

### Implications of China's Accession to the WTO

---

**What is the WTO?** The World Trade Organization (WTO) is an institutional mechanism for international trade, created in 1995 following the Uruguay Round of world trade talks. The previous international agreement dealing with trade in goods, the General Agreement on Tariffs and Trade (GATT), lacked a solid legal structure. The WTO deals with the full range of trade issues, including goods, services and intellectual property. The WTO does not monitor or enforce member compliance with trade regulations, but has a legally binding dispute settlement system. Today, the WTO has 134 members with another 30 in the process of accession. Over 150 cases for dispute settlement have been brought forward to date.

**What does the November 15 US-China trade agreement entail?** After 13 years of negotiation, China and the US reached a bilateral trade agreement on November 15, 1999. Previously unresolved concessions, most of which will take effect from the time of China's accession to the WTO, are as follows: China will (1) cut overall tariffs to 17% from 22.1%, and cut agricultural tariffs to about 15%; (2) eliminate export subsidies, quotas and quantitative restrictions; (3) grant full trading and distribution rights to US exporters; (4) expand access for services in banking, insurance, telecommunications, law, tourism, etc.; (5) permit foreign telecom providers to invest in up to 50% of ventures, and liberalize Internet services at the same rate as other telecommunications services; (6) allow auto financing and phase down auto tariffs from 80-100% to 25% by 2006; and (7) increase release of foreign movies. The US anti-import surge rule and special anti-dumping methodology will remain for 12 years and 15 years respectively. The US will allow textile quotas for Chinese goods to expire in 2005 with an additional four years of special anti-surge safeguards.<sup>1</sup>

**What are the implications for Hong Kong?** The WTO's ability to open Chinese markets and lift barriers to its exports could result in business growth for Hong Kong. Over 60% of exports handled by Hong Kong are produced in the Mainland, and over 40% of China's exports and imports are re-exported through Hong Kong.<sup>2</sup> Increased trade with China will lead to more activity in Hong Kong's ports and service sector, and could enhance the SAR's role as a logistics center. More foreign distribution and sales management facilities may be set up in Hong Kong to manage mainland investments, and Hong Kong would have greater access to the Chinese market especially in the telecommunications and financial services industries. Investment in the Mainland will lead to more competition, possibly resulting in less foreign exchange and fewer new jobs in the Hong Kong market, as investors take advantage of lower costs in the Mainland. In addition, as some 80% of Hong Kong manufacturers' production facilities are in the Mainland, their exports would be vulnerable to any trade disputes between China and its partners.<sup>3</sup> Hong Kong's strengths as a financial center and its respect for the rule of law will enhance the SAR's role as a place for arbitration, technical and financial services. Additional foreign ownership in the Mainland may also strengthen the Hong Kong stock market as more mainland companies may choose to list in the SAR so as to have greater access to foreign currency.<sup>4</sup>

**What are the implications for China?** The US International Trade Commission previously estimated that China's GDP would expand by 4.1%, and that China's exports would increase by 12% while imports would increase by 14%.<sup>5</sup> While some aspects of the November 1999 deal differ from the April offer, overall, freer trade will lead to additional foreign direct investment in China's economy, and China will benefit from

---

<sup>1</sup> November 15 USTR Press Release on US-China WTO Talks.

<sup>2</sup> "Impact of China's WTO accession: current status and implications for Hong Kong," *Trade Watch*, Hong Kong Trade Development Council, April 1999.

<sup>3</sup> Ibid.

<sup>4</sup> "WTO may bring listing boom", *South China Morning Post*, Wednesday, November 17, 1999.

<sup>5</sup> "Assessment of the Economic Effects on the US of China's Accession to the WTO - Executive Summary", USITC, August 1999, [www.usitc.org](http://www.usitc.org).

increased imports of capital goods and services. Heavily protected industries, such as the auto industry, will be more vulnerable due to slashed tariffs. In addition, small-scale agriculture sector operations will face increased competition, and there are fears of job losses in the shorter term due to restructuring of state firms. However, advocates of China's accession also anticipate greater progress for economic reforms and financial-sector restructuring, as well as increased transparency in China's trading system, thus enhancing the rule of law.

**What are the implications for the US?** Exports are the fastest-growing segment of the American economy. The USITC estimated that China's accession to the WTO will lead to an overall decrease in the US trade deficit with China.<sup>6</sup> US-China trade flows would be stimulated, with US exports to China being 10% higher, and US imports from China almost 7% higher. From the US perspective, China's accession to the WTO will change unfair trade practices by eliminating barriers to American products, increasing transparency in Chinese trade and economic policy and altering discriminatory regulations that limit US market access in China. China's accession will level the playing field for American business, thereby increasing US exports to China and creating more jobs for American workers. However, for China's accession to be commercially meaningful for the US, Congress must grant China Permanent Normal Trade Relations. If permanent NTR is not granted, the US would lose the ability bring disputes against China to the WTO for settlement, and would not be able to take advantage of the broad tariff reductions and other measures outlined in the agreement. Reaching a trade agreement with China also constitutes an important foreign policy achievement, seen to pave the way for China's entry to the WTO in the coming year.

**What opposition does China's accession face?** American labor unions have opposed a trade deal with China, citing concerns over job losses due to cheaper labor and imports from China. Non-governmental organizations in the US and worldwide have voiced criticisms that the WTO and corporations do not adequately address issues such as product quality, job safety and environmental standards, and public participation in the decision-making process.<sup>7</sup> Many developing countries fear competition from an expected flood of Chinese goods if they have to apply WTO open trading rules to China.<sup>8</sup> Finally, there are concerns that accepting China into the WTO could be seen as a concession or reward, and thus deter China from furthering economic reforms, or addressing human rights and environmental concerns.

**Is a US-China trade deal a reward for China, and does an agreement with the US mean China is automatically accepted into the WTO?** The agreement entails numerous trade concessions by China, and grants no special favors; rather, it requires China to reduce its trade barriers to levels comparable to those of major trade partners, including industrial countries.<sup>9</sup> China's accession to the WTO will allow businesses greater access to the Chinese market, and will pressure China into abiding by a rules-based international trade system, without requiring market access, export control or trade law concessions from the US. A bilateral trade agreement between the US and China does not guarantee immediate accession, though it is implied. China's accession to the WTO is a multilateral issue dependent on reconciliation of China's bilateral agreements with its trading partners. Negotiations and work programs will take place in Geneva, where the WTO is located, beginning in early 2000 for about three years.

**What is AmCham's position?** AmCham believes that Hong Kong, mainland China and the US stand to benefit from China's entry to the WTO. AmCham strongly supports China's accession to the WTO under commercially viable terms, as outlined in its 1998 position paper, and advocates suspension of WTO benefits if China does not abide by its commitments. AmCham will continue its efforts to rally the support of the US Congress to pass legislation granting Permanent Normal Trade Relations (NTR) status for China.

---

<sup>6</sup> Ibid.

<sup>7</sup> Statement of Joan Claybrook, President, Public Citizen, April 23, 1999, [www.harmonizationalert.org/joan.htm](http://www.harmonizationalert.org/joan.htm).

<sup>8</sup> "US, China upbeat as key WTO talks open," *New York Times*, November 11, 1999.

<sup>9</sup> Ambassador Barshefsky statement, April 8, 1999.