for temporary consultations.” In the end, MOFTEC who was leading the external WTO negotiations, also ended up also playing the role of a policy coordinator. In his article, “China’s Accession to WTO: An Institutional Perspective”²⁵, Yong Wang identifies several tactics used by MOFTEC to gain consensus across agencies and ministries:

- Using the name of the intraministerial group and asserting some of the limited power that this group did hold since it was an institution directly led by the State Council.
- ‘Dividing and conquering’ the “most powerful and influential segments in different agencies,” by individually visiting key figures.
- Organizing a negotiating team comprised of representatives of other agencies.
- Promoting an idea of “membership first,” to concentrate on the positive aspects, lessening fear by reducing the emphasis of actually implementing commitments under simply agreeing to commitments.

Intervention from the Top

One key characteristic of the Lampton and Lieberthal bargaining model is that oftentimes, policy negotiation stands still in a deadlock, and the negotiators must petition for support from above to make a judgment to break the deadlock. Diligent as MOFTEC was in organizing and negotiating policy coordination, the process seemed mired in debate between 1994 and 1998. Then, beginning in 1999, Premier Zhu Rongji stepped in to break the policy coordination malaise and to speed up negotiations. Yong Wang attributes several factors that influenced the top leadership to step in. First, the visit of

²⁵ Ibid, p.9

President Clinton to China in the summer of 1998 and the visit of Zhu Rongji to the US the following year plus the fear of a new WTO round starting in 2000 presented a limited window of opportunity to make substantial progress in the US-China bilateral WTO accession negotiations and WTO negotiations as a whole. Also, Taiwan's impending accession, a huge trade imbalance with the US threatening a trade war, and the lingering effects of the Asian financial crisis provided incentive for the leadership to take charge. Additionally, as Fewsmith has noted, the change of premiership from Li Peng to Zhu Rongji combined with the consolidation of many industrial ministries in the central reorganization created a huge shift in power away from the entrenched bureaucratic interests of the old economy that was supported by Li Peng²⁶ to Zhu Rongji and the new ministries of macroeconomic control.

Post Accession Challenges

The intervention from the top succeeded in bringing about a US-China WTO accession agreement in November of 1999, and with that major hurdle accomplished, China officially entered the WTO in December of 2001. However, many of the issues that China now faces, post-accession are closely related to the nature of this final push for accession that the top leadership took in the last few years.

Difficulties in Implementation

Characteristics of Zhu Rongji and MOFTEC's final negotiations with the US in 1999 were lack of clarity and confusion as to whether certain concessions were actually approved from the central authority, and whether they were actually results of the interministerial coordination process. This lack of consultation added to MOFTEC's

²⁶ Joseph Fewsmith, "The Political and Social Implications of China's Accession to the WTO", *Current History*. Sept 2000, Vol. 99, Issue 638: p.574

strategy of promoting “membership first” resulted a situation where many concessions made now seem impossible to implement within the agreed upon timeframe. One example comes from a recent lecture I attended given by Veron Hung at the Carnegie Endowment for International Peace²⁷ on the prospects for the development of a judicial review process. Hung, in exploring reasons why certain aspects of the judicial review process seemed to be impossible to implement despite the fact that they were explicitly agreed to in WTO negotiations, stated that the judicial system was probably never consulted on this matter, as a main probable reason. Indeed, there have already been several reports of how the Chinese have had difficulties in implementing their commitments. One article quotes the GAO Managing Director for International Affairs and Trade as saying, “China [has] had problems implementing some of its WTO commitments. They include trade disputes involving import bans on Chinese meat products, export bans on European cosmetics, and also in the area of intellectual property rights.”²⁸

Resistance to Implementation

Besides a simple inability to implement concession, as Lampton and Lieberthal describe, the bargaining process continues on after a policy has been created, as implementation down the command chain is bargained over. As stated earlier, there are many different parties who were disaffected by MOFTEC’s negotiation tactics. This is particularly true with the provinces who, having to deal more closely with the negative

²⁷ Veron Mei-Ying Huang, “China’s WTO Commitment on Independent Judicial Review: An Opportunity for Political Reform”, Political and Legal Reform Project, China Program, Carnegie Endowment for International Peace, Number 32, November 2002.

²⁸ “USDS – How China Implements WTO Commitments is the Real Test:GAO”, [Asia Pulse](#). June 11, 2002.

brunt of state sector reform and unemployment, and also having more power in a new decentralized environment, will resist implementation along the way. Paul Thiers²⁹ writes, “Formal accession to the WTO, like the formal declarations of the central government in Beijing, will not guarantee the successful implementation of structural reform.” In an interesting approach, he examines China’s ability to implement structural reform harmonizing China to international standards through a case study of China’s entry into the Green Food program – a program of international standardization of organic agriculture. He concludes that generally, participants have three choices: complying, opting out, or resisting. He notes that with the international obligations signed in WTO accession, participants will not have the choice of opting out, and therefore may resist in greater numbers. Alternatively, he discusses the option of “alternative compliance” through selective interpretation.

Implications for the Future

Now that China has successfully ended a fifteen-year process of pursuing entry into the World Trade Organization, will the benefits they have been anticipating materialize? What role will it truly play in China’s ongoing reform processes, and will this help or hurt China’s chances of truly modernizing, reforming, and integrating with the global economy?

As Richard Pomfret writes in his analysis of the integration of formally centrally planned economies into the global trading system, WTO membership does not imply or promise that China is or will become a market economy. “Although the presence of

²⁹ Paul Thiers, *Challenges for WTO Implementation: lessons from China’s deep integration into an international trade regime*, Journal of Contemporary China (2002), 11(32), 413-431

market institutions has become an important prerequisite for admission and their extent a major negotiating point, WTO membership is still not considered sufficient evidence that a country has a market economy”³⁰ This is certainly the case for China, as it struggles to implement its WTO changes in order to fulfill its obligations. More important yet, is the necessity for China to restructure its revenue extraction and revenue distribution system in order for it to effectively handle the myriad of costs associated with reform. As Wang Shaoguang³¹ has written, as China’s reform process evolved from a win-win situation before 1994 to a win-lose situation³² after 1994, they have failed to develop a system to compensate the losers from the benefits of the winners. He asserts that to maintain stability, legitimacy, and continued support for globalization, the Chinese government must be able to redistribute gains from the winners to the losers.

Despite the huge challenges that China faces as they continue to grow up in the modern world, there has been, and continues to be an optimistic tone to their prospects at success. Perhaps, then, it is fitting to end with that very optimism. As said by Vice Minister Long Yongtu at the final conclusion of the negotiations on China’s WTO accession,

This is only the end of a beginning--the end of the beginning for a long historical process. As we have successfully ended this important stage of beginning, we are

³⁰ Richard Pomfret. *Reintegration of Formerly Centrally Planned Economies into the Global Trading System*. ASEAN Economic Bulletin. Vol 18, No. 1

³¹ Shaoguang Wang, *The Social and Political Implications of China’s WTO Membership*. Journal of Contemporary China (2002), 9(25), 373-405

³² Actually, Wang labels the post-1994 situation as “zero-sum”, although this is a misnomer, as it denotes a net zero gain (i.e. the amount the winners win exactly offset the amount the loser loses). However, Wang himself has noted in his article that WTO membership and reform in general makes sense for China in that the overall benefits outweigh the overall costs. “win-lose” is a better term in that it is a less strict term simply denoting one party gaining at some expense of the other.

more confident that we can achieve even greater success in the long process ahead
us.³³

³³ “Meeting of the working Party on the accession of China : Statement by H.E. Vice Minister LONG Yongtu, Head of the Chinese Delegation, at the eighteenth session of the Working Party on China”. The World Trade Organization.
(http://www.wto.org/english/news_e/news01_e/china_longstat_jul01_e.htm)

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